April 27, 2021

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

Dear Ms. Long,

RE: EB-2020-0150 UCT/NextBridge 2022-2031 Custom IR Application
Energy Probe Argument Submission

Attached is the argument submission of Energy Probe Research Foundation (Energy Probe) in the EB-2020-0150 proceeding, the application by Upper Canada Transmission Inc. (UCT) operating as NextBridge Infrastructure LP for OEB approval of its 2022-2031 Custom Incentive Rate-setting proposal.

Respectfully submitted on behalf of Energy Probe.

Tom Ladanyi
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Date: 2021.04.27 12:03:27 -04'00'

Tom Ladanyi
TL Energy Regulatory Consultants Inc.

cc. Patricia Adams (Energy Probe Research Foundation)
Roger Higgin (Sustainable Planning Associates Inc.)
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EB-2020-0150

ONTARIO ENERGY BOARD

IN THE MATTER OF *the Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 ("**Act**");

AND IN THE MATTER OF an Application by Upper Canada Transmission, Inc. operating as NextBridge Infrastructure, LP for an Order or Orders pursuant to section 78 of the Act approving rates and other charges for transmission of electricity.

Argument Submission

Energy Probe Research Foundation

April 27, 2021

EB-2020-0150
Upper Canada Transmission, Inc. (operating as NextBridge Infrastructure LP)

Energy Probe Research Foundation (Energy Probe)'s Argument
is structured according to
the approved Issues List and the Applicant's Argument-in-Chief.

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APPLICATION

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) for Approval of the East-West Tie (EWT) transmission line from Lakehead to Wawa.

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.

The Independent Electric System Operator (IESO) determined that the East-West Tie (EWT) line was the preferred option for meeting Northwestern Ontario electricity supply needs. The IESO has also confirmed that the East-West Tie line's In-Service Sate (ISD) of March 31, 2022 was acceptable.

As part of its application UCT/NextBridge is requesting approval of,

(1) A Custom Incentive Regulation (CIR) plan consisting of a Revenue Cap Index (RCI) framework for the period April 1, 2022 to December 31, 2031 (IR term);

(2) A Base Year 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 five variance accounts.
   - o Taxes or Payments in Lieu of Taxes Variance Account (PILsVA);
   - o Revenue Differential Variance Account -(RDVA);
   - o Construction Cost Variance Account-(CCVA);
   - o Debt Rate Variance Account (DRVA); and
   - o Z-Factor Deferral Account

The base revenue requirement and rate adjustments are proposed to be implemented through the Ontario Energy Board (OEB, the Board)'s approved Uniform Transmission Rates (UTR) for the Network Pool.

In addition, UCT/NextBridge seeks recovery of

- $31.24 million in development costs previously approved by OEB Decision and Order dated December 20, 2018 (EB-2017-0182),

- $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),

- $737.1 million of construction costs, and

$1.2 million in spares.

The East-West Tie line has to comply with the 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.

UCT/NextBridge worked with Bamkushwada, LP (BLP), a limited partnership comprised of six First Nations, to help facilitate BLP’s 20% equity ownership in UCT/NextBridge when the line operates.

At the In Service Date, April 1, 2022, UCT/NextBridge will be owned by NextBridge Infrastructure LP, which is a New Brunswick Corporation (40%), Enbridge Inc.(20%), Ontario Municipal Employees Retirement Scheme OMERS (20%) and Bamkushwada, LP (20%)

REGULATORY PROCESS

As a result of the OEB’s granting UCT/NextBridge the authority to construct the East-West Tie line in EB-2017-0182, UCT/NextBridge’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 UCT/NextBridge to file quarterly reports providing information on the progress of the construction of the East-West Tie line.

A Notice of Hearing was issued on December 4, 2020. Procedural Order No. 1, issued on December 16, 2020, accepted Association of Major Power Consumers in Ontario (AMPCO), Building Owners and Managers Association (BOMA), Consumers Council of Canada (CCC), Energy Probe Research Foundation (Energy Probe), Hydro One Networks Inc. (Hydro One), Independent Electricity System Operator (IESO), School Energy Coalition (SEC) and Vulnerable Energy Consumer Coalition (VECC) as intervenors in the proceeding. Procedural Order No. 1 also established the process and timeline for filing interrogatories and interrogatory responses.

The OEB received a late intervention request from the Michipicoten First Nation (MFN) on January 6, 2021. On January 7, 2021, the OEB issued a letter that confirmed MFN as an intervenor in the proceeding.

Following Interrogatories, a settlement conference took place on February 16, 18, and 25, 2021. On March 4, 2021, UCT/NextBridge filed a letter advising the OEB that no settlement had been reached by the parties and proposing that the application proceed to a written hearing.
On March 8, 2021, SEC responded to UCT/NextBridge's proposal on behalf of AMPCO, BOMA, CCC, Energy Probe, SEC and VECC. These intervenors requested that the matter proceed to an oral hearing.

UCT/ NextBridge filed a further letter replying to SEC's letter on March 10, 2021.

The Board determined to proceed by a virtual Oral Hearing and Written Argument

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ENERGY PROBE'S ARGUMENT IS STRUCTURED BASED ON THE ISSUES LIST

1. GENERAL

Has UCT/NextBridge responded appropriately to all relevant OEB directions from previous proceedings?

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

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

UCT/NextBridge states it has complied with the conditions of the OEB and IESO following designation and Licencing. It has provided quarterly reports that tracked construction costs since it was given the designation to develop the line in 2013. UCT/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. Accordingly, UCT/NextBridge submitted it has appropriately responded to all relevant OEB directions from previous proceedings[1].

1.1. Energy Probe Submission on Prior Directions

Energy Probe accepts that the UCT/Nextbridge Application complies with prior Board directions.

The proposed In-Service Date (ISD) has been accepted by the IESO. However, this could change.

However as discussed in detail in this Argument, the elements of the proposed revenue requirement and their associated total bill impacts are not reasonable.

Base Revenue Requirement and Bill Impacts

UCT/NextBridge's position is that its proposed base revenue requirement is necessary to earn a return on investment, pay income taxes and fund Operations, Maintenance and Administration (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.

The proposed revenue requirement shown in Table 1[2] of the evidence is for the Test Year of April 1, 2022 – March 31, 2023 ("Test Year").

UCT/NextBridge's evidence is that based on its proposed 2022 Revenue Requirement, 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 would result in an increase in a typical residential customer bill of 0.32% and for a typical general services energy customer bill 0.22%.

1.2. Energy Probe Submission on Base Revenue Requirement and Bill Impacts

The proposed Base Year Revenue Requirement should be updated based on the 2022 OEB Cost of Capital and UCT/NextBridge Construction Cost. If available, the final Weighted Average Cost of Capital through Debt (WACD) Debt Rate should be included (however, it can be trued up from the DRVA).
The UTR amount for 2022 should also be updated and the forecast Bill Impacts updated at that time.

[1]Argument in Chief page 8
[2] Exhibit A, Tab 3, Schedule 1, page 5

Effective Date

The proposed effective date of April 1, 2022 and the inclusion of UCT/NextBridge's base revenue requirements in the 2022 UTR correspond with the projected In-Service Date of March 31, 2022.In its Argument in Chief UCT/NextBridge states it 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*[3].

In the Hearing there was considerable questioning whether the Construction Cost of $737.1 million was "firm"[4]

Based on the planned 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, UCT/NextBridge prorated its 2022 revenue requirement accordingly and would collect a full year's revenue requirement in 2023 and in subsequent years.

Further, UCT/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.

1.3. Energy Probe Submission on Effective Date

Energy Probe notes that the Effective Date has moved significantly from original date. In addition, other than the impact of local environmental factors, COVID-19 protocols could further delay the EWT In-Service-Date (ISD).

Energy Probe suggests that if the ISD is delayed by more than three months, then, the final In-Service Costs, Cost of Capital and 2022 UTR Rates should be updated.

2. REVENUE CAP APPLICATION

Is the proposed Incentive Rate methodology appropriate?
Are the proposed inflation factor and the proposed productivity factor appropriate?
Are the proposed annual updates appropriate?
Should there be an earnings sharing mechanism? If so, how should it be implemented?
Is the proposed 9 year and 9-month length of the IRM plan appropriate?

