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April 27, 2021

VIA RESS, EMAIL

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

Dear Ms. Long:

EB-2020-0150 – Upper Canada Transmission (NextBridge Infrastructure LP) - 2022-2031 Custom Incentive Rate-setting Application – Hydro One Networks Inc. Argument

In accordance with Ontario Energy Board Procedural Order No. 4 dated April 1, 2021, please find enclosed the Argument of Hydro One Networks Inc. in connection with the above-noted matter.

An electronic copy of this letter has been filed through the Ontario Energy Board's Regulatory Electronic Submission System (RESS).

Yours very truly,

Michael Engelberg

Michael Engelberg

EB-2020-0150

ONTARIO ENERGY BOARD

IN THE MATTER OF an Application for Electricity Transmission Revenue Requirement from April 1, 2022, Until December 31, 2031, by Upper Canada Transmission Inc. Operating as NextBridge Infastructure LP

HYDRO ONE NETWORKS INC.

ARGUMENT

Filed April 27, 2021

1.0 INTRODUCTION

Hydro One submits that as the Ontario Energy Board ("OEB") reviews the 2022-2031 NextBridge revenue requirement application ("the Application"), it is important to keep context in mind. Specifically, it is important to keep in mind that this is the first revenue requirement application that stems from the OEB's Policy *Framework for Transmission Development Plans*[1] ("the Policy"). In the OEB decision that designated Upper Canada Transmission Inc. (now operating as NextBridge) to complete the development phase of the East West Tie line, a decision that was awarded based in part on a construction cost estimate of approximately $400 million ("the Phase 2 Decision"), the OEB rearticulated the goals of the Policy, namely:

> *The Board believes that this policy will:*
> - *allow transmitters to move ahead on development work in a timely manner;*
> - *encourage new entrants to transmission in Ontario bringing additional resources for project development; and*
> - *support competition in transmission in Ontario to drive economic efficiency for the benefit of ratepayers*[2].

With that context in mind, as a matter of reviewing the prudency and reasonableness of the costs incurred and to be incurred to complete this Project, Hydro One is providing this submission with a view to assessing how this Application impacts ratepayers. Specifically, Hydro One is addressing the prudency and reasonableness of the revenue requirement sought, while reviewing the economic efficiencies that were to have been achieved by this competition process in order to benefit Ontario ratepayers.

The OEB's statutory objective is to protect the interest of ratepayers with respect to price, reliability and quality of electricity service. That objective was a driving force in the exploration of competition in transmission in Ontario.

However, the OEB's ability to achieve that end was hampered by the Government's issuance of an Order-in-Council ("OIC") subsequent to a written request by NextBridge to take the analysis and decision-making power away from the OEB. The OIC deprived the OEB of its task of fulfilling its mandate in leave to construct applications. NextBridge's written request was in the form of a letter to the Government, which letter (in the OEB's Webdrawer for this matter) contained the following request:

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[1] EB-2010-0059 issued August 26, 2009.
[2] EB-2011-0140 – Phase 2 Decision & Order – August 7, 2013 – P. 2-3

> *"NextBridge, along with its Indigenous partners, are urging the province to issue an Order-in-Council to designate NextBridge as the licensed transmitter to undertake the construction of the East West Tie Line. NextBridge appreciates that the Ontario government has a priority in protecting electricity customers by driving down costs in the system. NextBridge supports these objectives. Therefore, if provided the requested Order-in-Council awarding NextBridge the right to construct the East-West Tie Line, NextBridge will withdraw its January 18, 2019 appeal. This action would contribute to NextBridge's application having the lowest cost estimate, in addition to being the most certain and only realistic option to sustain reliability in northwestern Ontario in a timely manner"*[3].

As a result, this Application is unique from other revenue requirement applications that are filed after a leave to construct hearing approval. The OEB could not establish a baseline cost that determined whether the Project costs proposed in the s. 92 proceeding were reasonable or prudent, and whether those costs should ultimately be recovered from Ontario ratepayers. Consequently, there is no presumption of prudence of NextBridge's costs despite the granting of leave to construct. As evident throughout the prefiled evidence, interrogatories and cross-examination of this Application, NextBridge is seeking to unduly burden Ontario ratepayers with costs and risks that are unreasonable and unnecessary to execute the Project. Hydro One's argument is structured to support each of the following submissions:

(1) NextBridge's Benchmarking Study should not be relied on by the OEB in rendering its decision.

