ONTARIO ENERGY BOARD

OEB PROCEEDING EB-2020-0150

APPLICATION FOR ELECTRICITY TRANSMISSION

REVENUE REQUIREMENT BEGINNING APRIL 1, 2022

UNTIL DECEMBER 31, 2031

FINAL ARGUMENT

UPPER CANADA TRANSMISSION, INC.

OPERATING AS

NEXTBRIDGE INFRASTRUCTURE, LP

April 9, 2021

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INTRODUCTION

On November 4, 2020, Upper Canada Transmission, Inc. ("UCT") acting for and on behalf of the limited partnership, NextBridge Infrastructure, LP ("NextBridge") filed an application ("Application") requesting approval of, among other things, a Custom Incentive Regulation ("CIR") plan consisting of: (1) a Revenue Cap Index ("RCI") framework for the period April 1, 2022 to December 31, 2031 ("IR term"); (2) a base revenue requirement for the period April 1, 2022 to December 31, 2022 of $41.8 million, which is a prorated calculation from an annual revenue requirement of $55.7 million for a full year cost of service for the period April 1, 2022 to March 31, 2023 and 3) establishment of the accounting orders for four variance accounts. The base revenue requirement and rate adjustments are proposed to be implemented through the OEB's approved Uniform Transmission Rates ("UTR") for the Network pool.

UCT seeks recovery of 1) $31.24 million in development costs previously approved by Decision and Order dated December 20, 2018 (EB-2017-0182)[1], 2) $5.33 million of pre-July 31, 2017 costs identified in Decision and Order dated December 20, 2018 (EB-2017-0182) as eligible for consideration as construction costs (referred to as Phase Shift costs), 3) $737.1 million of construction costs and 4) $1.2 million in spares.

NextBridge is a new transmitter and the East-West Tie line is a new 450 kilometer ("km") double circuit 230 kilovolt ("kv") transmission line between Thunder Bay and Wawa in Northwestern Ontario, which will interconnect to three Hydro One Network, Inc. ("Hydro One" or "HONI") transformer stations ("TS") at Lakehead TS, Marathon TS, and Wawa TS.[2] The Independent Electric System Operator ("IESO") determined that the East-West Tie line was the preferred option for meeting Northwestern Ontario electricity supply needs compared to other alternatives.[3] On August 28, 2020, the IESO also confirmed that the East-West Tie line's in-service date of March 31, 2022 does not present an unacceptable risk to reliability.[4]

NextBridge is constructing the 450 km East-West Tie line in Northwestern Ontario, a region where an infrastructure project of this magnitude or type has not been environmentally permitted and constructed in decades. Construction activities continue despite the significant challenges associated with the unforeseen COVID-19 global pandemic which resulted in additional and

[1] Upper Canada Transmission Inc., EB-2017-0182, Decision and Order dated December 20, 2018
[2] Exhibit B-1-4.
[3] Exhibit B-1-5, Attachments 1-3.
[4] Exhibit C-1-1, Attachment 3 (October 22, 2020 Quarterly Project Progress Report).

unprecedented safety and health challenges, including the stoppage of construction work from April 3, 2020 to May 19, 2020.[5] In the face of these challenges, NextBridge has constructively and prudently worked with local communities and environmental regulators to ensure the East-West Tie line is constructed consistent with the numerous environmental approvals and conditions, including the 1065 conditions from the Amended Environmental Assessment ("EA") and the conditions from the Overall Benefits Permit ("OBP") for species at risk in Northwestern Ontario. NextBridge has also carried out the procedural aspects of Duty to Consult with 18 First Nations and Métis communities identified by the Crown and provided meaningful economic participation opportunities to these communities. NextBridge has further worked with Bamkushwada, LP ("BLP"), a limited partnership comprised of six First Nations, to help facilitate BLP's 20% equity ownership in NextBridge when the line goes into commercial operation. NextBridge is proud of its environmental stewardship, as well as its engagement with Indigenous communities.

Similarly, NextBridge has confronted these unprecedented challenges with a steadfast focus on protecting customers from increasing construction costs. Indeed, NextBridge's dedication to employing prudent and proactive cost management and procurement practices has resulted in maintaining the construction costs to the same level of costs that were presented in the Leave to Construct proceeding in EB-2017-0182.[6] To provide long-term cost savings to customers based on NextBridge's proven ability to implement prudent cost management practices, NextBridge has proposed a RCI that provides significant benefits to customers. As part of the RCI, NextBridge will not seek recovery of the capital additions during the IR Term. These investments will improve productivity and innovation and serve to reduce operation, maintenance, and administrative ("OM&A") increases over the long term[7]. To implement NextBridge's RCI over a nine-year, nine-month IR-term, NextBridge has proposed approval of the following framework applied to its revenue requirements:[8] (1) an inflation rate of 2%; (2) a productivity factor of 0%; and (3) a fixed rate of return on equity ("ROE"), which is historically low.

Directly related to the ability to generate customer value through the 9-year and 9-month RCI, and to mitigate the potential for significant earnings, NextBridge has committed to (1) make capital

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[5] *Id.*
[6] Exhibit C-2-4.
[7] Exhibit B-1-6.
[8] Exhibit E-1-1; Exhibit I Staff 2(b); Exhibit I Staff 70.

investments during the IR term without seeking recovery until the next rebasing proceeding, and (2) managing to its minimal Test Year OM&A costs.[9] These commitments provide NextBridge with the ability to innovate and produce efficiencies through the additions of capital that in turn will reduce long-term OM&A costs. For example, the installation of ROW cameras over the IR-term will increase reliability through situational awareness and increase responsiveness while identifying areas in which operational and maintenance costs may be reduced.

NextBridge submits that its proposed RCI framework is precisely the type of proposal that fits within OEB's incentive ratemaking policy because it drives NextBridge to be efficient and innovative for the long-term benefit of customers, while providing customers benefits over the IR term by securing a historically low ROE and protecting against significant overearnings with an off ramp of 300 bps.[10] Accordingly, for the reasons set forth in more detail herein, NextBridge requests that the Board approve, among other things, its CIR plan, its OM&A costs, and the recovery of development, phase shift, construction and spare strategy costs.

[9] Exhibit B-1-1; Exhibit G 1-1; Transcript Vol. 1, p. 18, line 5 through p. 22, line 20.
[10] Exhibit I Staff 70.

1. <u>GENERAL</u>

- **Has NextBridge responded appropriately to all relevant OEB directions from previous proceedings?**

As explained at Exhibit A, Tab 8, Schedule 4, NextBridge is a new transmitter and this is its first revenue requirement Application. Consequently, there are no OEB directives or undertakings from any previous NextBridge revenue requirement proceedings relevant to this Application.

As a result of the OEB's granting NextBridge the authority to construct the East-West Tie line in EB-2017-0182, UCT's electricity transmission license was amended to include the following conditions (EB-2011-0222):

> *"13.1 The Licensee shall develop, seek approvals in respect of, and proceed with immediacy to construct, expand or reinforce the electricity transmission network in the area between Wawa and Thunder Bay composed of the high voltage circuits connecting Wawa TS and Lakehead TS.*
>
> *13.2 For greater certainty, paragraph 13.1 in no way limits the obligation of the Licensee to obtain all necessary approvals for the transmission project referred to in that paragraph.*
>
> *13.3 Without limiting the generality of paragraph 14.1, the Licensee shall maintain records of and provide to the Board, in the manner and form determined by the Board, such information as the Board may from time to time require in relation to the transmission project referred to in paragraph 13.1.*
>
> *13.4 The Licensee shall maintain and provide to the IESO, in the manner and form determined by the IESO, such information as the IESO may from time to time* require in relation to the progress, timeliness, and cost-effectiveness of the *construction, expansion or reinforcement activities pertaining to the transmission project referred to in paragraph 13.1 until such date as that project comes into service."*

In addition, the Board required NextBridge to file quarterly reports providing information on the progress of the construction of the East-West Tie line. NextBridge has met this requirement and submitted the quarterly reports since the it was given the designation to develop the line in 2013. The quarterly reports also tracked construction costs in the manner and form determined by the

Board (Section 13.3).[11] Further, as shown in the quarterly reports, NextBridge has complied with Sections 13.1 and 13.2 of the transmission license by seeking and obtaining the necessary approvals to construct the East-West Tie line.[12] NextBridge also provided information to the IESO related to the progress, timeliness, and cost-effectiveness of the construction in its quarterly reports and letters to the IESO, which were attached to the applicable quarterly report(s) and also separately submitted in EB-2017-0182.[13] Accordingly, NextBridge has appropriately responded to all relevant OEB directions from previous proceedings.

- **Are all elements of the proposed revenue requirement and their associated total bill impacts reasonable?**

All elements of NextBridge's proposed revenue requirement and the associated total bill impacts are reasonable. NextBridge's proposed revenue requirements (see Issue 6) are necessary to earn a return on and of investment, pay income taxes and fund OM&A costs which are required to reliably and safely operate and maintain the East-West Tie line and comply with applicable legal and regulatory requirements (see Issue 5). The revenue requirement shown in Table 1-1 is for the Test Year of April 1, 2022 – March 31, 2023 ("Test Year").

Table 1-1: Summary of the Revenue Requirement for the Test Year ($ millions)

Component	Test Year	Reference
OM&A	4.9	Exhibit F-1-1
Depreciation	9.3	Exhibit F-11-1
Income Taxes	0.6	Exhibit F-13-1
Return on Capital	41.0	Exhibit G
Base Revenue Requirement	**55.7**	

NextBridge requests that the amount included the 2022 UTR be prorated to accommodate for the East-West Tie line being in service for only nine months of 2022 as reflected in Tables 1-2.[14]

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[11] Exhibit C-1-1, Attachments 1-3 (August 30, 2019, November 8, 2019, October 22, 2020 Quarterly Project Process Reports); Exhibit I BOMA 2(a).

[12] Exhibit C-1-1, Attachments 1-4 (August 30, 2019, November 8, 2019, October 22, 2020 Quarterly Project Progress Reports and February 26, 2020 Supplement Submission); Exhibit I BOMA 2(a).

[13] *Id.*

[14] Exhibit A-3-1.