Base Year Revenue Requirement

[3] Exhibit B-1-1; Exhibit I Energy Probe 12(c).
[4] Tr. Vol.1, Pages 102-104

As noted above, the Base Year Cost of Service Revenue Requirement proposed by UCT/NextBridge is $55.7 million based on an average rate base of $770.4 million, Cost of capital of 5.32%, Depreciation of $9.26 million and O&M costs of 4.9 million and 0.6 million in taxes.
This Revenue Requirement is prorated for the period April 1, 2022 (ISD) to provide a proposed 2022 Revenue Requirement of $41.8 million and average 2022 Rate Base of $770.4 million.

Table 1. Summary of Revenue Requirement for Test Year ($ Millions)

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

Table 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

In its Presentation in the Hearing[5] UCT/NextBridge maintained that all elements of its proposed revenue requirement and the associated total bill impacts are reasonable[6].

Custom Revenue Cap Index (RCI)

In the Hearing, UCT/NextBridge witnesses testified that the proposed Custom RCI incentive rate methodology is appropriate, considering the OEB's expectations for incentive regulation and considering the Project's value to customers.

In the Hearing and in its AIC, UCT/NextBridge, took the position that in terms of the Board's expectations, UCT/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

[5] Exhibit K1.1, UCT/NextBridge Presentation
[6] AIC page 10

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[7].

UCT/Nextbridge proposes that the Revenue Requirement and rates for 2023 -2031 be set based on the following Custom Revenue Cap Index (RCI)[8]

$$\mathbf{RR_{(n)} = [RR_{(n-1)} \times (I\text{-}X)] \qquad where\ I=2\%\ and\ X=0}$$

The 2% escalator (I) is based on the OEB Inflation Factor and the formula has no Productivity Factor (X) or Stretch Factor (S). This formula produces the following annual Revenue Requirements:

Table 3. NextBridge Base Revenue Requirement by Year ($ Millions)

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

UCT/NextBridge proposes the Custom RCI formula will be applied to the estimated annualized 2022 Base Year Revenue Requirement of $55.5 million (Table 1). This is derived from an Average Rate base of $770.4 million using a weighted average Cost of Capital of 5.33%; full year depreciation $9.26 million; OM&A of $4.9 million and income taxes of $0.6 million.

However, setting rates for UCT/Next Bridge is unique. In 2023 and subsequent years, absent any capital additions, the Net Book Value of the UCT/NextBridge transmission assets declines by $9.26 million/yr due to depreciation. This was acknowledged by UCT/NextBridge witness, in the Hearing, and is similar to other Ontario Single Asset Transmission Utilities[9].

Table 1: UCT/Nextbridge Declining NBV of Assets and Rate Base (REVISED SEC 7 Analysis

Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rate Base	770.4	763.9	755.3	746.7	737.9	728.8	719.8	711.1	702.4	693.3

[7] Ibid Page 12
[8] Exhibit E, Tab 1, Schedule 1, Page 2
[9] EB-2018-0275 Niagara Reinforcement LP; EB-2015-0026 Bruce to Milton LP

Following the 2022 Base Year, the UCT/NextBridge Custom RCI Formula uses the prior year's Rate Base escalated by 2% to calculate the subsequent years' Revenue Requirements, ignoring the lower rate base due to depreciation. Expressed differently, the UCT/NextBridge Revenue Requirement is increased each year by the depreciation amount plus inflation.

Ratepayers and Board Staff filed Spreadsheets that show the difference between the UCT/NextBridge RCI formula projected revenue requirements for 2023-2031 and Cost of Service regulation.[10]

In the Hearing, UCT/NextBridge witnesses rejected these proposals as "not what they applied for" and "*not recognizing the cost pressures the utility would face*"[11].

In the Hearing, Board Staff also filed scenarios that would produce the Allowed Return on Equity and just and reasonable rates by introducing Productivity and Stretch Factors in the RCI formula.[12] UCT/NextBridge witnesses rejected these proposals on the same basis as those from intervenors[13].

During cross-examination, UCT/NextBridge witnesses maintained that the UCT Custom RCI was appropriate and rejected all other parties' Revenue Requirement simulations on several grounds, including not providing a proper incentive for the utility and not appropriately considering the cost pressures UCT/NextBridge would be facing[14].

In the Hearing, UCT/NextBridge witnesses declined to provide evidence on its estimates of the Return on Equity generated by its Custom RCI[15].

UCT/Next Bridge witnesses were asked about ratepayer mitigation aspects of its Custom RCI plan. In particular they stated that a productivity factor was not included, based on other applications including NRLP and Bruce-Milton[16]. They also stated an Earnings Sharing Mechanism (ESM) "was not mandatory and one was not included"[17].

In the Hearing UCT/NextBridge witnesses listed expected OM&A cost pressures claiming that such cost pressures constituted "Death by a Thousand Cuts"[18].

UCT/NextBridge reiterated in its AIC[19] that it will be responsible for any increases in OM&A expenses above the 2% inflation factor – this includes both known and unknown increases:

[10] Revised SEC 7; Energy Probe Exhibit 2.3 Revised; K3.1, Board Staff Tables 1-4
[11] Tr. Vol. 1 Pages 73-75; 77-78
[12] K3.1, Staff Tables 5 and 6; Tr. Vol. 3 Pages 105-107; 109-111
[13] Tr. Vol. 3, Pages 109-111
[14] Tr. Vol. 1, Pages 70-82
[15] Tr. Vol. 2, Page 46
[16] Tr. Vol 2, Pages 7-10
[17] Ibid 11
[18] Tr. Vol.1, Pages 131-133
[19] AIC Page 12-13

- Expected increases for inflation in underlying components of UCT/NextBridge's actual OM&A costs to be borne by UCT/NextBridge under its HONI Service Level Agreement("SLA"),[20]

- Known fixed Consumer Price Index for First Nations reserve crossing permits may not align with inflation,

- The rising income tax expense as NextBridge's capital cost allowance declines,

- Unknown increases related 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,

    - Managing UCT/NextBridge's ROW vegetation maintenance program, taking into consideration expected increases in forestry expenses during the IR term with greater work volumes,

    - Bird nesting, which could require potentially relocating nests, including the accompanying environmental permits,

    - Potential compliance changes through the North American Electric Reliability Corporation ("NERC**"**) which will flow through the Northeast Power Coordinating Council ("NPCC**"**) and IESO,

    - Potential maintenance and labour cost increases; and

    - Vandalism.

2.1. Energy Probe Submission on UCT/NextBridge Proposed Custom RCI

In Energy Probe's view, the proposed UCT/NextBridge Custom Rate Cap Index rate setting formula and Rate Plan does not comply with the requirements for a Transmission Custom Incentive Regulation Plan.

- First the UCT/NextBridge RCI does not use the appropriate Rate Base (based on Net Book Value of the Assets) to set the annual Revenue Requirements. (The rate base declines by $9.26 million each year.)

- Second it has no mitigation for Ratepayers such as a Productivity or Stretch Factor.

- Third as demonstrated by Ratepayers and Board Staff, it produces an excess of revenue of about $68 million over 10 years.

[20] Transcript Vol. 1, p. 86

- Fourth it has no ESM - just a 300 basis point ROE off-ramp.

Table 2 Illustration of impact of UCT//NextBridge Formula $RR_{(n)}=RR_{(n-1)}*[1+(I-X)]$.
2022 Annualized Avg. Rate Base = $770.4M 2022 Annualized Revenue Requirement $55.7 M 2023 Rate Base $763.9M 2023 UCT/NextBridge RCI Revenue Requirement $55.7M*1.02=**56.8M**
2023 Rate Base $763.9M 2023 Cost of Capital =Rate Base*WACC =$763.9M*0.0532=$40.6M Revenue Requirement = (Cost of Capital + OM&A + Depreciation + Taxes) = (40.6+5.0+9.26+0.6) =$55.5M. The 2022-2023 Revenue Requirement, should be **$55.5 M, not $56.8 M** (In subsequent years the Annual Revenue Requirement should decline further)

With regard to the "Risks" that may affect UCT/NextBridge costs and revenues, Energy Probe notes that these risks are the same as other transmission utilities. However, they are the reason the companies have the ability to earn an allowed ROE.

Further, in the Hearing, the UCT/NextBridge witnesses indicated that as a result of pressures, the O&M could increase from 2% to 3% and it would need to manage this. The Board should be aware that if O&M increased from 2% (RCI) to 3% this would be less than $1million additional increment to the Revenue Requirement over 10 years.