(2) NextBridge's proposed revenue requirement over the rate period should be modified as follows:
   a. The proposed ten-year rate period should be denied, given (i) the forecast ROE exceeds the OEB-deemed ROE significantly and at an increasing rate in the latter half of the ten-year term, (ii) uncertainty in accepting the findings of the Benchmarking Study, and (iii) the uncertain cost levels associated with the forecast that underpins the test year (e.g., construction cost variance account and minimal OM&A);
   b. The proposed Revenue Cap Index ("RCI") should be assessed a productivity factor and stretch factor for both OM&A and capital that aligns with the RCI factors already approved for similar transmitters in Ontario; and

[3] https://www.rds.oeb.ca/CMWebDrawer/Record/633088/File/document

c. The cost of capital parameters should be updated to be consistent with those that are in effect for all 2022 revenue requirement applications including utilization of the OEB's deemed-short term debt rate.

(3) As to the requested deferral and variance accounts, Hydro One submits that careful consideration should be given to all accounts. Details pertaining to deferral and variance accounts are provided in Section 4.0 of this submission, but Hydro One highlights here for ease of reference that:

a. The OEB should establish a cost-eligibility framework in this proceeding that clearly outlines what can be recorded in each account;
b. NextBridge's Capital Cost Variance Account should be limited to costs incurred post in-service driven by environmental regulator imposed conditions. NextBridge should not be granted access to a symmetrical variance account to track any cost differences between NextBridge's forecast construction costs and NextBridge's actual construction costs at the time of in-servicing the asset. Doing so would result in Project capital costs exceeding the $770 million costs[4] conveyed to the Government of Ontario in NextBridge's January 21, 2019, letter to Minister Rickford[5];
c. Regarding COVID-19 related costs, Hydro One submits that these costs should be recorded separately, i.e., not pooled with other deferral accounts, and that NextBridge should be following the same approach as that contemplated for all other transmitters.

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[4] Relative to the Phase 2 Decision construction cost estimate of nearly half this amount of $409 million.
[5] https://www.rds.oeb.ca/CMWebDrawer/Record/633088/File/document.

2.0 REVIEW AND SUBMISSION ON THE CHARLES RIVER ASSOCIATES BENCHMARKING STUDY

NextBridge filed a Benchmarking Study completed by Charles River Associates[6] ("CRA") ("the Benchmarking Study") and utilized to allege that both the capital cost forecast to complete this Project and the forecast OM&A to maintain and operate this transmission line are in line with, or lower than, other similar projects. Hydro One submits that the Benchmarking Study cannot be relied on by the OEB to ascertain reasonableness and/or prudency of NextBridge's costs. The conclusions reached in the Benchmarking Study were derived by utilizing admittedly incorrect and incomplete information, and predicated on the inconsistent application of base benchmarking multiples that were derived from the 2014 Western Electricity Coordinating Council Study by Black and Veatch ("2014 WECC Study")[7]. Below, Hydro One will walk through the Benchmarking Study and identify some of the flaws therein. In so doing, Hydro One will be providing tables and data points to articulate its conclusions on the Benchmarking Study that are based on information that is already available on the public record.

2.1 Capital Benchmarking

These submissions begin by investigating the Benchmarking Study results on capital that were most recently updated by the Applicant in Undertaking JT3.1, after OEB Staff requested a correction to Table 4 of the Benchmarking Study that purported to have discounted the EWT costs to 2022 dollars. The updated results of the Benchmarking Study for capital costs are provided below at Table 1 - Base Benchmarking Results - Figure 11 of CRA Report - Updated per Undertaking JT 3.1.

[6] EB-2020-0150 – Exhibit B, Tab 1, Schedule 7, Attachment 1
[7] Exhibit I.NextBridge.STAFF.50 Attachment

Table 1 - Base Benchmarking Results - Figure 11 of CRA Report - Updated Per Undertaking JT 3.1

Project	NextBridge EWT (Designation Proceeding)	New EWT	Bruce to Milton	BC NTL	2014 WECC	AESO Project 1	AESO Project 2	Niagara
Voltage (kV)	230	230	500	287	230	240	240	230
Length (km)	400	450	180	344	450	450	450	76
Year Costs Are Reported	2,012	2,017	2,012	2,014	2,014	2,013	2,013	2,019
Total Cost Line Only ($M)	419	774	327	664	653	1,468	1,333	119
Line Cost (Adjusted to 2022 $M)	489	774	430	871	866	1,748	1,590	126
2022 Cost $M/km	**$ 1.22**	**$ 1.72**	**$ 2.39**	**$2.53**	**$1.92**	**$3.88**	**$3.53**	**$ 1.66**

At first glance, the results depict a per kilometre (“km”) cost ($1.72M/km) that seems reasonable given that the costs are only marginally more expensive than those incurred for the recently completed Niagara Reinforcement Project (“NRP”) ($1.66M/km), yet, according to the Benchmarking Study, significantly below the per km cost of all other comparable projects. However, this assertion does not hold up under closer scrutiny.