Table 1-2: 2022 Revenue Requirement Converted to UTR Amount ($ millions)

2022 Revenue Requirement converted to UTR Amount ($ Millions)		
2022	A = Cost of Service for 12 months	55.7
2022	B = Monthly Cost of Service or A/12	4.6
2022	C = 2022 UTR Amount or (B * 9)	41.8

NextBridge appropriately determined the total bill impact for a typical HONI medium density residential customer consuming 750 kWh, and for a typical HONI General Service customer consuming 2,000 kWh/month is determined based on the forecast increase in the customer's Retail Transmission Service Rates as set forth Table 1-3. The inclusion of the East-West Tie line in UTR results in an increase in a typical residential customer of 0.32% and for a typical general services energy customer 0.22%.[15]

Table 1-3: Bill Impacts

Typical Medium Density (R1) Residential Customer Bill Impacts	**Typical Medium Density (HONI R1) Residential Customer 750 kWh**	**Typical General Service Energy less than 50 kW (HONI GSe < 50kW) Customer 2,000 kWh**
Total Bill as of May 13, 2020	$108.85	$338.82
RTSR included in R1 Customer's Bill (based on 2019 Interim UTR)	$12.27	$25.87
Estimated 2022 Monthly RTSR	$12.62	$26.61
2022 increase in Monthly Bill	**$0.35**	**$0.75**
2022 increase as a % of total bill	*0.32%*	0.22%

The revenue requirements and bill impacts are reasonable because they are based on capital and OM&A costs for the East-West Tie line that the evidence demonstrates are prudent, and, therefore, appropriate for recovery from customers.

[15] *Id.*; Exhibit I Staff 7.

In addition, given that NextBridge has also demonstrated the appropriateness of using a 9-year and 9-month IR term (see Issue 2), NextBridge's calculation of revenue requirements throughout the term is based on the prudently incurred construction and OM&A costs, is therefore also reasonable.[16]

Table 1-4: Revenue Requirements over the IR Term

Year	Formula	Base Revenue Requirement ($ Millions)
2022	Cost of Service for 12 months (Base Rev. Req.)	55.7
2023	2022 Base Revenue Requirement x 1.020	56.8
2024	2023 Base Revenue Requirement x 1.020	58.0
2025	2024 Base Revenue Requirement x 1.020	59.1
2026	2025 Base Revenue Requirement x 1.020	60.3
2027	2026 Base Revenue Requirement x 1.020	61.5
2028	2027 Base Revenue Requirement x 1.020	62.8
2029	2028 Base Revenue Requirement x 1.020	64.0
2030	2029 Base Revenue Requirement x 1.020	65.3
2031	2030 Base Revenue Requirement x 1.020	66.6

Accordingly, for the foregoing reasons, all elements of NextBridge's proposed revenue requirement and the associated total bill impacts are reasonable.

- **Is the proposed effective date of April 1, 2022 and proposed timing for inclusion in the UTRs appropriate?**

The proposed effective date of April 1, 2022 and the inclusion of NextBridge's base revenue requirements in the 2022 UTR are appropriate because they correspond with the projected in-

[16] Exhibit E-1-1.

service date of March 31, 2022.[17] NextBridge has a high degree of confidence that it will achieve the March 31, 2022 in-service date for the East-West Tie line, barring any unforeseen events.[18]

Based on the in-service date, inclusion of the East-West Tie line's revenue requirements in the 2022 UTR would be for the nine months of service beginning on April 1, 2022.[19] Therefore, NextBridge prorated its 2022 revenue requirement accordingly and would collect a full year's revenue requirement in 2023 and in subsequent years.[20]

Further, NextBridge requests that the Board issue an accounting order to establish a revenue deferral variance account ("RDVA") to track the revenue impact should there be a difference from the currently planned in-service date. Specifically, the RDVA will record the difference between revenue earned by NextBridge based on the scheduled in-service date of March 31, 2022 and the revenue requirement that would have been calculated had rates been established based on the actual achieved in-service date, which may be earlier or later than March 31, 2022.[21] The adoption of the RDVA allows the OEB to set the 2022 UTR as part of the normal timeframe and avoids an update to the UTR partially through 2022.[22] Given NextBridge's high degree of confidence in the March 31, 2022 in-service date, barring unexpected events and coupled with the use of the RDVA both the proposed effective date of April 1, 2022 and proposed timing for inclusion in the UTR is appropriate.

[17] Exhibit A-2-1; Exhibit A-3-1; Exhibit I Energy Probe 1(d).
[18] Exhibit B-1-1; Exhibit I Energy Probe 12(c).
[19] Exhibit A-2-1.
[20] Exhibit I Staff 5(a).
[21] Exhibit H-1-1; Exhibit H-1-1, Attachment 2; Exhibit I HONI 8(a); Exhibit I Staff 10(a)(b).
[22] Exhibit I Staff 10(b).

2. REVENUE CAP APPLICATION

- **Is the proposed Incentive Rate methodology appropriate?**

NextBridge submits that its incentive rate methodology is appropriate considering the OEB's expectations for incentive regulation and considering the Project's value to customers. In terms of the Board's expectations, NextBridge's proposed CIR methodology, in the form of a RCI, follows the Board's filing guidelines and policies for custom incentive rate applications by using a forward test year as the basis for determining prudence of test year costs and future rates adjustments through the Board approved formula that takes into account inflation and productivity.[23]

The methodology produces a rates framework that is designed to control costs for customers and provide NextBridge with the incentive to seek efficiencies and innovate to effectively manage its OM&A costs for the 9-year and 9-month IR term of the RCI plan. The RCI plan is the epitome of the Board's expectations for a CIR framework. Conversely, the Board has rejected the approach of forecasting OM&A budgets to "comply with the [OEB's Renewed Regulatory Framework for Electricity] RRFE for a Custom IR application. This would essentially result in a five-year cost of service application, rather than an incentive ratemaking scheme."[24]

More specifically, NextBridge's proposal provides customers with the benefits of RCI because:

- Transmission revenues will be locked in at a low base to which a low inflation rate of 2% will be applied to the base for close to ten years;
- A currently historical low cost of capital would also be locked in for close to ten years, which may result in significant customer savings; for example, when compared to the last ten years, locking in a low cost of capital would produce over $80.6 million in customer savings;[25] and
- NextBridge will be responsible for any increases in OM&A expenses above the 2% inflation factor – this includes both known and unknown increases:

    - Expected increases for inflation in underlying components of NextBridge's actual OM&A costs to be borne by NextBridge under its HONI Service Level Agreement ("SLA");[26]
    - Known fixed Consumer Price Index for First Nations reserve crossing permits may not align with inflation;

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[23] Filing Requirements For Electricity Distribution Rate Applications - 2018 Edition for 2019 Rate Applications - Chapter 2, p. 3.
[24] Decision and Order setting rates for Toronto Hydro-Electric System Limited, EB-2014-0116 at 13 (December 29, 2015).
[25] Exhibit I Staff 70.
[26] Transcript Vol. 1, p. 86

- The rising income tax expense as NextBridge's capital cost allowance declines; [27]
- Unknown increases relate to unpredictable but reasonably expected costs incurred to address events that are likely to occur on a 450 km line in a rugged terrain, including:

  - Damage resulting from fires;[28]
  - Managing NextBridge's ROW vegetation maintenance program, taking into consideration expected increases in forestry expenses during the IR term with greater work volumes; [29]
  - Bird nesting, which could require potentially relocating nests, including the accompanying environmental permits;[30]
  - Potential compliance changes through the North American Electric Reliability Corporation ("NERC**")** which will flow through the Northeast Power Coordinating Council ("NPCC**")** and IESO;[31]
  - Potential maintenance and labour cost increases;[32]and
  - Vandalism.[33]

Each of the above cost pressures over the IR term provide NextBridge a direct incentive to find efficiencies and implement innovation to cost control its capital and OM&A costs over the IR term. Indeed, NextBridge purposely set forth ***minimal*** Test Year OM&A costs in order to provide direct savings to customers. The minimal Test Year OM&A cost baseline also directly incents NextBridge, as the owner of a single asset, to manage internal and external cost pressures during the IR-term and to strive to implement efficient and innovative solutions, such as the ROW cameras to lower long-term OM&A costs (see Issue 3).[34] Therefore, NextBridge RCI appropriately proposes to lock in material cost savings for customers, while providing clear cost management incentives to NextBridge to find efficiencies and implement innovative practices over the IR term with those savings passed on to customers as part of the next rebasing proceeding.

- **Are the proposed inflation factor and the proposed productivity factor appropriate?**

Consistent with the Board's requirements for all CIR proposals, NextBridge has proposed a formula of Inflation (I) minus productivity (P).

[27] Exhibit A-3-1.
[28] Exhibit A-3-1; Transcript Vol. 1, p. 87.
[29] Exhibit A-3-1.
[30] Transcript Vol. 1, p. 88
[31] *Id.*
[32] *Id.*
[33] Exhibit A-3-1; Transcript, Vol. 1, p. 87.
[34] Transcript Vol. 1, p. 18, lines 18-26; p. 20, lines 17-23; p. 21, lines 19-25; p. 22, lines 18-20; p. 24, line 19 through p. 27, line 27; p. 138, lines 4-20; Transcript Vol. 3, p. 116, line 19 through p. 117 line 19.

- With respect to Inflation, NextBridge used the OEB's 2020 Inflation Parameter of 2%[35].
- With respect to Productivity, NextBridge proposed a productivity factor of 0%.
- A productivity factor of 0% is consistent with the OEB's recent decision in Hydro One (Sault Ste Marie) ("Hydro One (SSM)").[36]

In Hydro One (SSM), the Board applied the consensus recommendation of experts relied upon by the OEB in setting transmission rates. While the experts disagreed on methodological and other issues, both Power System Engineering Inc. ("PSE"), on behalf of Hydro One (SSM),[37] and Pacific Economics Group Research LLC ("PEG"), on behalf of Board Staff,[38] proposed a 0% productivity factor.