In summary, based on the above reasons, Energy Probe submits that the UCT/NextBridge proposed Custom RCI does not produce just and reasonable rates and urges the Board to reject it.

The issue is how to remedy this problem. There are two options.

- To require UCT/NextBridge to file a revised Custom RCI including productivity factors and additional ratepayer protections such as a shorter term and an earnings sharing mechanism.

OR

- To use the Board Staff Model[21] to Set the Rates for 2023-2027 (5 years) and include an ESM (Asymmetric ROE plus Dead Band 100 bpts; 50:50 sharing above)

Energy Probe favours second Option.
The final construction costs will be known in 2023 as well as the CCVA and DRVA balances. Once 2023 Rates are set Rates should be stable for the 5-year term.

[21] K3.1, Board Staff Table 6 revised

As indicated in the Rate Handbook, the requirement is to provide appropriate mitigation for ratepayers in the Custom RCI Plan. Staff Table 6 achieves this by subtracting an X/S Stretch Factor from the O&M and a Stretch Factor Scap to the Capital components of the annual Revenue Requirements.

OEB Staff Table 6 – Revenue Requirement - Capital - 0% Inflation Factor and 0.75 % Stretch Factor and OM&A 2% Inflation Factor and 0.3% Stretch Factor

$\underline{\mathbf{RR_{(n)}=RR_{(n-1)}+\{[1+[(OM\&A_{(n-1)}*(I-S_{OMA})]-[(Capital_{(n-1)}}*(1\text{-}Scap)]\}}}$

	2022	2023	2024	2025	2026	2027
Staff Proposed Revenue Requirement($M)[1]	40.1	53.0	52.8	52.5	52.2	51.9
OM&A ($M)[2]	3.7	5.0	5.1	5.2	5.4	5.5
Depreciation($M)[3]	7.0	9.3	9.3	9.3	9.3	9.3
Taxes($M)[4]	0.4	0.6	0.6	0.6	0.5	0.5
Deemed Return on Debt on Average Rate Base ($M)[5]	9.6	12.8	12.6	12.5	12.3	12.2
Calculated Return on Equity on Average Rate Base ($M)[6]	19.3	25.4	25.2	24.9	24.7	24.5
Average Rate Base($M)	770.4	765.8	756.5	747.3	738.0	728.7
Actual Return on Equity (%)	8.34	8.29	8.30	8.32	8.34	8.37

Energy Probe notes that the Board Staff Table 6 Scap Factor of 0.75% is conservative and could be higher.

The OM&A Stretch Factor of 0.3 is supported by the fact that the CRA benchmarking Study shows that the UCT/NextBridge annual Administrative and Corporate Operating Expense is 3 times that of the Comparator Group[22] (see below for OM&A). The Capital Stretch factor of 0.75+ is required due to the declining Rate Base.

Earnings Sharing Mechanism

As noted earlier, in cross-examination, UCT/NextBridge witnesses defended the lack of an Earnings Sharing Mechanism. In cross examination they stated that for Custom IRM Plan, it was not required and the 300 basis point ROE Off- Ramp was adequate to protect ratepayers[23].

[22] Exhibit B, Tab 2, Schedule 7, Table 2
[23] Tr. Vol. 2, Pages 7-10

They also rejected statements from intervenors regarding the potential for the off-ramp to occur in 2028 based on the Ratepayer simulations and once again cited the many cost pressures that UCT/NextBridge would face.

In its Argument in Chief, UCT/NextBridge once more rejected the need for an ESM, "given its commitment to add capital and cost manage internal and external cost pressures while holding its OM&A at a minimal Test Year baseline"[24].

IRM Term

UCT/NextBridge witnesses defended the proposed term of 9 years and 9 months on the basis that a historically low ROE was locked in for ratepayers and that this term would provide stability for both the company and ratepayers.

It cited as a prior precedent the 8-year term the Board allowed for Hydro One Sault Ste Marie distribution/transmission[25].

In its Argument in Chief, UCT/Nextbridge noted[26], "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."[27] UCT/NextBridge has acknowledged only that the OEB has the discretion to require a rate proceeding through its off ramp of 300 ROE basis points dead band policy[28].

2.2. Energy Probe Submission on ESM and Plan Term

As noted earlier Energy Probe reiterates that the UCT Custom RCI Plan has no mitigation for ratepayers.

The OEB approval of the 8-year term for Hydro One Sault Ste. Marie was for MAADS application. For the two single asset transmission applications, B2M[29] and NRLP[30], the OEB approved 5-year terms. Energy Probe submits that a 5-year term is appropriate.

In addition, Energy Probe strongly suggests the proposed Term of the UCT/NextBridge rate plan is *too long*.

[24] AIC Page 18
[25] EB- 2018-0218 Hydro One, Sault Ste Marie, Decision with Reasons, , June 20, 2019
[26] AIC Page 19
[27] Handbook to Utility Rate Applications (October 13, 2016), p. 28.
[28] Exhibit I Staff 66(b); Transcript Vol. 1 p. 20.
[29] EB-2015-0026 Bruce to Milton LP
[30] EB-2018-0275 Niagara Reinforcement LP

We have suggested as an alternative to the UCT/NextBridge Custom RCI Plan, that the Board substitute the Board Staff Table 6 Rate plan[31] but only for 2023-2027. UCT/NextBridge should rebase in 2028, followed by a new Incentive Rate Plan.

If the Board determines UCT/NextBridge should file a Revised Custom IRM Plan, this should include an asymmetric Earnings Sharing Mechanism with a dead band of 100 basis points ROE. If the Board determines to apply the Board Staff Table 6 RCI Formula or similar formula this should include an ESM and have 5-year term.

Either of these approaches would comply with the Rate Handbook provisions for a Custom IRM plan and produce *just and reasonable rates*.

The UCT/NextBridge annual updates would include the earnings and amount of ESM sharing.

Annual Updates

UCT/Nextbridge proposed to file updates to the Revenue Requirement for each year. In 2023 it also proposes to file a request for clearance and disposition of the Balances in the CCVA and DRVA accounts. In discussion with Commissioner Ms. Duff, UCT/NextBridge witnesses indicated the annual rate adjustment would be like a Rate Rider.[32]

2.3. Energy Probe Submission Annual Updates

After a Revised Custom RCI rate-setting plan has been approved, the annual updates would be mechanical. However, in 2023 an update and review of the prudence of the in-service capital cost and clearance of the CCVA and DRVA should occur.

The format of the annual reports should be similar to the reports filed in the Construction Phase as well as providing details on the actual historic and forecast Operating Costs and performance measures.

3. TRANSMISSION SYSTEM PLAN

Have investment planning processes been appropriately carried out?

Does the 2021-2031 Transmission System Plan adequately address the condition of the transmission system assets?

The 2021-2031 Transmission System Plan is based on the fact that all of the EWT Assets are new. Although the assets will depreciate, the Company has $1.2 million of spares. This should allow it to maintain the condition of the transmission system assets.[33]

[31] K3.1, Table 6
[32] Tr. Vol.3, Page 131
[33] Exhibit B, Tab 1, Schedule 6.

UCT/Bridge will add capital during the term of the IRM Plan[34] This capital will be recovered at the time of rebasing.

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**

3.1. Energy Probe Submission on Transmission System Plan

Energy Probe has no Issues with the TSP and the condition of the EWT assets or the proposed additional capital investment plan. The company should report on its historic and planned additional Capital Expenditures in its annual updates

4. PERFORMANCE

Is the proposed monitoring and reporting of performance adequate?

The Company proposes the following performance Measures.[35]

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 (%)

[34] Exhibit B-1-6; Exhibit G-1-1.
[35] Exhibit D-1-1-1; Exhibit I, Staff 59(c); Exhibit I, Staff 60(a).

In addition, while, UCT/NextBridge cannot monitor and report on Transmission System Average Interruption Duration Index (T-SAIDI) and Transmission System Average Frequency Index (T-SAIFI)n its own, UCT/NextBridge indicated it is agreeable, if directed by the OEB, to use reasonable efforts to work with HONI to calculate T-SAIDI and T-SAIFI for the East-West Tie line[36].

4.1. Energy Probe Submission on Performance Measures

The primary Metrics of concern to Ratepayers are Return on Equity, OM&A cost/km of line and Average System Availability.