Hydro One’s review of the Benchmarking Study results will begin by investigating non-Ontario projects to dispel any perceived bias in Hydro One’s submissions. Subsequently, Hydro One will focus on Ontario comparable projects before discussing amendments that would need to be made to NextBridge’s forecast of construction costs for it to be considered comparable.

2.1.1 Out-of-Province Comparable Projects

The non-Ontario projects selected in the Benchmarking Study include the BC Hydro Northwest Transmission Line (“BC NTL”), two unidentified AESO Projects, and the 2014 WECC Study. Hydro One submits that with each of these comparable projects, there is either insufficient information on the record of this proceeding to properly test the information presented or adjustments were made that render the results of the Benchmarking Study dubious at best.

2.1.1.1 Out-of-Province Comparable Projects – BC Hydro Northwest Transmission Line

The proponent has acknowledged that the BC NTL has very little publicly available information because the project was exempt from B.C.’s *Utilities Commission Act*[8].

> *As I stated previously, the B.C. project was the one about which I had the most questions about the granularity and applicability of data.*
>
> *Ultimately, I elected to include it, in an effort to further increase the accuracy and relevance of the benchmarking study.*[9]

What is publicly available information is that the BC NTL was built by Valard, the same company that NextBridge is using to construct the East-West Tie[10]. Comparing the costs of the same contractor against itself calls into question the efficacy of the comparison. This fact, together with the fact that there is a lack of publicly available information and the project is out-of-Ontario, compounds the bias associated with this out-of-province comparator.

For the said reasons, the OEB should not rely on the data presented in the Benchmarking study for BC NTL as a fair comparison to establish reasonableness of costs.

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[8] Exhibit B, Tab 7, Schedule 1, Attachment 1, Page 11 of 20
[9] EB-2020-0150 – Transcript Vol. 2 – Page 149 Line 23
[10] https://www.bchydro.com/news/press_centre/news_releases/2011/construct-contract-northwest-transmission.html

2.1.1.2 Out-of-Province Comparable Projects – AESO Projects

Similarly, the AESO Projects selected by CRA, named AESO Project 1 and AESO Project 2, have insufficient information available to make a fair assessment as to whether these projects are truly comparable to the EWT. Analogous to the BC NTL, CRA relied on publicly available information and made assumptions to obtain the results provided in Undertaking JT3.1. CRA made no attempt to confirm their assumptions for the AESO Projects by contacting the proponents. In cross-examination, Mr. Russo accepted, as a general matter, that different provinces have different labour markets, different environmental requirements, different regulatory regimes, and different workplace safety laws[11]. Despite their knowledge of these well-known differences, CRA, in their efforts to "expand the number of benchmarks available", made no adjustments for any of these variables. Hydro One submits that such action calls into question the reliability of the results of the Benchmarking Study. There is insufficient information placed on the record of this proceeding for anyone to ascertain the reasonableness of these comparators, and there has been no adjustment made for generally recognized differences in provincial markets. Therefore, the AESO project comparators should not be relied on by the OEB in its determination of reasonableness of costs.

2.1.1.3 Out-of-Province Comparable Projects – Black & Veatch 2014 WECC Study

Consequently, Hydro One will focus its out-of-province comparisons on the 2014 WECC Study comparable. As provided in the attachment filed by NextBridge in interrogatory responses, the 2014 WECC Study completed by Black and Veatch provides costing assumptions for transmission lines. The study was completed under the auspices of a peer review workgroup comprising regional transmission experts to ensure that the resulting costs and cost development methodology were robust and appropriate for WECC's current and future requirements[12].

The base capital cost for a 230 kV double circuit line, as defined in Table 4-1 of the 2014 WECC Study, is $1.484 million/mile or alternatively, $954,677/km in 2014 nominal dollars[13]. For comparison purposes, this would be $1.07 million/km in 2022 dollars[14].