Importantly, a productivity factor of 0% actually imposes a net positive productivity requirement on NextBridge by reference to the transmission sector as a whole, which demonstrates negative productivity. Although the experts disagreed over the Total Factor Productivity ("TFP") of the sector as a whole, the Board found that "both PSE and PEG calculated a negative TFP." The consequence of this is that a productivity factor of 0% requires NextBridge to out-perform sector wide productivity to meet that standard. The Hydro SSM decision was consistent with the transmission rate applications filed by Niagara Reinforcement Limited Partnership ("Niagara Reinforcement")[39] and Bruce to Milton Limited Partnership ("Bruce to Milton").[40] Both of these applications also sought a 0% productivity factor.

Both the Niagara Reinforcement and Bruce to Milton applications were ultimately settled and the settlement agreements added other factors that were not originally a part of the Board's Incentive Regulation framework. The Board has made it clear that it will not impose components of a settlement agreement as precedent in a subsequent case:[41]

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[35] See Letter from OEB Registrar, November 9, 2020, re: 2021 Inflation Parameters.
[36] Hydro One, Sault Ste Marie, Decision with Reasons, EB- 2018-0218, June 20, 2019.
[37] See Power System Engineering, Inc., Transmission Study for Hydro One Networks Inc.: Recommended CIR Parameters and Productivity Comparisons Report from PSE dated May 23, 2018: EB-2018-0218, 2018-0218, D-1-1, Attachment 1, p.13
[38] See Pacific Economics Group, Empirical Research for Incentive Regulation of Transmission, 4 February 2019, EB-2018-0218: Exhibit M1, p. 10.
[39] EB-2018-0275.
[40] EB-2019-0178.
[41] Enbridge Gas Distribution Inc., EB-2012-0459 at 6 (July 17, 2014).

> In accepting settlement agreements, the Board has made it clear that there is no precedential value in the individual components of a settlement agreement as all settlements contain trade-offs.

In Hydro One (SSM), the Board imposed a "stretch factor" of 0.3 in lieu of a productivity factor. However, unlike a productivity factor, which relates to the transmission sector as a whole, the Board pointed out that "the stretch factor component of the incentive rate-setting formula is based on utility-specific performance."[42] In that case, the Board found that a stretch factor was appropriate in light of the premise that Hydro One would be expected to find efficiencies after acquiring SSM (previously Great Lakes Power): "Clearly, capital and OM&A savings are expected to result from the integration of Hydro One SSM into Hydro One Networks that is underway in 2019. The OEB finds that a stretch factor of 0.3% provides incentives to find further efficiency improvement beyond those proposed by the acquisition."[43]

NextBridge further submits that the use of an additional stretch factor is not appropriate here. First, a stretch factor is typically imposed on utilities that under-perform their peers in order to bring under-performing utilities into line: the greater the under-performance, the higher the stretch factor. As the Board described it, "the Board determined that stretch factors will be a feature of the IR mechanism, and that benchmarking will provide the architecture for their assignment to distributors."[44] In this proceeding, the Charles River Associates' ("CRA") Benchmarking Study provides evidence that the East-West Tie line's costs are reasonable and at the lower end of costs per km when compared to peers in Ontario (Bruce to Milton and Niagara Reinforcement) as well as transmission lines in British Columbia, Alberta, and the Western Electricity Coordinating Council:[45]

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[42] *Id.* p. 20.
[43] *Id.* pp. 20-21.
[44] Addendum to the Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, January 28, 2009, p. 1.
[45] Exhibit B-1-7; JT 3.1.

Table 2-1: Benchmarking Study Results

	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	2022	2012	2014	2014	2013	2013	2019
Total Cost Line Only ($M)	419	774	327	664	653	1468	1333	119
Line Cost (adjusted to 2022 $M)	489	774	430	871	866	1748	1590	126
2022 Cost M/km	1.22	1.72	2.39	2.53	1.92	3.89	3.53	1.66

Second, as addressed above, NextBridge has incorporated productivity increases into its purposely minimal forecasted OM&A related revenues so that NextBridge's actual OM&A costs are forecasted to be *higher* than the 2% inflation rate. This approach demonstrates that NextBridge has not applied for OM&A cost recovery on a business as usual basis. Instead, NextBridge relies on productivity improvements in order to achieve its baseline OM&A target.

Third, unlike Hydro One (SSM), which is a transmission network, the East-West Tie is a single line. As such, it does not offer the opportunities of shifting assets and priorities among a portfolio of projects. Productivity gains are therefore more difficult to achieve through operations of a single line than in a full utility such as Hydro One (SSM).[46]

On a related point, applying stretch factors for existing utilities is based on the premise that there are unrealized efficiencies may be appropriate for those utilities who have previously been subject to cost of service regulation. As indicated above, this was part of the premise of the Board's addition of a stretch-factor in Hydro One (SSM).

This premise is consistent with the presumption that utilities that have been subject to cost of service regulation may have over-invested and a stretch-factor can mitigate the results of that historical over-investment. For example, in its review of its RPI-X model, the Office of Gas and Electricity Markets ("Ofgem") noted that the transition from cost of service regulation to incentive regulation have reduced costs of incumbent providers – which was described as "squeezing the fat lemon"[47] However, that logic does not apply to new entrants who do not have a history of cost of service regulation that built a cushion to be reduced through incentive regulation.

[46] Transcript Vol. 1, p. 83
[47] Alistair Buchanan, OFGEM's "RPI at 20" Project (2011), at p. 11.

To the contrary, as a new utility, NextBridge will face several internal and external cost pressures and risks that it will have to manage without a cushion resulting from a history of cost of service regulation. Accordingly, NextBridge submits that productivity has been built into its CIR revenues and its proposed productivity factor of 0% is therefore appropriate and no additional productivity factor is required.

- **Are the proposed annual updates appropriate?**

NextBridge's annual updates related to the RCI are appropriate. Specifically, NextBridge's RCI annual updates will address updates to the variance accounts applied for and approved by the Board. This will address any rate revenue impact resulting from the clearance of these accounts.[48] The annual update will also allow for pro forma annual revenue adjustments applied for and approved by the Board, such as the inflation factor. The approach proposed by NextBridge is the same as used by other transmitters, and, therefore, is appropriate for adoption by NextBridge. NextBridge also views this process as a flexible one that can address other updated information required by the Board.

- **Should there be an earnings sharing mechanism? If so, how should it be implemented?**

NextBridge has not proposed an earnings sharing mechanism. The Board has not made earnings sharing a mandatory component of incentive regulation. It first addressed this matter in its Report on the Natural Gas Forum:[49]

> *The Board does not intend for earnings sharing mechanisms to form part of IR plans. The Board views the retention of earnings by a utility within the term of an IR plan to be a strong incentive for the utility to achieve sustainable efficiencies. The Board will ensure that the benefits of efficiencies are shared with customers through the annual adjustment mechanism and thorough rebasing.*

The Board has repeated this approach in the electricity context:[50]

> *The OEB does not require a Custom IR to include an earnings sharing mechanism, except in the context of deferred rebasing periods as part of electricity distributor consolidation. While an earnings sharing mechanism protects customers from excess earnings, it can diminish the incentives for a utility to improve their productivity, and any benefits to customers are deferred. The requirement for a*

[48] Transcript Vol. 3, p. 131.
[49] Natural Gas Regulation in Ontario: A Renewed Policy Framework Report on the Ontario Energy Board, Natural Gas Forum, March 30, 2005, p. 3.
[50] Ontario Energy Board, Handbook to Utility Rate Applications, October 13, 2016, p. 28.

custom index ensures that benefits are shared immediately with customers through productivity commitments.

Thus, although the Board has approved earnings sharing in electricity incentive regulation, it has not made it mandatory.

Further, in its RRFE Report, the Board stated that earnings sharing in a CIR application, like this one, will be addressed on a case-by-case basis.[51] Given that NextBridge's RCI already mitigates against significant earnings because of NextBridge's commitment to add capital, and cost manage internal and external cost pressures while holding its OM&A at a minimal Test Year baseline, NextBridge has not proposed the adoption of a earnings sharing mechanism.

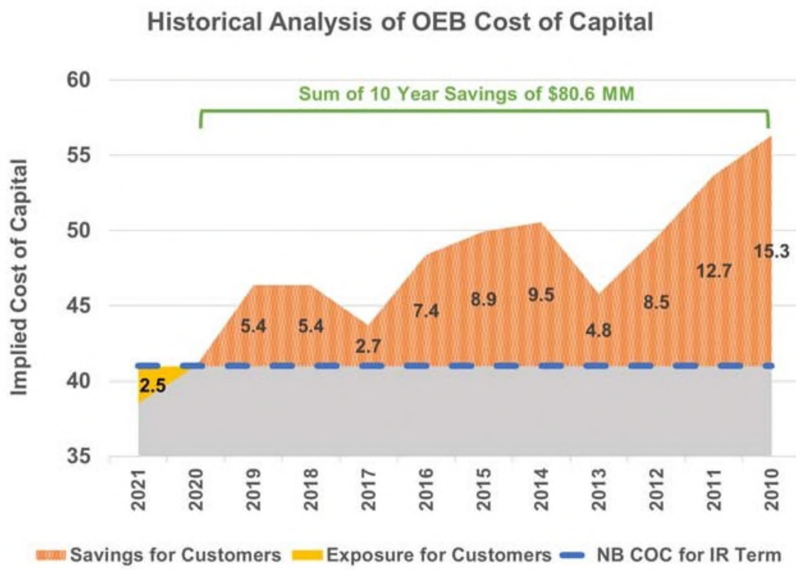
- **Is the proposed 9 year and 9-month length of the IR Term appropriate?**

NextBridge submits that its IR term is appropriate as it provides rate stability and other tangible benefits to customers and is consistent with OEB policy. With respect to rate stability and customer benefits, historical data suggests customers will receive savings for fixing the ROE for the 9-year and 9-month IR term by locking in a historically low OEB-approved ROE for the full IR term. NextBridge's Application uses a ROE of 8.52% which is lower than the prior 10 years of ROEs determined by the OEB due to interest rates being driven to historical lows.