As part of its proposed scorecard, UCT/NextBridge proposed an OM&A per kilometre metric. The target for that metric remains the same for each year through to the end of the plan in 2031. Since the line does not change in size over the term, this means it expects its total OM&A budget to remain the same.

On a best efforts basis, with cooperation of Hydro One, UCT/NextBridge TSAIDI and TSAIFI should be reported for the EWT. Metrics should be reported in Scorecard format and include targets for the future year.

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?

The Operations and Maintenance Budget is Shown below[37]

[36] Exhibit I, Staff 62(a); Transcript Vol. 2, p. 116 lines 1-4.
[37] Exhibit F, Tab 4, Schedule 1

Table 1. NextBridge OM&A Expense ($ Millions)

Cost Category	2022
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**

Details of OM&A Costs

Considerable cross examination occurred on the OM&A Budget. UCT/NextBridge repeatedly referred to the Charles River Associates (CRA) Report as confirming the UCT/NextBridge OM&A costs were appropriate.

UCT/Nextbridge's position is "In addition to the substantial evidence provided by UCT/NextBridge in its Application and in response to interrogatories, the prudence of Test Year OM&A costs is supported by CRA Benchmarking Study, which showed UCT/NextBridge's OM&A costs were reasonable when compared to similar transmission line projects."[38]

The CRA Benchmark used O&M/km of line as the comparator.

UCT/NextBridge's Test Year *direct* OM&A costs for operations and maintenance of the East-West Tie line are $1.27 million/yr. provided by two field personnel from NextEra Energy Transmission (NEET) and HONI/Supercom Industries Ltd. ("Supercom"),[39]

Breakdown of Operations and Maintenance Expenses	$000's
a. Expense for NEET Agreement	268
b. Expense for HONI SLA	400
c. Expense for maintenance services not included in the HONI SLA, including services identified in response to Staff-15a, and Staff-23d	312
d. Expense for maintenance services contract described in response to Staff-35 if separate from contracts identified above	0

The CRA Benchmark[40] shows the *direct* O&M costs of the line are $2.83/km and are competitive with the peer companies.(Bruce-Milton 3.33/km; Niagara $4.21/km).

38 AIC, Page 25-26
39 Exhibit I, Staff 29
40 Exhibit B, Tab 2, Schedule 7, Table 2

Table 2. OM&A Benchmarking study results

$ K (CAD)	Niagara 2020	Bruce-Milton 2019	East-West Tie
O&MA Expenses	320	600	1,275
Admin. & Corporate[5]	510	200	1,665
Regulatory			65
Total OM&A	**830**	**1,600**[6]	**3,005**[7]
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.

However, the Compliance and Administration Costs (also labelled Admin and Corporate Costs) of $1.665 million/yr. are 3 times those of the Niagara Link and Bruce-Milton comparator utilities. Included in this latter O&M "basket" are the following:[41]

- 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).

In its Argument in Chief, UCT/Nextbridge provided a description of the Admin and Corporate services, including those performed by NextEra Energy Transmission (NEET), the parent organization of NextBridge Infrastructure LP[42]:

> "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.
>
> Compliance and administrative costs associated with property owner relations include annual fees and periodic recurring payments required by governing body approvals,

[41] JT 3.4
[42] Exhibit F-4-2; Exhibit I Staff 30(a); Transcript Vol. 3, pp. 73-78.

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[43].

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-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, NextBridge will hold insurance coverage to protect its assets, its owners, and its customers from catastrophic loss."

UCT/NextBridge witnesses explained in the Hearing, that the NEET service level agreement does not include specific rates, rather the labour under the NEET service level agreement will be a direct charge based on hours worked and a function of the salary of the person. Therefore, below are the sections from the NEET service level agreement that pertain to direct charges. The NEET service level agreement remains in draft form, and is subject to final negotiations and Execution.[44]

[43] Exhibit F, Tab 4, Schedule 2.
[44] JT 3.5

Compliance & Administration	**$1.67**	Exhibit F, Tab 4, Schedule 2, Pages 3-7 / See Staff IR #30	
Project Director's Office	$ 0.627		
Property Owner Relations	$ 0.169		
Non-Indigenous Stakeholder Relations	$ 0.254		
Corporate Services	$ 0.558		
Insurance	$ 0.062	Not included in the undertaking request	
Project Director's Office	$0.627		
Labour	$0.422	75% of labour in Project Director's Office - See Staff IR #30	NEET SLA
Office	$0.080	Office space and maintenance	
Annual Audit	$0.125	Independent financial auditor	
Property Owner Relations	$0.169		
Obtaining land permits	$0.002	Securing up to 10 permits for maintenance activities	
Labour - Land filings	$0.007	Annual land filings for existing permits	NEET SLA
Labour - Line list update	$0.012	Annual line list update for ~750 parcels (printing, title costs and data pulls)	NEET SLA
Labour - Mailouts	$0.007	Specific to landowners to provide key information and help prevent encroachments on the ROW	NEET SLA
Land tenure rental fees	$0.141	Annual fees or periodic reoccurring payments (e.g. MTO and MNRF Land Use Permit)	
Non-Indigenous Stakeholder Relations	$0.254		
Labour	$0.141	Stakeholder engagement program management	NEET SLA
Expenses	$0.015	Travel and other expenses related to in person stakeholder meetings	
Newsletters & Mailings	$0.031	Two public mailings annually - targeted communications for maintenance activities, etc.	
Newsletters & Mailings	$0.006	Translation costs of mailings into French	
Community Support	$0.036	Community support for 10 local communities	
Memberships / Associations	$0.010	For example, Northwestern Ontario Municipal Association	
Website / Social Media hosting	$0.015	Website and social media hosting	
Corporate Services	$0.558		
Labour - Accounting	$0.456	Finance, accounting, tax, debt management, compliance management, regulatory accounting, cost management (3 part time resources; Includes management oversight)	NEET SLA
Expenses	$0.090	Miscellaneous expenses (external support if needed for tax / accounting guidance)	
Expenses	$0.012	Travel and employee expenses	

5.1. Energy Probe Submission on Operating & Maintenance Costs

The *direct* Operating and maintenance cost of $1.27 million/year for the line are reasonable. The only concern whether there is an adequate Vegetation Management cost provision, Other than surveillance by Hydro One/Supercom, the VM costs are part of the NEET Agreement.

<u>CRA Benchmarking of UCT/NextBridge Administration and Corporate Costs</u>

In Energy Probe's view, the Compliance and Administration costs are out of line with the two CRA peer comparator utilities. In particular, both the project Directors Office costs of $627,000 and Corporate Service costs of $558,000 a year are not properly supported and are excessive.

Energy Probe disagrees with UCT/NextBridge witnesses. that the costs of the Project Director's Office and Corporate Services are not a function of the length of the line[45].This was also discussed with Board Staff Counsel[46].

$422 000 is claimed as the base labour cost for the Project Directors Office which is supposed to be charging only 75% of the actual This means that the full cost is $562,700 a year. The office is staffed by the Director and an analyst.

The Corporate Services base cost of $588,000 has not been properly supported and is part of the NEET Agreement. There is no detail of the hourly rates charged by NEET for the services and although technically, since NEET is not an affiliate, due to the ownership structure, nonetheless, the provision of the Corporate Services should have been compared to the market. In the Hearing, in response to Board Staff counsel, UCT/NextBridge witnesses indicated this was not done[47].

Energy Probe believes the Base Year Compliance and Administrative costs are excessive and requests the Board to reduce these by 10% or $166,500. The Total 2022 Base Year allowed O&M should be $4.73 million.

6. RATE BASE & COST of CAPITAL

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

Are the amounts proposed for. rate base appropriate?

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?

Is UCT/NextBridge's response to COVID-19 appropriate?

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

Forecast Construction Costs

UCT/NextBridge indicates a total of $737.1 million in construction costs is forecasted to complete the East-West Tie line, of which 57% have already been incurred as of October 31, 2020.

However, as discussed with the Board Chair, the construction is not 57% complete rather about 60 percent of the estimated $737 million cost have been spent, including allocation of about $49 million in contingency allocated to the sunk and future costs[48].

[45] Tr. Vol. 3, Pages 55-57
[46] Tr. Vol. 3, Pages 72-76
[47] Tr. Vol. 3, Pages 79-82
[48] Tr. Vol. 3, Pages 138-140

Comparison of Construction Cost to Peer Group

The cost categories in the table below[49] follow the format and order used in UCT/NextBridge's quarterly reports to the OEB. UCT/NextBridge's amended construction costs are benchmarked with other constructed transmission lines. The comparison table below shows the total construction costs per category, for the estimated completion of the line assuming an In-Service Date of March 31, 2022.