[11] Transcript, Vol. 3, pp. 9
[12] Exhibit, I.NextBridge.STAFF.50, Attachment, Page 5 of 40
[13] $1.484 million divided by miles to km rate of 1.60934 provided at Page 15 of Ex B, Tab 1, Sch 7 Att 1
[14] Escalated by 1.4% per the average annual growth rate provided at Page 15 of Ex B, Tab 1, Sch 7 Att 1

Filed: 2021-01-27, EB-2020-0150, Exhibit, I.NextBridge.STAFF.50, Attachment, Page 23 of 40

Western Electricity Coordinating Council | CAPITAL COSTS FOR TRANSMISSION AND SUBSTATIONS

Table 4-1 Transmission Capital Cost Summary

EQUIPMENT	230 KV SINGLE CIRCUIT	230 KV DOUBLE CIRCUIT	345 KV SINGLE CIRCUIT	345 KV DOUBLE CIRCUIT	500 KV SINGLE CIRCUIT	500 KV DOUBLE CIRCUIT	500 KV HVDC BI-POLE
Base Cost	$927,000	$1,484,000	$1,298,000	$2,077,000	$1,854,000	$2,967,000	$1,484,000

Figure 1: Table 4-1 Base Cost Extract from 2014 WECC Study

At $1.07 million/km in 2022 dollars, this value (though significantly lower than all the other completed projects in the Benchmarking Study) closely aligns with the original capital costs proposed by NextBridge in the Phase 2 Decision proceeding[15] which equaled $1.05 million/km in 2012 dollars or $1.22 million/km in 2022 dollars as shown in Undertaking JT3.1. The side by side comparison of these values is provided below in Table 2.

Table 2 - Per Km Cost of 2012 NextBridge EWT Designation Estimate and 2014 WECC Study

Project	**NextBridge EWT (Designation Proceeding)**	**2014 WECC Study (Base Capital Costs - Table 4-1)**
Voltage (kV)	230	230
Length (km)	400	450
Year Costs Are Reported	2012	2014
Total Cost Line Only ($M)	419[16]	429.60
Line Cost (Adjusted to 2022 $M)	489	480.15
2022 Cost $M/km	**$1.22**	**$1.07**

The Benchmarking Study in Undertaking JT3.1 does not show this base cost for the 2014 WECC Study because the 2014 WECC Study is the only comparable among all the comparison data points that is adjusted for all the other multipliers identified in the 2014 WECC Study that are necessary when completing an all-in capital cost comparison. Notably, for the WECC Study, adjustments are made for transmission structure type, terrain, as well as right-of-way costs. Had similar

[15] EB-2011-0140

[16] This value is referenced as $409M in the Phase 2 Decision and does not include Indigenous costs and IDC that were not included in NextBridge Phase 2 Decision bid. For the purposes of this Table, the Total Cost Line Only value of $419M remains as represented by CRA in the Benchmarking Study.

adjustments been made to the other comparable projects, most notably the Ontario comparable projects, the results for the Benchmarking Study would have been quite different. When asked during cross-examination why none of the other all-in capital cost adjustments identified in Table 4-1 of the 2014 WECC Study were made for the other Ontario comparable projects, Mr. Russo explained that he did not think any other data or adjustments were appropriate.

> *MR. ENGELBERG: Were there any other variables identified in the Black & Veatch study that you chose not to use, and if so could you tell me why you chose not to use those?*
> *MR. RUSSO: I've identified the only study that -- the only variable from this particular study I chose to use. There's a long list I didn't choose to use. I chose to use one because it was the most appropriate and suitable.*
> *MR. ENGELBERG: Would you agree that if you had investigated the other variables, the results of the benchmarking study could be quite different?*
> *MR. RUSSO: I wouldn't agree with that.*
> *MR. ENGELBERG: Why is that?*
> *MR. RUSSO: If there is a particular variable or particular item from the Black & Veatch report to which you're referring, I might be able to answer the question. I chose the data selectively from the Black & Veatch report to adjust the cost of Bruce Milton. I didn't think any other data or adjustment were appropriate[17].*

The data chosen from the 2014 WECC Study does appear selective.