To quantify the benefits for customers, the figure below is a historical analysis of the cost of capital impacts for the past 10 years. The analysis uses NextBridge's $770.4 million average rate base applied to historical OEB cost of capital parameters. It is then compared to the proposed cost of capital in NextBridge's application of $41.0 million. For example, if the 2010 cost of capital parameters were in effect for a year, customers would pay $56.3 million or $15.3 million more in that year than the NextBridge's fixed cost of capital of $41.0 million.

Therefore, if the past 10 years of historical cost of capital were repeated in the future, the savings to customers for locking in the current cost of capital for almost 10 years would be $80.6 million. Furthermore, interest rates are at all-time lows, so the probability that rates will increase in the future is far more likely than rates declining. In order to be considered a premium to customers, interest rates would need to stay at historic lows for 10 consecutive years:[52]

[51] Ontario Energy Board's Report on a Renewed Regulatory Framework for Electricity, October 18, 2012, p. 13.
[52] Exhibit I Staff 70.



Furthermore, the Board has explicitly described 5 years as the *minimum* term for incentive regulation.[53] Although most utilities have applied for and received 5-year IR terms, the Board approved an eight-year CIR proposal in Hydro One (SSM), *i.e.*, from 2019 to 2026. The Board's approval of applications for 5-year CIR was not an expression of OEB policy in favour of a five-year term. Rather, it reflects the Board's policy that, under CIR, a utility may propose a plan that meets its particular needs: "the OEB accepts that utilities have the option as to what approach to incentive regulation best suits the situation for the utility and its customers."[54]

The Board has stated that it may shorten a requested term where the application does not adequately address consumer protection through off-ramps and earnings sharing.[55] NextBridge has recognized that the OEB has the discretion to require a rate proceeding through its off ramp of 300 ROE basis points dead band policy.[56] Therefore, for the foregoing reasons, the submitted NextBridge IR term of 9 years, 9 months is appropriate.

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[53] See Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, October 18, 2012 (p. 19), Handbook to Utility Rate Applications 25 October 13, 2016, p. 25); and The Renewed Regulatory Framework – an overview RRFE Information Sessions, Presenter: Brian Hewson (Slide 10).
[54] Toronto Hydro-Electric System Limited, EB-2018-0165, OEB Decision with Reasons at 23 (December 19, 2019).
[55] Handbook to Utility Rate Applications (October 13, 2016), p. 28.
[56] Exhibit I Staff 66(b); Transcript Vol. 1 p. 20.

3. TRANSMISSION SYSTEM PLAN

- **Have investment planning processes been appropriately carried out?**

As a new transmitter, NextBridge's investment planning process has appropriately focused on what capital expenditures it will install after the in-service date of the East-West Tie line over the IR term.[57] Specifically, NextBridge's initial planning process provides for the following expenditures during the IR term:[58]

Table 3-1: Overall Capital Spend Plan ($ Millions)

Capital Plan ($ Millions)	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
General Plant - Office & Vehicles	-	0.16	0.11	0.01	0.15	-	-	0.20	-	-
Storage Yard	-	-	-	0.30	-	-	-	-	-	-
Reliability - Bird Deterrents, ROW Cameras	0.23	0.43	0.63	0.33	0.13	0.20	0.40	0.60	0.30	0.10
Total	**0.23**	**0.59**	**0.74**	**0.64**	**0.28**	**0.20**	**0.40**	**0.80**	**0.30**	**0.10**

The planned capital expenditures in Table 3-1 are not included in the base revenue requirement sought for approval in this proceeding. Instead, NextBridge will defer any request for recovery of these capital expenditures until its next rebasing proceeding, which provides a savings to customers because the capital will have a lower net plant balance due to depreciation.[59] Furthermore, the capital expenditures associated with bird deterrents and ROW cameras will offset future OM&A costs, while increasing the reliability and safety of the East-West Tie line

[57] Exhibit B-1-1; Exhibit B-1-6.
[58] Exhibit B-1-6.
[59] *Id.*

through increased situational awareness of real-time conditions at various critical crossings in the line.[60]

For example, ROW cameras are planned to be installed at river and major highway crossings, such as over the east-west running Trans-Canada Highway and across the Nipigon River, to increase visibility of tower and conductor status at critical remote locations.[61] NextBridge plans to install two cameras on each of the targeted structures listed in Exhibit I Staff 37(g). The installation cost is expected to be approximately $100k/structure, with two to six cameras planned to be installed per year.[62] ROW cameras are equipped with night vision, and will assist in the real-time detection of vegetation growth concerns, icing on the line or structures, line galloping and wildfires at critical crossings.[63] The use of ROW cameras, therefore, will facilitate the rapid discovery, inspection, and dispatching of the appropriate level of resources to repair and restore the remotely located East-West Tie line.[64] In fact, affiliates of NextEra Energy Transmission, LLC ("NEET") currently use ROW cameras to provide for additional situational awareness for transmission lines in remote locations.[65] As ROW cameras are installed over the IR term, NextBridge will evaluate the ability to reduce OM&A costs due to increased use of ROW cameras, and will pass any savings to customers in the next rebasing proceeding.

Additionally, the planned capital expenditures related to bird deterrents involve placing deterrents on transmission line structures to prevent birds from perching and nesting, which is a proactive tool to prevent bird-related faults and outages. NextBridge is legally obligated to install perch discouragers per the commitments in the approved Amended Environmental Assessment and Construction Protection Plan to mitigate against negative impacts to avian species.[66]

Further, the planned capital expenditures for replacement vehicles are due to the two NEET field personnel frequently traveling along the East-West Tie line and ROW, which will necessitate the replacement of these vehicles every few years due to high mileage, reducing maintenance costs associated with worn vehicles, and ensuring the two NEET field personnel are driving safe vehicles. Similarly, given the terrain in Northwestern Ontario, the two NEET field personnel will use utility terrain vehicles ("UTV") to conduct transmission line maintenance and monitoring. The

[60] *Id.*
[61] Exhibit I Staff 37(g)
[62] Exhibit I Staff 37 (d).
[63] Exhibit I Staff 37(h).
[64] Exhibit B-1-6.
[65] Exhibit I Staff 37(f): Exhibit I AMPCO 6.
[66] Exhibit B-1-6; Exhibit I Staff 37(a)(b).

UTVs will need to be will be replaced every five years due to high mileage, reducing maintenance costs, and ensuring the vehicles are safe. The use of UTVs to monitor and maintain the East-West Tie line will greatly reduce the need for helicopters, which results in savings to customers. The NEET field personnel will also use unmanned aerial vehicles ("UAV") for maintenance validation and for spot inspections in areas that are not readily accessible or are environmental sensitive areas, and out of respect to Indigenous communities. The UAVs will be instrumental in assessing the general condition of the transmission line and its equipment, as well as the condition of vegetation, gates, fences, and access roads, for example. UVAs will also greatly reduce the need for helicopters, which will result in savings to customers. In addition, the two NEET dedicated employees will require office space, and NextBridge expects to purchase an office to reduce rent expenses over the life of the East-West Tie line. NextBridge also expects to purchase a storage yard for 24-hour storage for access of spare towers and equipment in 2025 to reduce the overall cost of long-term maintenance services.[67]

Each of the above-described capital items included in NextBridge's initial planning process appropriately focus on efficiencies and innovation to produce savings to customers while enhancing the reliable and safe operation of the East-West Tie line. During the annual investment process, NextBridge will refine, as appropriate, the planned capital expenditures to reflect operational needs, while minimizing rate impacts and mitigating against significant earnings.[68] Thus, NextBridge has appropriately carried out its initial investment planning process.

- **Does the 2022-2031 Transmission System Plan ("TSP") adequately address the condition of the transmission system assets?**

NextBridge's TSP adequately addresses the condition of the transmission system assets. With NextBridge's assets expected to be in-service for the first time in March of 2022, its transmission assets are new. Given the new condition of NextBridge's assets, NextBridge explained how it will track the average age of components and the expected service life ("ESL") of the asset.[69] The ESL is defined as the average duration in years that an asset can be expected to operate under normal system conditions. NextBridge determined the ESL using similar useful life data presented in HONI's rate cases (EB-2019-0178 and EB-2018-0275). NextBridge's tracking of the

[67] Exhibit B-1-6; Exhibit I AMPCO 6.
[68] Exhibit B-1-6; Exhibit G-1-1.
[69] Exhibit A-3-1; Exhibit B-1-4.

ESL of its assets is appropriate since assets operating beyond ESL generally have a higher likelihood of failing or being in poor condition. The following table provides a description of NextBridge's assets, quantity, average age, and ESL:[70]

Table 3-2: Condition of Transmission System Assets

	Description	Quantity	Average Age of Components (Years)	ESL (Years)[1]
Conductor	The conductor of an overhead transmission line is the asset responsible for transporting electricity between system nodes.	892 circuit km	New	70
Steel Towers	Steel structures elevate transmission lines above the ground, providing clearance from ground objects and separation between the circuit conductors and other line components.	1228 Structures	New	90
Insulators	Insulators provide mechanical support for overhead conductors and must provide electrical isolation between the energized conductors they support and the grounded towers to which they are attached.	7368 Insulators	New	60
1. ESL is based on the proposed Projection Life taken from Statement E of the Fosters Depreciation Study performed for the Bruce to Milton Application.				

Given that NextBridge's conductors, steel towers, and insulators are new, the asset condition is consider low risk; therefore, the assets are also not at an age in which a condition assessment is required.[71] Thus, for the foregoing reasons, NextBridge's TPS adequately addresses the condition of the transmission system assets.

[70] Exhibit I BOMA 1.
[71] Exhibit B-1-4.