CRA Benchmark Construction Cost Comparison Study was critiqued by Hydro One and Board Staff[50]. The CRA witness agreed that the EWT number should be changed and provided this change in the UCT/NextBridge AIC. In the AIC, Figure 11 of the CRA report was adjusted (below) to show the correct values for East-West Tie[51].

The change increased the EWT cost/km from $1.65 M/km to $1.72 M/km. The costs for East-West Tie are in nominal costs for construction completed in 2022. CRA states that is the correct comparable cost to use as each project below used nominal cost for the year which construction was complete.[52]

	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

The revised CRA Construction cost comparison shows that the EWT 2022 cost of $1.72 million/km is comparable to the peer group but is more than the Niagara Reinforcement project.

Phase Shift Costs[53]

During the development phase of the East-West Tie line, UCT/NextBridge incurred costs
(1) UCT/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;
(4) economic participation agreements with BLP (representing six First Nations) and the Métis Nation of Ontario (representing Métis communities).

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49 Exhibit B, Tab 1, Schedule 7, Page 2 CRA Benchmarks Figure 11
50 Tr. Vol. 3, Pages 32-34
51 AIC Page 16, Table 2-1 Revised, CRA Revised Figure 11
52 JT 3.1
53 Exhibit C, Tab 2, Schedule 3

In the EB-2017-0182 Decision, the OEB concluded that the following phase shift costs were eligible for consideration and recovery as construction costs.[54]

Table 1. Summary of 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**

Spare Strategy[55]

A total of $1.2 million in spare equipment costs are to be procured prior to the March 31, 2022 in-service date to ensure reliability and are included in the proposed revenue requirement.

Due to the long procurement times of transmission towers, a utility practice is to have a spare strategy to procure a minimum requirement of towers and associated components to address potential events.

In the Hearing, UCT/Next Bridge stated that the determination of the amount of spare equipment was based on the extensive experience of affiliates of NEET, who presently develop and operate transmission assets across North America. The statistical probability of extreme ice and wind events and ESL of the assets (*i.e.* "like new") were also factored into the decision of the amount and type of materials needed. These spares will be purchased prior to the in-service date to allow for already negotiated favorable pricing.

Table 1. Summary of Spare Equipment

Spare Equipment	Estimated Quantity	Unit	($ Thousands)
Towers	17	Each	$ 930
Conductor	17k	Meters	147
OHGW	3k	Meters	11
OPGW	3k	Meters	13
Insulators	100	Each	74
Arresters	25	Each	56
			$ 1,231

[54] EB-2017-0182, Decision and Order page 27
[55] Exhibit C, Tab 2, Schedule 5

Rate Base[56]

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.	

UCT/NextBridge's proposed rate base comprises gross plant, less accumulated depreciation. The Base Year annual depreciation expense is $9.26 million per year determined using the Foster Study approved for Hydro One Transmission[57].

UCT/NextBridge is not requesting a working capital allowance to be part of rate base.

UCT/NextBridge is not requesting that the capital expenditures set forth in its TSP beyond the Test Year and incurred over the IR term be included in rate base in this proceeding, but, rather, that those capital expenditures would be added to UCT/NextBridge's rate base as part of a rebasing proceeding after the IR term.[58] [59]

6.1. Energy Probe Submission on Construction & Phase Shift Costs

The Construction cost of the EWT has increased significantly from designation however it is still reasonable *if it comes in on budget*. However, Energy Probe has significant concerns about the Construction Cost estimate of $737.1 million.

The $737.1 million estimate forms the basis of the Opening Rate Base and the Test year Revenue Requirement and then flows into the subsequent years revenue requirement under the Custom RCI Formula.

Energy Probe believes that contrary to UCT/NextBridge claims, the Construction cost amount is not "firm" and is a placeholder used to set 2022 rates.

[56] Exhibit A, Tab 3, Schedule 1.
[57] Foster Associates Study of Hydro One Depreciation, December 31, 2016, Statement E
[58] Exhibit I, Staff 34(b).
[59] Tr. Vol 2, Pages 29-30

Energy Probe submits that given the uncertainty around the construction cost UCT/NextBridge should update its Construction cost in Q3 2021 and update the Test year 2022 base Revenue Requirement and UTR rates.

There is an additional issue of the prudence of the costs. Energy Probe suggests that when seeking the clearance of the CCVA and other accounts in 2023, a prudence review should occur at that time.

With regard to the $5.33 million Phase Shift costs Energy Probe notes that these include environmental and first nations' costs. Given the location of the East-West Tie, Energy Probe accepts these capitalized costs as reasonable.

The revised CRA Construction Cost Benchmark comparison shows that the EWT 2022 cost of 1.72 million/km is within the range of those of the peer group, but is more than the Niagara Reinforcement project[60].

Cost of Capital

UCT/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[61].

Table 2. NextBridge Cost of Capital

Test Year 12 Months				
Amount of Deemed			Cost Rate	Return
Return	($ Millions)	%	(%)	($ Millions)
Long-term debt	431.4	56%	3.21%	13.8
Short-term debt	30.8	4%	2.75%	0.8
Common equity	308.2	40%	8.52%	26.3
Total	**770.4**	**100%**	**5.32%**	**41.0**

Table 3. Return on Capital ($ Millions)

Categories	Test Year
Return on Debt	14.7
Return on Equity	26.3
Return on Capital	**41.0**

60 Ibid 45

61 Exhibit G, Tab 1, Schedule 1, Page 3

UCT/NextBridge used the OEB-approved cost of capital parameters for 2020 to determine the return on equity, deemed for short-term debt, and deemed for long-term debt.[62] UCT/NextBridge's 2022 revenue requirement is also 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, UCT/NextBridge will finance the East-West Tie line with third Party debt.[63] In the Hearing, UCT/NextBridge stated it has already executed agreements with five major Canadian Banks to participate in providing financing for the East-West Tie line, It claims this will result in UCT/NextBridge securing a competitively driven cost of debt.

In the Hearing, UCT/Nextbridge discussed its Financing Plan at considerable length[64] [65] [66], UCT/NextBridge claims 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 its request for rate certainty for a 9-year, 9-month IR term[67].

UCT/NextBridge also proposes to use the debt rate variance account ("DRVA") to record and dispose of the one-time update to the cost of long-term debt[68], subject to a prudence review by the OEB as part of the second annual update following in-service.[69]

Bamkushwada LP Loan Timing

UCT/NextBridge indicated Bamkushwada LP has applied to the Ontario Financial Corporation for a Loan or Loan Guarantee to finance its participation in the Partnership. In the Hearing, UCT/NextBridge witnesses continued to indicate this was a factor in its decision to not update the Cost of Capital to 2021 OEB parameters. When questioned, they admitted that there was no evidence to support this[70].

6.2. Energy Probe Submission on Cost of Capital

As noted earlier, UCT/NextBridge has used the Board's 2020 Cost of Capital parameters to calculate the 2022 Test Year Revenue Requirement.

Energy Probe submits using 2020 parameters is not appropriate and UCT/NextBridge should use the most recent 2021 parameters, particularly the 8.34% Return on Equity. The cost of debt is a

[62] Exhibit A-3-1; Exhibit G-1-1 through G-2-4.
[63] Exhibit G-2-2; Exhibit I, Energy Probe 7(a); Transcript Vol. 3, p. 128 line 21 through p. 129 line 11.
[64] Tr. Vol. 1, Pages 66-67
[65] Tr. Vol. 1, Pages 93-95
[66] Tr. Vol. 2, Pages 102-105
[67] Tr. Vol. 2, p. 2 line 27 through p. 3 line 3; p. 5 lines 22-28.
[68] Tr, Vol. 1, Pages 66-67
[69] Exhibit H-1-1; Exhibit I Energy Probe 30(c); Exhibit I Staff 75(a).
[70] Tr. Vol. 3, Pages 91-93

placeholder and will be trued up in 2023 when the DRVA is cleared. Nonetheless, UCT/NextBridge should use the Board's 2021 Cost of Debt as the base for the DRVA and 2022 Revenue Requirement not the 2020 parameters.