4. PERFORMANCE

- **Is the proposed monitoring and reporting of performance adequate?**

NextBridge's proposed monitoring and reporting of performance is adequate. NextBridge's sole asset, the East-West Tie line, is comprised of conductors, towers, and insulators. The East-West Tie line does not include terminal breakers or other operable assets. The demarcation of each transmission line circuit of the East-West Tie line is outside of the HONI's Lakehead TS, Marathon TS, and Wawa TS. Therefore, NextBridge does not have any customer delivery points or meters needed to monitor interruption-based performance measures, such as SAIDI and SAIFI.[72] Accordingly, in light of the East-West Tie line being a transmission line only asset, NextBridge appropriately proposes to annually track and report in its next rebasing proceeding on the following performance measures and targets.[73]

Table 4-1: Performance Measures

RRFE Outcomes	Performance Measure
Safety	0.00 OHSA 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 (%)

In addition, while, as mentioned, NextBridge cannot monitor and report on T-SAIDI and T-SAIDI on its own, NextBridge is agreeable, if directed by the OEB, to use commercially reasonable efforts to work with HONI to calculate T-SAIDI and T-SAIFI for the East-West Tie line.[74] Accordingly, based on the transmission-only nature of the East-West Tie line, NextBridge's proposed monitoring and reporting of performance is adequate.

[72] Exhibit D-1-1.
[73] Exhibit D-1-1-1; Exhibit I Staff 59(c); Exhibit I 60(a).
[74] Exhibit I Staff 62(a); Transcript Vol. 2, p. 116 lines 1-4.

5. OPERATIONS, MAINTENANCE, & ADMINISTRATION COSTS

- **Are the proposed spending levels for OM&A appropriate, including consideration of factors such as system reliability and asset condition?**
- **Are the services to be provided by third-parties, and their associated costs, appropriate?**

NextBridge's proposed spending levels for OM&A and use of third-parties to provide OM&A services are appropriate, especially when considering factors such as system reliability and asset condition. Although the asset condition of the East-West Tie line is that of a new asset (see Issue 3), it is critical that an appropriate level OM&A be conducted to ensure the reliable and safe operation of the transmission line starting when it is placed into service.[75] Indeed, the IESO is relying on the East-West Tie line to provide reliable electric service to Northwestern Ontario.[76] To ensure the reliable operation of the East-West Tie line, and to ensure the necessary legal and regulatory obligations are complied with, NextBridge's proposed Test-Year OM&A costs are $4.94 million, which are broken out as follows:[77]

Table 5.1: Test-Year OM&A

OM&A Expense ($ Millions)	Test Year
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**

In addition to the substantial evidence provided by NextBridge in its Application and in response to interrogatories, the prudence of Test Year OM&A costs is supported by Charles River

[75] Exhibit A-3-1.
[76] Exhibit B-1-5, Attachments 1, 2, and 3.
[77] Exhibit A-3-1; Exhibit F-1-1.

Associates' ("CRA") Benchmarking Study, which showed NextBridge's OM&A costs were reasonable when compared to similar transmission line projects.[78]

Table 5-2: OM&A Cost-Effectiveness Comparison

$ K (CAD)	Niagara 2020	Bruce-Milton 2019	East-West Tie
O&MA Expenses	320	600	1,275
Admin. & Corporate*	510	200	1,665
Regulatory			65
Total OM&A	**830**	**1,600****	**3,005*****
Total km	76	180	450
OM&A / km (CAD)	**10.92**	**8.89**	**6.68**
OM&A / km (USD)	8.40	6.84	5.14

* The figure for the Niagara project includes costs associated with the Managing Director's office.
** Includes incremental expenses of $800k (CAD).
*** The East-West Tie line also includes expenses for Indigenous Participation and Compliance costs. As these are not directly comparable to the other transmission projects, and unique to the East-West Tie line, these costs were excluded.

Further, absent an event that qualifies for treatment under the Z-factor, NextBridge has committed that over the IR term it will not seek to recover any increase in Test Year OM&A costs. NextBridge's commitment will result in direct savings to customers (See issue 2).[79]

<u>Operations & Maintenance ($1.27 million)</u>

NextBridge's Test Year OM&A costs for operations and maintenance are prudent and needed for the reliable and safe operation of the East-West Tie line.[80] The forecasted operation and maintenance costs for the East-West Tie line have held steady as at $1.27 million since the Designation proceeding.[81] The operation and maintenance of the East-West Tie line will be provided by two field personnel from NEET and HONI/Supercom Industries Ltd. ("Supercom"), both under their respective SLAs.[82]

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[78] Exhibit F-4-2; Exhibit B-1-7, Attachment 1; Transcript Vol. 2, p. 122 lines 18-24.
[79] Exhibit A-3-1; Exhibit I Staff 47(a).
[80] Exhibit F-4-2.
[81] JT2.1; Transcript Vol. 1, p. 138 lines 4-13.
[82] Exhibit F-4-2.

NextBridge's decision to contract for the experience of NEET personnel and not to hire employees for these positions provides savings to customers. By not hiring employees, NextBridge avoids incurring the associated administrative costs, including payroll and the filing payroll tax returns. Further, NextBridge will not be charged a flat or already determined corporate cost allocation from any parent or partner entities, because the NEET personnel will track the amount of time spent on NextBridge work in a time recording system, and, thus only charge time for work performed.[83] In addition, specific operation and maintenance services were competitively bid, with HONI, and its partner Supercom, being awarded the contract with an annual cost of $400,000.[84] NextBridge's decision to contract with HONI/Supercom as a third-party provider of operation and maintenance service was prudent, given HONI's experience in this region, the competitiveness of the costs in its bid, and its partnering with Supercom.

<u>Regulatory ($0.07 million)</u>

NextBridge will have the following on-going regulatory activities:[85]

- Annual filings, such as license fees/renewals, and OEB's Reporting and Record Keeping Requirements filings);
- Periodic filings (deferral/variance account balances);
- OEB/IESO activity monitoring and stakeholder participation;
- General support (*e.g.,* ongoing compliance activities, permitting, review of public materials); and external legal counsel support, as needed.

All these activities and the associated costs are required due to NextBridge's operation of the East-West Tie line, and, therefore, prudent to include in its OM&A costs. Further, NextBridge's decision not to have full-time employees and the associated overhead costs to conduct regulatory activities, but, instead, to contract with NEET for these services on as needed hourly rate basis is cost-effective and appropriate, because it eliminates the need for NextBridge to establish a payroll function, file payroll tax returns, and incur a flat or already determined corporate cost allocation from any parent or partner entities. In fact, the Test Year cost for regulatory costs has declined from the Leave to Construct estimate of the same cost, further demonstrating NextBridge's cost management of the regulatory budget.[86]

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[83] Exhibit I Staff 13(c); see also Exhibit A-3-1.
[84] Exhibit B-1-4: Exhibit I Energy Probe 25(d); Transcript Vol. 3, p. 88, lines 3-13. The roles and responsibilities of NEET and HONI/Supercom are addressed in Exhibit B-1-4.
[85] Exhibit F-4-2.
[86] JT2.1.

Compliance & Administration ($1.67 million)

NextBridge as a transmitter doing business in Ontario will have the following compliance and administrative costs:[87]

- Project Director's Office ($627,000);
- Property Owner Relations ($169,000);
- Non-Indigenous Stakeholder Relations ($254,000);
- Corporate Services ($588,000); and
- Insurance ($62,000).

The Project Director's office oversees and operates the NextBridge partnership, as well as provides governance support and manages corporate affairs, including numerous specific and required tasks set forth in Exhibit F, Schedule 4, Tab 2. As a direct cost savings to customers of $141,000 annually, the Project Director and her analyst will only charge 75% of her labour costs to the East-West Tie line[88]. Compliance and administrative costs associated with property owner relations include annual fees and periodic recurring payments required by governing body approvals, annual fees required by the Land Use Permit, and periodic payments required by encroachment permits from the Ontario Ministry of Transportation. In addition, property owner relations costs involve payments and costs associated with ensure access on public lands, off ROW or private road use on as-needed basis, and the updating of property owner records[89]. Non-Indigenous Stakeholder Relations costs include outreach to local community and municipal stakeholders at the end of construction involving coffee talk sessions and issuance of NextBridge's newsletter, updating NextBridge's web site, and Facebook group. Also, Non-Indigenous Stakeholder Relations costs would cover engagement during regulatory processes, including notifications and responding to comments[90]. Corporate services costs relate to maintaining the partnership financials, accounting, tax filings, managing the debt and associated compliance obligations, preparation of any regulatory accounting (including annual updates to the OEB), coordinating required financial audits, and reporting to the partners and Project Director monthly on the financial integrity of the partnership. No corporate allocation charge from any partners working on the project is included in the corporate services OM&A costs. Additionally,

[87] Exhibit F-4-2*;* Exhibit I Staff 30(a); Transcript Vol. 3, pp. 73-78.
[88] Exhibit F-4-2; Exhibit I Staff 30(b).
[89] Exhibit F-4-2.
[90] *Id.*

consistent with good utility practice, NextBridge will hold insurance coverage to protect for its assets, its owners, and its customers from catastrophic loss[91]. Therefore, not only are the compliance and administrative serves and associated costs needed and required to operate the East-West Tie line, NextBridge has taken reasonable and prudent steps to minimize the costs of these services to customers through only allocating 75% of the time of the Project Director and her analyst to the project, and only contracting with NEET for hourly work that is needed to complete these necessary services.

Indigenous Participation ($0.89 million)

Indigenous Participation costs are associated with annual payments required by participation agreements supporting Indigenous participation and engagement that mitigates impacts related to Indigenous rights and interests.[92] The participation agreements were negotiated in the spirit of reconciliation in order to secure land rights, mitigate impacts to asserted and/or proven Indigenous rights and interests, address provincial Crown conditions of approval related to East-West Tie line permitting, and reduce overall project risks and costs.

Indigenous Compliance ($0.44 million)

Indigenous Compliance expenses are required to meet the ongoing regulatory and permitting requirements set by the Crown to fulfill the Duty to Consult and any commitments made in East-West Tie line project agreements with Indigenous communities throughout the operational phase of the asset. [93]

Property Taxes & Rights Payments ($0.60 million)

NextBridge's property taxes were calculated by Ryan, LLC, a global tax service firm with its Canadian headquarters in Toronto, based on applicable Parcel Identification Numbers to identify the corresponding Assessment Roll Number in each municipality and unincorporated area and applied the appropriate property tax rates to estimate the tax liability.[94] In addition, NextBridge's land rights payments includes the fees associated with the Section 28(2) Permits related agreements to cross the reserve lands of Pays Plat and Michipicoten ("Reserve Lands").[95] While NextBridge did consider the potential costs associated with by-passing these Reserve Lands, it

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[91] *Id.*
[92] Exhibit F-4-2; Exhibit I Staff 31(a).
[93] The history of NextBridge's consultation activities and history and breakdown of Indigenous compliance costs are addressed at Exhibits F-4-2,I Staff 32(d) and Table 5-4
[94] Exhibit F-4-1.
[95] *Id.*

was determined that not only would the costs be higher, so would the environmental impact, and, therefore, prudently decided to route through the Reserve Lands.[96] Further, as mentioned, the East-West Tie line was the first transmission project in recent years to require Section 28(2) Permits, and, therefore, the related payments were required to construct the East-West Tie line with the free, prior, and informed consent of Pays Plat and Michipicoten. Hence, NextBridge's property taxes and payments to Pays Plat and Michipicoten for the Section 28(2) permits were required and prudent.

- **Are the amounts proposed to be included in the revenue requirement for income taxes appropriate?**

As set forth in Exhibit F, Tab 12, Schedule 1, Attachment 1, NextBridge's income taxes for the Test Year is $0.58 million. Under the Income Tax Act, a partnership is not taxable but is required to compute its taxable income, which is then allocated to its partners.[97] The estimated income tax expense that will be required to be paid by the partners from the income generated in NextBridge is $0.58 million in the Test Year revenue requirement, which is summarized as follows: NextEra $0.29 million; Enbridge $0.14 million; OMERS $0.14 million and BLP $0.00. The tax savings associated with BLP's tax exempt status has already been factored into the revenue requirement as $0.00 has been included. Given that NextBridge has correctly determined the amount of income tax to be included in NextBridge's revenue requirement and already provided the tax benefit due to the BLP partnership, the amount is appropriate.

- **Is the proposed depreciation expense appropriate?**

NextBridge's annual depreciation expense is $9.26 million.[98] To determine its depreciation expense, NextBridge used the Foster Associate Inc. study ("Foster Study") prepared for HONI as part of its EB-2019-0082 rate application.[99] In addition, the methodology from the Foster Study was used to determine the Bruce to Milton depreciation expense.[100] As the Foster Study developed depreciation rates and expense for transmission assets in Ontario, it reasonably forms the basis of supporting NextBridge's depreciation rates and expense. Accordingly, there was no need for NextBridge to conduct a separate depreciation study because the Foster Study is representative and applicable. NextBridge's adoption of the Foster Study also resulted in direct

[96] Exhibit I Staff 33(a).
[97] Exhibit F-2-1.
[98] Exhibit C-1-1; Exhibit C-4-1, Attachment 3; Exhibit F-11-1.
[99] Exhibit F-2-1; Exhibit I Energy Probe 27(b); Exhibit I Staff 63(a).
[100] Bruce to Milton Limited Partnership, EB-2019-0178, Decision and Order (January 16, 2020); Bruce to Milton Exhibit F-5-1 in EB-2019-0178.

savings to customers, as NextBridge did not need to incur the costs of contracting for a depreciation study. Given that NextBridge's annual depreciation expense was determined consistent with the methodology used in the Foster Study, NextBridge's proposed depreciation expense is appropriate.

6. RATE BASE & COST OF CAPITAL

- **Are the $737 M construction costs and $5.3M Phase Shift costs prudent for recovery?**

Construction Costs ($737.1 million)

NextBridge's construction costs are prudent and appropriate for recovery. As of the date of the oral hearing, NextBridge had incurred approximately 60% of construction costs.[101] Furthermore, NextBridge has submitted up-to-date evidence of the progress of construction in NextBridge's December 2020 construction report and its 4Q 2020 Quarterly Construction Progress Report submitted on January 22, 2021. The next Quarterly Construction Progress Report covering January 1, 2021, to March 31, 2021, will be submitted on April 22, 2021.[102] For example, in the quarterly report submitted on January 22, 2021, NextBridge indicated that permits were obtained for almost 100% of the ROW and access roads and that the majority of tree clearing had been complete for 9 of the 11 Workfront sections[103]

Additionally, NextBridge's cost management and procurement practices resulted in securing nearly 90% of its forecasted $737.1 million construction costs under contract, which reduced future volatility in pricing and ensured resource availability due to the contracts having an agreed upon price and negotiated scope of work.[104] The remaining 10% of the forecasted construction costs relates to internal parent and partner labour that support the East-West Tie line or already paid/committed costs, such as those related to land,[105] and are being managed consistent with the overall forecast of $737.1 million. As explained in additional detail below, through NextBridge's application of proactive cost and procurement management practices, the overall projected construction costs of the East-West Tie line have not changed from the Leave to Construct proceeding.[106] For these reasons, as well as the substantial evidence set forth in the Application and quarterly reports demonstrating that NextBridge construction costs are tracking to the $737.1 million, absent an unforeseeable event(s), NextBridge is confident that the East-

[101] Transcript Vol. 1 p. 23, line 28 through 24, line 11.
[102] Exhibit I SEC 9, Attachment; Exhibit I Staff 55.
[103] Exhibit I Staff 22, January 22, 2021 Quarterly Report filed in EB-2017-0182 (footnotes omitted).
[104] Exhibit C-2-4; Transcript Vol. 1 p. 23, lines 23-27.
[105] Exhibit I Staff 53(e).
[106] Transcript Vol. 1, p. 102, line 4; Transcript Vol. 2, pp. 78-79.

West Tie line will come into service on or before March 31, 2022 at a construction cost of $737.1 million.[107]

As NextBridge also explained, it is unaware of any additional construction costs above the $737.1 million; however, if additional construction costs become known and are incurred prior to the end of construction, the revenue requirement associated with these construction costs will be recorded in a construction cost variance account ("CCVA") for a prudence review and disposition in the second annual update following in-service date (See Issue 7).

Furthermore, with regard to the prudence of NextBridge's forecasted construction costs, NextBridge provided substantial evidence how it has prudently managed its construction costs to the same amount presented in its Leave to Construct in its quarterly reports, and supplements to those quarterly reports filed in EB-2017-0182, which are also part of the record in this proceeding.[108] As explained in the quarterly reports and in the Application, NextBridge employed proactive and prudent cost management and procurement practices to maintain its construction costs at $737.1 million.[109] Specifically, as explained in Exhibit C, Tab 2, Schedule 4, NextBridge's cost management and procurement practices include the securing of fixed price contracts using a competitive bidding process.[110]

Additionally, the effectiveness of NextBridge's cost management practices is evidenced by NextBridge's timely request to the IESO to extend the in-service date until March 31, 2022, in order to save $15-20 million in construction costs by allowing NextBridge an additional winter construction season, which, in turn, eliminated the need to construct additional, and costly, "all season" roads.[111] Further, prudence of NextBridge's construction costs are supported by the CRA Benchmarking Study, which concluded that NextBridge's construction costs are reasonable when compared to similar projects.[112]

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[107] Exhibit I Staff 52(c); Exhibit I Energy Probe 12(c); Transcript Vo. 1, p. 103, line 3 through p. 106, line 14; p. 161, lines 13-14; Transcript Vol. 2, p. 62 lines 2-13; p. 74 lines 1-26; Transcript Vol. 3, p. 5 line 5 through p. 6, line 19; p. 142, lines 18-21.
[108] Exhibit I Staff 55(a).
[109] Exhibit C-2-4.
[110] Exhibit C-2-4, Attachment 1 (NextBridge Procurement Policy).
[111] Exhibit C-2-4; Exhibit B-1-1, Attachment 1.
[112] Exhibit B-1-7, Attachment 1; Transcript Vol. 2, p. 77 lines 18-26; Transcript Vol. 3, p. 8 lines 7-11; JT 3.1.

Given NextBridge's highly effective cost management and procurement practices, which are further detailed below in the context of each cost category, coupled with the results of the CRA Benchmarking Study, the evidence in this proceeding clearly demonstrates that NextBridge has prudently incurred and has reasonably forecasted the following costs associated with the construction of the East-West-Tie line.[113]

Table 6-1: NextBridge's Construction Cost Evidence

Engineering & Construction	**Evidence on Prudence**
Engineering, Design and Procurement	Exhibit C-2-4, C-1-1, Attachment 4; Transcript, Vol 3, p. 137.
Materials and Equipment	Exhibit C-2-5
Site Clearing, Access	Exhibit C-2-4
Construction	Exhibit C-2-4; Transcript, Vol. 3, p. 137.
Environmental & Remediation Activities	
Environmental and Regulatory Approvals	Exhibit C-2-4
Site Remediation	Exhibit C-2-4, Attachment 3 (BP Conditions and requirements of caribou transfer); 4 (PCMP Conditions in the Amended EA; Transcript, Vol. 3, pp. 122 and 123.
Indigenous Activities	
Indigenous Economic Participation	Exhibit C-2-4
Indigenous Consultation	Exhibit C-2-4, Including Attachments 5 and 6
Land Rights (excludes Aboriginal)	Exhibit C-2-4
Other Consultation	Exhibit C-2-4
Contingency	Exhibits C-2-4 andC-1-1 attachments 2 and 4.
Regulatory	Exhibit C-2-4
East-West Tie Project Management	Exhibit C-2-4
Interest During Construction (IDC)	Exhibits C-2-4 and H-1-1

[113] Exhibit C-2-4.