There was considerable discussion about the financing plan for the EWT and the tranches of Long Term (10 years+) and shorter term debt to match the capital requirements associated with the declining net book value of the assets[71]. UCT/NextBridge witnesses indicated the Treasury at NextEra had not yet finalized the Financing Plan.

Energy Probe submits the lack of a Financing Plan is a loose end and creates uncertainty for ratepayers. Accordingly, Energy Probe submits that UCT/NextBridge should file the final Financing Plan with the Board no later than Q4 of 2021.

COVID-19 Costs

UCT/NextBridge indicates COVID-19 related costs are deemed to be capital costs directly related to construction.

The final totals of COVID-19 related costs are unknown and will not be known until after construction is completed. However, in the Quarterly Report for the end of December 2020, $400,000 costs to date were identified[72].

UCT/NextBridge did not include COVID-19 related costs in its proposed Base year revenue requirement[73].

Due to the continuing nature of COVID-19 and its potential impact on construction, UCT/NextBridge proposes to separately track COVID-19 related costs in new subaccount of construction work in progress (CWIP) Account 2055, and the associated revenue requirements in the CCVA.[74]

UCT/NextBridge also proposes to bring forward the CCVA to the Board for review and disposition in the second annual update following in-service[75].

UCT/NextBridge contends in response to interrogatory questions and at the oral hearing, that it is not appropriate for it to use deferral Account 1509 to track its COVID-19 costs, given that all of UCT/NextBridge's COVID-19 costs are capital costs.

UCT/NextBridge claims that the COVID-19 costs were incurred during construction and therefore are not associated with the difference in earnings as is the case for transmitters with already approved rates[76].

[71] Tr. Vol. 1, Pages 94-98
[72] Tr, Vol. 3 Pages 72-76
[73] Exhibit I AMPCO.3(a) and (b); Exhibit I Staff 40(a)-(d).
[74] Exhibit H-1-1; Exhibit H-1-1, Attachment 3; Exhibit I Staff 74(a).
[75] Exhibit I Staff 40(a).
[76] Exhibit I SEC 17; Transcript Vol. 3, p. 124 line 28 through 126 line 2

6.3. Energy Probe Submission on COVID-19-Related Costs.

The reason that UCT/Nextbridge uses to support its position on COVID-19 costs is not appropriate. Any utility constructing assets may incur and record COVID-19 costs as capital and operating expenses. The fact that UCT is not operating and has no rates is a separate issue. It will have rates in 2022 when it seeks to recover any eligible COVID-19 costs.

Energy Probe submits UCT should fall into the same framework the OEB will use for COVID-19 costs. Eligibility should be the same as other transmitters, recovery of allowed amounts should be on the same basis also. Energy Probe suggests It would be unfair to other transmitters that UCT gets "a pass" and different treatment for COVID-19 costs.

The Board's Letter of April 13, 2021 leaves it to the Commissioners in this Hearing to determine the appropriate treatment of UCT/NextBridge COVID-19 costs.

7. DEFERRAL & VARIANCE ACCOUNTS

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

UCT/NextBridge requests approval of the following variance accounts:

- Construction Cost Variation Account (CCVA) effective November 4, 2020;
- Debt Rate Variation account (DRVA) effective April 1, 2022;
- Rate Deferral Variation Account (RDVA) effective April 1, 2022; and
- Taxes variance account (PILsVA) effective April 1, 2022
- Z-factor Deferral account to record amounts incurred due to unforeseen circumstances

CCVA

The CCVA is intended 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 not known or included in the construction cost forecast[77]. 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. UCT/NextBridge proposes to keep open the CCVA for the entire IR term.

UCT/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

[77] Tr. Vol.2 Page 32

UTR rates[78]. 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 UCT/NextBridge[79].

DRVA

UCT/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 debt-related difference to the revenue requirement from the in-service date up until the point where the actual cost of debt is reflected in UCT/NextBridge's revenue requirement and included in the UTR[80].

PILsVA

UCT notes that the PILsVA 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 t*iming 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*[81].

Z-Factor

UCT/NextBridge will apply for Z-factor treatment if material costs are incurred for unforeseen events during the IR term. The proposed threshold is $278,500 or 0.5% of the 2022 Base Year full year revenue requirement of $55.7 million. The way in which the Z-Factor account would work was discussed in the Hearing[82]. UCT/Nextbridge witnesses indicated they took the position it would be cumulative and disagreed that it should be a single event trigger[83].

7.1. Energy Probe Submission on Deferral & Variance Accounts

In general Energy Probe accepts the purpose of the CCVA DRVA and RVDA. However, it is noted that:

- the CCVA is to be effective November 4, 2020,
- UCT/NextBridge have not provided a forecast of the in-service cost of capital to inform the DRVA, and
- the In-Service Date may change, affecting the RVDA and the other accounts.

[78] Exhibit H-1-1; Exhibit I Energy Probe 30(b); Exhibit I SEC 16(a).
[79] Transcript Vol. 2, p. 14 lines 12-20.
[80] Exhibit H-1-1; Exhibit H-1-1, Attachment 4; Exhibit I Energy Probe 30(c).
[81] AIC, Page 45
[82] Tr. Vol 2, Pages 97-99
[83] Tr. Vol.2, Pages 80-82 and 97-99

There is too much uncertainty regarding the amounts to be recorded in the three accounts Ratepayers need to be given a higher level of comfort that material balances will not be facing them at the time of the proposed 2023 disposition of the Accounts.

Accordingly, Energy Probe has provided suggestions how to mitigate the risk to ratepayers. Energy Probe accepts the principle for the CCVA as appropriate. However, Energy Probe has concerns that the opening of the account is based on the construction costs estimate of November 4 2020, which is also the cost used for the test year revenue requirement and 2022 Base Year Rates. As noted earlier, the $737 million in-service cost is not "firm" and is likely to change, creating a potential material change to the initial balance in the account.

Consistent with Energy Probe's submission that the Construction Cost be updated in Q4 2021 or Q1 2022, the account should use that updated cost as the opening balance.

If the Board is going to approve CCVA account, it should be on an asymmetrical basis to protect ratepayers. This is the type of capital related variance account that the Board has regularly approved in the context of Custom IR applications[84].

Energy Probe has less concern about the DRVA and reiterates that the Board's Cost of capital parameters for 2021 should be the basis for the opening of the account rather than the 2020 cost of capital parameters.

Energy Probe accepts that the In-Service Date if the EWT may differ from the forecast April 1, 2022 date. If there is a material delay (most likely scenario) then the rates for 2022 will be too high. The Board should set a band of uncertainty based on the 2022 Revenue Requirement of $55.7 million (full year) and if the Q3 ISD projection is for a delay of more than 3 months, the 2022 UTR rate should be reset. Any remaining minor delay/difference would be picked up in the RVDA.

Energy Probe has a material concern about the PILsVA. The evidence is clear that changes in Corporate Tax and Capital Cost allowances are eligible to be recorded in the account. This is appropriate. However, given the Board's long-standing practice, the balance should be split 50:50 between Ratepayers and Shareholders. The statement by UCT/NextBridge in its AIC that tax impacts arising from a change in tax status of any of the UCT/NextBridge Partners, for example BLP will be recorded in the PILsVA **is not acceptable**. Ratepayers should not pay additional taxes if a change in tax status of UCT/Nextbridge partners occurs.

Energy Probe requests the Board to make it clear as a condition of its approval of the PILsVA, that impacts from changes of tax status of the UCT/NextBridge Partners, is NOT an eligible cost for the PILSVA.

The Partners receive significant tax benefits from the Partnership Arrangement, particularly in later years. For this reason and the precedential nature of the UCT/NextBridge request, the Board should deny the request.

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[84] Hydro One Transmission 2020-22 Transmission Custom IR application (*Decision and Order* (EB-2019-0082), April 23, 2020, p.149, p.172-73)

Energy Probe suggests the Z factor account is only appropriate, if each *individual event* meets the Z-factor threshold. Multiple events should not trigger a claim in a single year. The Board should clarify this in its Decision.

8. COST ALLOCATION

Is the proposed cost allocation appropriate?

UCT/NextBridge's East-West Tie line is a single transmission line that is classified as a Network Asset. Therefore, UCT/NextBridge's assets will be included in the Network Pool application consistent with the cost allocation methodology approved by the OEB. Therefore, the rates revenue requirement associated with the East-West Tie line are appropriately proposed to be allocated to the Network Pool.[85]

8.1. Energy Probe Submission on Cost Allocation

Energy Probe accepts the proposed Cost Allocation. The UTR Costs should be updated in Q1 2022 to reflect cost changes.