<u>Phase Shift Costs ($5.3 million)</u>

During the development phase of the East-West Tie line, NextBridge prudently incurred costs related to: (1) NextBridge's participation in the review of the draft EA; (2) securing land options from landowners and interest holders; (3) securing Federal First Nations reserve crossing permits; and (4) economic participation agreements with BLP (representing six First Nations) and the Métis Nation of Ontario (representing Métis communities).[114] In EB-2017-0182, the OEB concluded that the following phase shift costs were eligible for consideration and recovery as construction costs.[115]

Table 6-2: NextBridge's Phase Shift Costs

Phase Shift Costs	$ Millions
EA Review Participation	$0.46
Land Optioning Negotiations	$1.44
Land Acquisition Negotiations	$0.02
Economic Participation	$3.41
Total	**$5.33**

- **Are the amounts proposed for rate base appropriate?**

The amounts in rate base are appropriate because the amounts are comprised of prudently incurred and forecasted capital construction costs, including the phase shift and development costs. NextBridge's proposed rate base consists of gross plant, less accumulated depreciation. As explained under Issue 5, NextBridge annual depreciation expense is $9.26 million per year and was appropriately determined using the Foster Study. NextBridge is not requesting a cash working capital allowance to be part of rate base. Additionally, a historical and bridge year of rate base or fixed assets is not applicable, given that NextBridge is a new transmitter with a newly constructed asset.[116] For clarity, NextBridge is not requesting that capital expenditures set forth in its TSP beyond the Test Year and incurred over the IR term to be included in rate base in this

[114] Exhibit C-2-3.
[115] EB-2017-0182, Decision and Order at 27 (December 20, 2018).
[116] Exhibit C-1-1.

proceeding, but, rather, those capital expenditures would be added to NextBridge's rate base as part of a rebasing proceeding after the IR term.[117]

Based on NextBridge's prudently incurred and forecasted construction costs, less accumulated depreciation, the amounts in its rate base appropriately include the following:[118]

Table 6-3: NextBridge's Rate Base

Transmission Rate Base ($ Millions)	Test Year*
Average Gross Plant	775.1
Average Accumulated Depreciation	4.6
Average Net Plant	**770.4**
Cash Working Capital	N/A
Materials and Supply Inventory	N/A
Transmission Rate Base	**770.4**
*Totals are rounded.	

- **Is the proposed cost of capital, including the current forecast of long-term debt and the proposed 2023 update of the cost of long-term debt, appropriate?**

<u>Cost of Capital</u>

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. The capital 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 Review of the Existing Methodology of the Cost of Capital for Ontario's Regulated Utilities, dated January 14, 2016. Furthermore, NextBridge used the then in effect OEB-approved cost of capital parameters for 2020 to determine the return on equity, deemed short-term debt, and

[117] Exhibit I Staff 34(b).
[118] Exhibit A-3-1.

deemed long-term debt.[119] Therefore, in the following table NextBridge has appropriately determined its capital structure and cost of capital.

Table 6-4: NextBridge's Cost of Capital

	%	%
Long-term debt	56%	3.21%
Short-term debt	4%	2.75%
Common equity	40%	8.52%
Total	**100%**	**5.32%**

Long-Term Debt

Consistent with the OEB's 2009 Cost of Capital Report, NextBridge deemed the amount of long-term debt to be fixed at 56% of rate base, with the OEB-approved cost of long-term debt set at 3.21%. Currently, NextBridge's revenue requirement is calculated utilizing the long-term debt rate from the OEB-approved cost of capital parameters for 2020. Near the in-service date and after BLP has bought-into the partnership, NextBridge will finance the East-West Tie line with a third party.[120] NextBridge has already executed agreements with five major Canadian banks to participate in providing financing for the East-West Tie line, which will result in NextBridge securing a competitively driven cost of debt. Further, NextBridge's partners have extensive experience in obtaining competitive rates for debt financing.[121] In this regard, at the oral hearing, NextBridge explained that there is a direct correlation between its ability to obtain a lower actual debt rate during the private placement financing, which would provide customer savings, and NextBridge's request for rate certainty for a 9-year, 9-month IR term.[122] Further, in response to Commissioner Sardana's questions at the oral hearing, NextBridge explained it has considered multiple options to secure long-term debt financing for the project, and ultimately selected a private placement to secure a competitively procured actual cost of long-term debt.[123] In addition, the securing of private debt placement for the East-West Tie line is prudent because it will ensure

[119] Exhibit A-3-1; Exhibit G-1-1 through G-2-4.
[120] Exhibit G-2-2; Exhibit I Energy Probe 7(a); Transcript Vol. 3, p. 128 line 21 through p. 129 line 11.
[121] Exhibit G-2-2; Transcript Vol. 2, p. 106, lines 4-11.
[122] Transcript Vol. 2, p. 2 line 27 through p. 3 line 3; p. 5 lines 22-28.
[123] Transcript Vol. 3, p. 127 line 10 through p. 128 line 9.

long-term financial viability of NextBridge. If NextBridge were to forgo securing long-term debt for the East-West Tie line it would inappropriately expose it to short-term interest rate volatility and weaken NextBridge's financial viability.[124] Thus, to reflect the actual cost of long-term debt in the Cost of Capital, NextBridge proposes a one-time update to the deemed cost of long-term debt to reflect the actual cost of NextBridge's long-term debt.[125] NextBridge also proposes to use the debt rate variance account ("DRVA") to record and dispose of the on-time update to the cost of long-term debt, subject to a prudence review by the OEB as part of the second annual update following in-service.[126]

A similar one-time update to a transmitter's cost of long-term debt was approved by the Board in EB-2018-0275 for Niagara Reinforcement:[127]

> The OEB also agrees that it is appropriate for the debt rate to be updated for 2021 based on the refinancing of debt because NRLP does not have any existing debt at third-party market rates.

Accordingly, NextBridge's request to perform a one-time update to its cost of long-term debt based on the actual third-party market debt rate is consistent with the Board's approval of a similar proposal in EB-2018-0275 and will allow for its actual cost of debt to be reflected in its revenue requirements. Therefore, NextBridge one-time update to its cost of debt should be approved.

- **Is NextBridge's response to COVID-19 appropriate?**

NextBridge has implemented a proactive and prudent response to the COVID-19 global pandemic. NextBridge conducts weekly management calls to discuss project risks, including risks associated with COVID-19.[128] Further, the following safety measures have been employed to address COVID-19 in the context of construction of the East-West Tie line:[129]

- Screening new workers and workers who have recently traveled;
- Testing workers on-site;
- Reducing the contact between employees, including how they travel to and from site each day;
- Modified accommodations;

[124] Exhibit I Staff 71(a).
[125] Exhibit G-2-2.
[126] Exhibit H-1-1; Exhibit I Energy Probe 30(c); Exhibit I Staff 75(a).
[127] Niagara Reinforcement, EB-2018-0275, Decision and Order at 6 (April 9, 2020).
[128] Exhibit I SEC 9, Attachment.
[129] *Id.*

- Additional cleaning and sanitizing procedures; and
- Providing additional personal protective equipment to employees, including masks and hand sanitizer.

Even with the use of these measures, on March 23, 2020, NextBridge provided a timely Intermediate Notice to the OEB explaining that based on discussions with local municipalities and Indigenous communities, NextBridge temporarily closed the work camps associated with construction to avoid the potential spread of COVID-19. After additional discussions with the local municipalities and Indigenous communities regarding the possible spread of COVID-19 and its potential impact on safety and health of its workers and communities, NextBridge decided to temporarily suspend all construction activities as of April 3, 2020. NextBridge was able to safely resume limited construction activities on May 19, 2020, after employing additional safety measures and further consultation with local municipalities, Indigenous communities, and local health authorities.[130] Prior to the filing of the Application, NextBridge resumed all construction activities, and also relaunched the Indigenous Facilitator Program, which resulted in Indigenous communities having field representatives working under a program structured by Supercom which ensured compliance with the COVID-19 safety protocols.[131] NextBridge's general contractor also implemented safety protocols, including publishing a brochure on the procedures and testing 70-80 workers per day.[132] In addition, NextBridge continues to engage with Indigenous communities on COVID-19 health and safety issues.[133]

Further, on July 22, 2020, NextBridge, wrote to the IESO explaining the impact of the temporary suspension of construction on the East-West Tie line due to COVID-19 in the context of the OBP's limits on the construction and use of winter roads within the Lake Superior caribou habitat. Specifically, due to the impact of COVID-19 construction activities in relationship to these OBP conditions, NextBridge sought IESO's concurrence that there was no unacceptable risk to reliability if the East-West Tie line came into service on March 31, 2022.[134] In other words, if not for the impact of COVID-19 on the ability to accelerate construction in April of 2020, NextBridge would have stayed on schedule for the fourth quarter of 2021 in-service date.[135] The extension of

[130] Exhibit C-1-1, Attachment 3 (October 22, 2020 Quarterly Report).
[131] *Id.*
[132] Exhibit I Staff 55; NextBridge January 22, 2021 Quarterly Report.
[133] *Id.*
[134] *Id.*
[135] Exhibit I Staff 42(a).

the in-service date to March 31, 2022, however, would allow NextBridge an additional winter season to construct, which would save the project between $15-20 million in construction costs that would have been incurred to build additional all-season roads.[136] On August 28, 2020, the IESO confirmed that extending the in-service date for the East-West Tie line to March 31, 2022, would not create an unacceptable risk to reliability.[137] Thus, not only has NextBridge appropriately worked with the Indigenous communities and municipalities to address health and safety issues related to COVID-19, it ceased construction for a six week period as a protective measure against the potential spread of COVID-19, and was able to do so in a manner that did not impact its ability to bring the East-West Tie line into service by March 31, 2022, and at a cost of $737.1 million. Accordingly, for these reasons, NextBridge's response to COVID-19 is appropriate.

- **Is NextBridge's proposed treatment of COVID-19 related costs appropriate?**

The East-West Tie line is currently under construction, and, therefore, all COVID-19 related costs are capital costs directly related to construction.[138] The quantum of COVID-19 costs are unknown and will not be known until after construction is completed, and, therefore, NextBridge did not include COVID-19 related costs in its proposed revenue requirement.[139]

Due to the continuing nature of COVID-19 and its potential impact on construction, NextBridge proposes to separately track COVID-19 related costs in new subaccount of a construction work in progress ("CWIP") Account 2055, and the associated revenue requirements in the CCVA.[140] NextBridge also proposes to bring forward the CCVA to the Board for review and disposition in the second annual update following in-service.[141]

As explained in response to interrogatory questions and at the oral hearing, NextBridge submits that it is not appropriate for it to use deferral Account 1509 to track its COVID-19 costs, given that all of NextBridge's COVID-19 costs are capital costs, and not associated with the difference in earnings for transmitters with already approved rates.[142] NextBridge further submits that its treatment of COVID-19 costs and the associated revenue requirements is appropriate, given that

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[136] Exhibit I Staff 55; NextBridge January 22, 2021 Quarterly Report; Exhibit C-2-4.
[137] Exhibit A-3-1; Exhibit B-1-1, Attachment 1 (IESO Letter to NextBridge, dated August 28, 2020).
[138] Transcript Vol. 1, p. 27, lines 9-27.
[139] Exhibit I AMPCO.3(a) and (b); Exhibit I Staff 40(a)-(d).
[140] Exhibit H-1-1; Exhibit H-1-1, Attachment 3; Exhibit I Staff 74(a).
[141] Exhibit I Staff 40(a).
[142] Exhibit I SEC 17; Transcript Vol. 3, p. 124 line 28 through 126 line 2.

Board's February 11, 2019 decision in EB-2017-0182 directed NextBridge to use a CWIP Account 2055 to record construction costs incurred after July 31, 2017, and NextBridge's COVID-19 costs are incremental construction work in progress costs that should be tracked in Account 2055, as would any other construction cost.[143] In addition, NextBridge's interpretation of proper GAAP accounting treatment is to classify COVID-19 construction related costs as a CWIP asset. Conversely, classifying the costs as a non-current asset (deferral account 1509) is not reflective of NextBridge's current construction phase.[144]

Accordingly, although NextBridge recognizes that the OEB has implemented a stakeholder process for input on the treatment of COVID-19 costs in the context of transmitters and distributers with already approved rates which are impacted by COVID-19 in a variety of ways (*e.g.,* lost revenues, bad debt), NextBridge's circumstances are materially different. Unlike the other distributers and transmitters, NextBridge has no lost revenues or bad debt due to COVID-19, rather its COVID-19 related costs will be related to the construction of the East-West Tie line, and, thus, should be separately tracked and recorded, and then reviewed and disposed of in the second annual update following in-service. NextBridge's unique situation was recognized by OEB Staff during the COVID-19 stakeholder process.[145] Accordingly, NextBridge's tracking and treatment of COVID-19 related costs in Account 2055 is appropriate.

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[143] Exhibit H-1-1, Attachment 5 (NextBridge Letter, dated June 11, 2020 in EB-2020-0133 (Consultation on Deferral Account-COVID-19).
[144] *Id.*
[145] Transcript Vol. 2, p. 17 line 26 through p. 19 line 8; p. 20 lines 3-8.

7. DEFERRAL & VARIANCE ACCOUNTS

- **Are the proposed deferral and variance accounts, and the proposed scope and timing for disposition of these accounts appropriate?**

NextBridge requests approval of the following variance accounts:

- A CCVA effective November 4, 2020;
- A DRVA effective April 1, 2022;
- A RDVA effective April 1, 2022; and
- A taxes variance account ("PILsVA") effective April 1, 2022

NextBridge proposes the first three variance accounts in light of its unique, start-up circumstances, which include that NextBridge: (1) is a new transmitter; (2) is applying a Revenue Cap framework in its first application; (3) has no existing operations or revenues by which to balance the potential financial exposure; and (4) is constructing and will operate and maintain a large new transmission line infrastructure project. For purposes of deposing of these accounts, NextBridge's materiality threshold is $278,500 (*i.e.*, 0.5% of Revenue Requirement, or $55,700,000 x 0.5% = $278,500).

CCVA

The CCVA is needed to track any change in the revenue requirement associated with the difference between the forecasted construction costs set forth in the Application and the actual, final construction costs, including interest during construction. In addition, the CCVA would track costs related to construction that are incurred after the March 31, 2022 in-service date before the end of the IR term, such as environmental compliance costs required by commitments in the OBP or the Amended EA and are not known nor included in the construction cost forecast. The scope and associated costs of environmental mitigation to be performed during the IR term is highly dependent on monitoring activities, and in some cases, they are weather or nature dependent. For example, the transfer strategy and timing of caribou is dependent upon the results of pre-transfer monitoring such as gender ratio available to transfer.[146] Therefore, NextBridge proposes to keep open the CCVA for the entire IR term.

[146] Exhibit C-2-4; Exhibit H-1-1; Exhibit H-1-1, Attachment 3 (CCVA draft accounting order).

To facilitate the OEB's review of costs and prudence on a timely basis and to allow time to ensure all project construction cost accounting is finalized and an audit has taken place, NextBridge proposes to seek initial disposition of the balance in this account in the second annual update following in-service, which is expected to be filed in 2023 for inclusion in 2024 UTR rates.[147] The additional and final disposition of the remaining costs tracked in the CCVA will take place at the end of the IR Term and in the next rebasing application for NextBridge.[148] These additional costs are a result of environmental permit conditions and requirements, such as the OBP, which will be incurred during the entire IR term, and, are properly accounted for as compliance activities associated with construction and included in the CCVA.[149] The causation associated with the CCVA involves the fact that the Application includes forecasted construction costs for the East-West Tie line, and any variance can be easily distinguishable because the revenue requirement included in the variance account will be calculated on a new rate base than that presented in the Application. Further, the costs included in this account will include costs necessary to complete the construction of the East-West Tie line, if in excess of the forecast.[150] With respect to the prudence of the CCVA, the account is needed to capture any currently unknown, yet prudently incurred construction costs beyond the current forecasted costs in the Application for review and disposition in 2023, as well as at the rebasing proceeding any construction costs incurred after the initial disposition of the CCVA until the end of the IR term.[151] A recently settlement approved in the EB-2019-0261, Decision and Order (Nov. 19, 2020) supports the approval of NextBridge's proposed CCVA, because in that proceeding the OEB accepted deferral accounts prior to knowing the expected balance to be included in Hydro Ottawa Limited's (Hydro Ottawa) subaccount "1508 – Subset of system access capital additions (net of contributions) revenue requirement differential variance account". Accordingly, for these reasons, it is appropriate to establish the proposed CCVA.

DRVA

NextBridge's actual cost of debt is not known and will not be known until closer to the in-service date. Once the actual debt rate is known, the DRVA will record the revenue requirement differential from the in-service date up until the point where the actual cost of debt is reflected in

[147] Exhibit H-1-1; Exhibit I Energy Probe 30(b); Exhibit I SEC 16(a).
[148] *Id*.; Transcript Vol. 2, p. 14 lines 12-20.
[149] Transcript Vol. 1, pp. 62-64; Transcript Vol. 2, p. 35 lines 14-27; p. 36 lines 2-21; p. 65 lines 6-10.
[150] Exhibit I Staff 71(a).
[151] *Id*. Exhibit I SEC 16(a).

NextBridge's revenue requirement and included in the UTR.[152] Therefore, in this account, NextBridge proposes to track and dispose of a one-time update to its long-term debt costs such that it allows for a refund 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.[153] To facilitate an efficient process and review of this account, NextBridge proposes to dispose of the DRVA at the same time as the CCVA, which allows for a comparison of drivers associated with both accounts and ensures there is not an overlap between construction costs and potential debt rate changes.[154] The causation associated with the DRVA is based on the OEB's 2020 Cost of Capital Parameters and the long-term debt rate of 3.21%, which will be easily distinguishable because the DRVA calculations will clearly set forth the difference between the 3.21% cost of debt used in the Application and the actual cost of long-term debt rate secured by NextBridge closer to the March 31, 2022, in-service date.[155] Accordingly, the establishment of a DRVA is appropriate to allow for a one-time update to reflect in NextBridge's revenue requirements the actual cost of debt.

RDVA

The RDVA will track the revenue impact due to the East-West Tie line coming into service earlier or later than March 31, 2022. Therefore, 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 of March 31, 2022 compared to the revenue requirement that would have been calculated had rates been established based on the actual achieved in-service date. 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.[156] With respect to causation, the RDVA will only be used if the in-service date for the East-West Tie line differs from March 31, 2022. The RDVA is prudent because there is a potential that due to an unknown event, such as additional impacts on construction from COVID-19, the East-West Tie line could come into service before or after March 31, 2022. Thus, the establishment of the RDVA allows for a matching of revenue requirements to the in-service date.

[152] Exhibit H-1-1; Exhibit H-1-1, Attachment 4 (DRVA draft accounting order); Exhibit I Energy Probe 30(c).
[153] Exhibit I Staff 71(a).
[154] Exhibit H-1-1.
[155] Exhibit I Staff 71(a).
[156] Exhibit H-1-1; Exhibit H-1-1, Attachment 2 (RDVA draft accounting order); Exhibit I Staff 10(a)(b).

This ensures that customers and NextBridge are treated fairly with respect to NextBridge's revenue requirements.[157]

PILsVA

The PILsVA will be used to track any revenue requirement impact of legislative or regulatory changes to tax rates or rules that are not reflected in the revenue requirement used to establish 2022 UTRs. Therefore, this account will record differences that result from a change in, or a disclosure of, a new assessment or administrative policy that is published in the public tax administration or interpretation bulletins by relevant federal or provincial tax authorities. The account will also record any tax impacts resulting from, but not limited to, the timing of BLP's buy-in and any changes in tax-exemption status. At this time, to ensure the most accurate projection of tax payments for customers in the revenue requirement, the tax-exempt status of BLP is reflected for the entire IR Term. NextBridge proposes disposition of this account at the end of the IR Term in its rebasing proceeding.[158] For the foregoing reasons, each of the variance accounts proposed by NextBridge are appropriately scoped and scheduled for disposition.

[157] Exhibit I Staff 71(a).
[158] Exhibit H-1-1; Exhibit H-1-1, Attachment 1 (PILsVA draft accounting order).

8. COST ALLOCATION

- **Is the proposed cost allocation appropriate?**

NextBridge's East-West Tie line is a single transmission line that is classified as a Network asset. Therefore, NextBridge's assets will be included in the Network pool application consistent with the cost allocation methodology approved by the OEB. Thus, the rates revenue requirement associated with the East-West Tie line are appropriately proposed to be allocated to the Network pool.[159]

Based on the foregoing, NextBridge submits that the Application should be approved as proposed.

All of which is respectfully submitted this 9th day of April, 2021.

George Vegh
McCarthy Tétrault LLP
Counsel to Upper Canada Transmission, Inc.,
dba NextBridge Infrastructure, LP

[159] Exhibit I-1-1.