CUSTOMER CONNECTION AND COST RECOVERY AGREEMENT[86]

UCT/NextBridge is in the process of entering into a Customer Connection and Cost RecoveryAgreement ("**CCRA**") with Hydro One Networks Inc. UCT/NextBridge witnesses indicated that it is not necessary to have details on Hydro One Interconnection Costs prior to Approval of the EWT[87].

This agreement allows HONI to perform the work required to connect the East-West Tie line to Hydro One's transmission system, namely:

- four new 230 kV circuits W35M, W36M, M37L and M38L, to Hydro One's transmission system at Wawa TS, Marathon TS and Lakehead TS, and

- the reconfiguration of the existing facilities and addition of new facilities at the three terminal stations of the East-West Tie, namely Wawa TS, Marathon TS and Lakehead TS, to provide 450 MW east-west power transfer capability.

Hydro One will provide project management, engineering, equipment and material, construction, and commissioning of new and modified Hydro One facilities for the East-West Tie connection

[85] AIC, page 46
[86] Exhibit C Tab 6 Schedule 1Page 1
[87] Tr. Vol. 2 Pages 20-21

work. The engineering and construction cost of the Hydro One work will be included in Hydro One's rate base in accordance with the decision(s) of the Ontario Energy Board in EB-2017-0194.

At this time, the CCRA and associated terms and conditions are undergoing review between both parties with the intention of reaching a mutually acceptable agreement by the end of Q2 2021. When the agreement is finalized UCT/NextBridge and HONI indicate they will provide the Board with an update on the Agreement.

NEXT STEPS

The regulatory process has resulted in a number of items to be completed by the Applicant.

Energy Probe does not have a complete list. but notes the following items:

Filing Quarterly Progress Reports up to the In-Service Date
Filing of the Hydro One/ Supercom Agreement (confidential)
Filing of the UCT/NextBridge NEET Agreement
Filing of the Hydro One Networks Inc. and UCT/Nextbridge CCRA
Protocol for Unplanned Outages with NEET and Hydro One.
At In-Service Date-Third Party Engineering Report that the EWT Line meets Standards.

In its Reply Argument UCT/NextBridge should update this list and the timing and status of each item.

Respectfully submitted on behalf of Energy Probe Research Foundation.

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APPENDIX: SUMMARY OF ENERGY PROBE POSITION ON ISSUES

ISSUE	ENERGY PROBE POSITION
1. GENERAL Has NextBridge responded appropriately to all relevant OEB directions from previous proceedings? Are all elements of the proposed revenue requirement and their associated total bill impacts reasonable? Is the proposed effective date of April 1, 2022 and proposed timing for inclusion in the UTRs appropriate?	Energy Probe accepts that the UCT/Nextbridge Application complies with prior Board directions. The proposed In Service Date (ISD) has been accepted by the IESO. However this could change. **However as discussed in detail in this Argument, the elements of the proposed revenue requirement and their associated total bill impacts are not reasonable.** The proposed Base Year Revenue Requirement should be updated based on the 2022 OEB Cost of Capital and UCT/NextBridge Construction Cost. If available, the final WACD Debt Rate should be included (however, it can be trued up from the DRVA). The UTR amount for 2022 should also be updated and the forecast Bill Impacts updated at that time. Energy Probe notes that the Effective Date has moved significantly from original date. In addition, other than the impact of local environmental factors, COVID-19 protocols could further delay the EWT In-Service-Date (ISD). Energy Probe suggests that if the ISD is delayed by more than three months. Then, the final In-Service Costs, Cost of Capital and 2022 UTR Rates should be updated.
2. REVENUE CAP APPLICATION Is the proposed Incentive Rate methodology appropriate? Are the proposed inflation factor and the proposed productivity factor appropriate? Are the proposed annual updates appropriate? Should there be an earnings sharing mechanism? If so, how should it be implemented? Is the proposed 9 year and 9-month length of the IRM plan appropriate?	In Energy Probe's view, the proposed UCT/Next Bridge Custom Rate Cap Index rate setting formula and Rate Plan does not comply with the requirements for a Transmission Custom Incentive Regulation Plan. • First the UCT RCI does not use the appropriate Rate Base (based on Net Book Value of the Assets) to set the annual Revenue Requirements.(The rate base declines by $9.26 million each year). • Second it has no mitigation for Ratepayers such as a Productivity or Stretch Factor. • Third as demonstrated by Ratepayers and Board Staff, it produces an excess of revenue of about $68 million over 10 years. • Fourth it has no ratepayer mitigation –no ESM -just a 300 basis points ROE off ramp. With regard to the "Risks" that may affect UCT/NextBridge costs and revenues, Energy Probe notes that these risks are the same as other transmission utilities. However, they are the reason the companies have the ability to earn an allowed ROE.

	Further, in the Hearing, the UCT/NextBridge witnesses indicated that as a result of pressures, the O&M could increase from 2% to 3% and it would need to manage these. The Board should be aware that if O&M increased from 2% (RCI) to 3% this would be less than $1million additional increment to the Revenue Requirement over 10 years. **In summary, based on the above reasons Energy Probe submits that the UCT/NextBridge proposed Custom RCI does not produce just and reasonable rates and urges the Board to reject it.** As indicated in the Rate Handbook the requirement is to provide appropriate mitigation for ratepayers in the Custom RCI Plan. Staff Table 6 achieves this by adding an X/S Stretch Factor to the O&M and a Stretch Factor Scap to the Capital components of the annual Revenue Requirements. **OEB Staff Table 6 – Revenue Requirement - Capital - 0% Inflation Factor and 0.7 % Stretch Factor and OM&A 2% Inflation Factor and 0.3% Stretch Factor** **Energy Probe notes that the Board Staff Table 6 Scap Factor of 0.75% is conservative and could be higher.** The OM&A Stretch Factor of 0.3 is supported by the fact that the CRA benchmarking Study shows that the UCT/NextBridge annual Administrative and Corporate Operating Expense is 3 times that of the Comparator Group[88] (see below for OM&A). The Capital Stretch factor is required due to the declining Rate Base. As noted earlier Energy Probe reiterates that the UCT Custom RCI Plan has no mitigation for ratepayers. In addition, Energy Probe strongly suggests the proposed Term of the UCT rate plan is *too long*. We have suggested as an alternative to the UCT/Next Bridge Custom RCI Plan, that the Board Substitute the Board Staff Table 6 Rate plan but only for 2023-2027. UCT/ NextBridge should rebase in 2028 followed by a new Incentive Rate Plan. If the Board determines UCT/NextBridge should file a Revised Custom IRM Plan, this should include an asymmetric Earnings Sharing Mechanism with a dead band of 100 basis points ROE. If the Board determines to apply the Board Staff Table 6 RCI Formula or similar formula, this should include an ESM and have 5 year term. Either of these approaches would comply with the Rate Handbook provisions for a Custom IRM plan and produce *just and reasonable rates*.

[88] Exhibit B Tab 2 Schedule 7 Table 2

	After a Revised Custom RCI rate-setting plan has been approved, the annual updates would be mechanical. However, in 2023 an update and review of the prudence of the in-service capital cost and clearance of the CCVA and DRVA should occur. The format of the annual reports should be similar to the reports filed in the Construction Phase as well as providing details on the actual historic and forecast Operating Costs and performance measures. The UCT/NextBridge annual updates would include the earnings and amount of ESM sharing.
3. TRANSMISSION SYSTEM PLAN Have investment planning processes been appropriately carried out? Does the 2021-2031 Transmission System Plan adequately address the condition of the transmission system assets?	Energy Probe has no Issues with the TSP and the condition of the EWT assets or the proposed additional capital investment plan.
4. PERFORMANCE Is the proposed monitoring and reporting of performance adequate?	The primary Metrics of concern to Ratepayers are Return on Equity , OM&A cost/km of line and Average System Availability. On a best efforts basis, with cooperation of Hydro One, UCT/Next Bridge TSAIDI and TSAIFI should be reported for the EWT. Metrics should be reported in Scorecard format and include targets for the future year.
5. OPERATIONS, MAINTENANCE, & ADMINISTRATIO N COSTS Are the proposed spending levels for OM&A appropriate, including consideration of factors such as system reliability and asset condition? Are the amounts proposed to be included in the revenue requirement	The *direct* Operating and maintenance cost of $1.27 million/year for the line are reasonable. The only concern whether there is an adequate Vegetation Management cost provision, Other than surveillance by Hydro One/Supercom, the VM costs are part of the NEET Agreement. **CRA Benchmarking of UCT/NextBridge Administration and Corporate Costs** In Energy Probe's view, the Compliance and Administration costs are out of line with the two CRA peer comparator utilities. In particular, both the project Directors Office costs of $627,000 and Corporate Service costs of $558,000 a year are not properly supported and are excessive.

for income taxes appropriate? the proposed depreciation expense appropriate? Are the services to be provided by third-parties, and their associated costs, appropriate?	Energy Probe disagrees with UCT/NextBridge witnesses. that the costs of the Project Director's Office and Corporate Services are not a function of the length of the line[89]. This was also discussed with Board Staff Counsel[90]. $422 000 is claimed as the base labour cost for the Project Directors Office which is supposed to be charging only 75% of the actual This means that the full cost is $562,700 a year. The office is staffed by the Director and an analyst. The Corporate Services base cost of $588,000 has not been properly supported and is part of the NEET Agreement. There is no detail of the hourly rates charged by NEET for the services and although technically, since NEET is not an affiliate, due to the ownership structure, nonetheless the provision of the Corporate Services should have been compared to the market. In the Hearing, in response to Board Staff counsel, UCT/NextBridge witnesses indicated this was not done[91]. **Energy Probe believes the Base Year Compliance and Administrative costs are excessive and requests the Board to reduce these by 10% or $166,500. The Total 2022 Base Year allowed O&M should be $4.73 million.**
6. RATE BASE & COST of CAPITAL Are the $737 M construction costs and $5.3M Phase Shift costs prudent for recovery? Are the amounts proposed for rate base appropriate? 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? Is NextBridge's response to COVID-19 appropriate? Is NextBridge's proposed treatment	The Construction cost of the EWT has increased significantly from designation however it is still reasonable *if it comes in budget*. However, Energy Probe has significant concerns about the Construction Cost estimate of $737.1 million. The $737.1 million estimate forms the basis of the Opening Rate Base and the Test year Revenue Requirement and then flows into the subsequent years revenue requirement under the Custom RCI Formula. Energy Probe believes that contrary to UCT claims, the Construction cost amount is not "firm" and is a placeholder used to set 2022 rates. Energy Probe submits that given the uncertainty around the construction cost UCT/NextBridge update its Construction cost in Q1 2022 and update the Test year 2022 base Revenue Requirement and UTR rates. There is an additional issue of the prudence of the costs. Energy Probe suggests that when seeking the clearance of the CCVA and other accounts in 2023, a prudence review should occur at that time. With regard to the $5.33 million Phase Shift costs Energy Probe notes that these include environment and first nations' costs. Given the

89 Tr. Vol. 3 Pages 55-57
90 Tr. Vol. 3 Pages 72-76
91 Tr. Vol. 3 Page 79-82

of COVID-19 related costs appropriate?	location of the East-West Tie, Energy Probe accepts these capitalized costs as reasonable.The revised CRA Construction Cost Benchmark comparison shows that the EWT 2022 cost of 1.72 million/km is within the range of those of the peer group, but is more than the Niagara Reinforcement project[92]. As noted earlier, UCT/NextBridge has used the Board's 2020 Cost of Capital parameters to calculate the 2022 Test Year Revenue Requirement. Energy Probe submits using 2020 parameters is not appropriate and UCT/NextBridge should use the most recent 2021 parameters, particularly the 8.34% Return on Equity. The cost of debt is a placeholder and will be trued up in 2023 when the DRVA is cleared. Nonetheless, UCT should use the Board's 2021 Cost of Debt as the base for the DRVA and 2022 Revenue Requirement not the 2020 parameters. There was considerable discussion about the financing plan for the EWT and the tranches of Long Term (10 years+) and shorter term debt to match the capital requirements associated with the declining net book value of the assets[93]. UCT witnesses indicated the Treasury at NextEra had not yet finalized the Financing Plan. Energy Probe submits the lack of a Financing plan is a loose end and creates uncertainty for ratepayers. Accordingly, Energy Probe submits that UCT/NextBridge should file the final Financing Plan with the Board no later than Q4 of 2021. The construct that UCT/Nextbridge uses to support its position on COVID-19 costs is not appropriate. Any utility constructing assets may incur and record COVID-19 costs as capital and operating expenses. The fact that UCT is not operating and has no rates is a separate issue. It will have rates in 2022 when it seeks to recover any eligible COVID-19 costs. Energy Probe submits UCT should fall into the same framework the OEB will use for COVID-19 costs. Eligibility should be the same as other transmitters, recovery of allowed amounts should be on the same basis also. Energy Probe suggests It would be unfair to other transmitters that UCT gets "a pass" and different treatment for COVID-19 costs.

[92] Ibid 45
[93] Tr. Vol. 1 Pages 94-98

	The Board's Letter of April 14, 2021 leaves it to the Commissioners in this Hearing to determine the appropriate treatment of UCT/NextBridge COVID-19 costs.
7. DEFERRAL & VARIANCE ACCOUNTS Are the proposed deferral and variance accounts, and the proposed scope and timing for disposition of these accounts appropriate?	In general Energy Probe accepts the purpose of the CCVA DRVA and RVDA. T In general Energy Probe accepts the purpose of the CCVA DRVA and RVDA. However, it is noted that: • the CCVA is to be effective November 4, 2020, • UCT/NextBridge have not provided a forecast of the in-service cost of capital to inform the DRVA and • the In-Service Date may change, affecting the RVDA and the other accounts. There is too much uncertainty regarding the amounts to be recorded in the three accounts. Ratepayers need to be given a higher level of comfort that material balances will not be facing them at the time of the proposed 2023 disposition of the Accounts. Accordingly Energy Probe has provided suggestions how to mitigate the risk to ratepayers. Energy Probe accepts the principle for the CCVA as appropriate. However we have concerns that that the opening of the account is based on the construction costs estimate of November 4 2020, which is also the cost used for the test year revenue requirement and 2022 Base Year Rates. As noted earlier, the $737 million in-service cost is not "firm" and is likely to change, creating a potential material initial balance in the account. Consistent with Energy Probe's submission that the Construction Cost be updated in Q4 2021 or Q1 2022, the account should use that updated cost as the opening balance. Energy Probe has less concern about the DRVA and reiterates that the Boards Cost of capital parameters for 2021 should be the basis for the opening of the account rather than the 2020 cost of capital parameters. Energy Probe accepts that the in-service date if the EWT may differ from the forecast April1, 2022 date. If there is a material delay (most likely scenario) then the rates for 2022 will be too high. The Board should set a band of uncertainty based on the 2022 Revenue requirement of $55.7 million (full year) and if the Q3 ISD projection is for a delay of

	more than 3 months, the 2022 UTR rate should be reset. Any remaining minor delay/difference would be picked up in the RVDA. Energy Probe has a material concern about the PILsVA. The evidence is clear that changes in Corporate Tax and Capital Cost allowances are eligible to be recorded in the account. This is appropriate. However, given the Board's long standing practice, the balance should be split 50:50 between Ratepayers and Shareholders. However, the statement by UCT/NextBridge in its AIC that tax impacts arising from a change in tax status of any of the UCT/NextBridge Partners, for example BLP will be recorded in the PILsVA **is not acceptable**. Ratepayers should not pay additional taxes if a change in tax status of UCT/Nextbridge partners occurs. Energy Probe requests the Board to make it clear as a condition of its approval of the PILsVA, that impacts from changes of tax status of the UCT/NextBridge Partners, is NOT an eligible cost for the PILSVA. The Partners receive significant tax benefits from the Partnership Arrangement, particularly in later years. For this reason and the precedential nature of the UCT/NextBridge request, the Board should deny the request. Energy Probe suggests the Z factor account is only appropriate, if each *individual event* meets the Z-factor threshold. Multiple events should not trigger a claim in a single year. The Board should clarify this in its Decision.
8. COST ALLOCATION Is the proposed cost allocation appropriate?	Energy Probe accepts the proposed Cost allocation. The UTR Costs should be updated in Q1 2022 to reflect cost changes