Mr. Russo continued:

> *MR. RUSSO: I -- when you say capital costs I'm going to assume that you're referring to land acquisition costs. There may be instances where that's appropriate. It wasn't necessary or appropriate to do so in this case [audio dropout] fairly detailed data on overall project costs of the projects I looked at as comparison to the East-West Tie.*
> *MR. ENGELBERG: Did you adjust for real-estate costs when you assessed your all-in capital costs?*
> *MR. RUSSO: I did not adjust for real-estate costs. It wasn't necessary to do so to complete the benchmark.[18]*

And:

> *MR: RUSSO…As I stated earlier, I really only had one adjustment factor which I applied from the WECC study, and that was to the Bruce-to-Milton project significantly reducing Bruce to Milton's costs…*

[17] Transcript, Vol. 2, Page 138-139
[18] Transcript, Vol. 2, Page 144

> *In general, I had the approach of applying as few adjustments as possible in order to maintain consistency and treat each project equally.*[19]

The "significantly reducing Bruce to Milton's costs" mentioned in the extract is the 1.99 multiplier used to decrease the Bruce to Milton Project costs in the Benchmarking Study because it is a 500 kV project and the EWT is a 230 kV project. This is the base cost of a 500 kV double circuit line divided by the base cost of a 230 kV double circuit line, or 1.99, all derived from the "Base Cost" differences outlined Table 4-1 of the 2014 WECC Study, an extract of which is provided at Figure 1 of this submission. Hydro One's cross-examination highlighted that indeed the comparator projects had not been treated equally, as CRA should have also adjusted the BC NTL project costs to account for the fact that it is a single-circuit line, to be consistent with the adjustment made to the Bruce-to-Milton Project. Doing so would have ultimately increased the per km cost of the BC NTL, contrary to Mr. Russo's testimony.

When summarizing the inclusion of the out-of-province projects, what remains most relevant from this exchange, is that Mr. Russo's testimony about consistency and equal treatment across comparators seems to contradict the facts that underpin the Benchmarking Study. With the exception of the 2014 WECC Study, and an isolated adjustment to address the voltage difference in the Bruce to Milton Project, the Benchmarking Study does not make any adjustments for significant multipliers in a capital project and, as a result, the reader cannot realistically assess the relative *all-in capital cost.* The lack of consistency is most apparent when reviewing the Ontario project comparators in light of the adjustments made to the 2014 WECC Study.

2.1.2 Ontario Comparable Projects

As outlined by Black and Veatch in the 2014 WECC Study, when assessing the total capital costs of a transmission line, there are multiple factors that should be taken into consideration. Those variables are summarized in the following equation on page 22 of the 2014 WECC Study[20].

Total Transmission Line Cost =
[(Base Transmission Cost) x (Conductor Multiplier) x (Structure Multiplier) x (Re-conductor Multiplier) x (Terrain Multiplier) + (ROW Acres/Mile) x (Land Cost/Acre)] x (# of Miles)

One of the variables that was not adjusted for the Ontario comparator projects, yet was conversely adjusted in the 2014 WECC Study comparator within the Benchmarking Study, was the right-of-way costs. NextBridge's interrogatory responses on the subject[21] were not helpful. To assist the

[19] EB-2020-0150 – Transcript Vol. 2 – Page 149 Line 23 to Page 151 Line 2
[20] Exhibit, I.NextBridge.STAFF.50, Attachment, Page 22 of 40
[21] Exhibit I.NextBridge.HONI.6h

cross-examination, Hydro One provided, in the Hydro One compendium, redacted Municipal Property Assessment Corporation ("MPAC") vacant land assessments that illustrated that, on average, the price difference on a per/acre basis is about 80 times greater in Halton Hills (an area which the Bruce-to-Milton line crossed) than it is in Nipigon (an area which the EWT crosses)[22]. Ms. Schwaebe testified that "*typically we wouldn't use property assessments to determine price of value. It's not an appraisal report and it shouldn't be considered as equivalent to one... this is a property assessment as is not equivalent to undertaking of an independent appraisal which NextBridge and HONI uses to acquire land"*[23]. The relevance of the MPAC assessments was not to evaluate whether MPAC assessments should be utilized to assess market value, but rather to establish that there is a substantial difference in real estate values between northern and southern Ontario. Of course, the MPAC value assessments depict a substantial difference in value between the two areas. Hydro One submits that an independent appraiser would likely find a substantial difference in the values as well, and this was eventually confirmed by Ms. Schwaebe:

> *MR. ENGELBERG: Excuse me, or from your own knowledge without even looking at the chart. From your general knowledge as an expert, would you agree that there's a substantial difference between land acquisition cost in southern Ontario and northern Ontario where the East-West Tie is?*
> *MS. SCHWAEBE: Yes.*[24]

Despite the obvious conclusion that there is a difference between northern and southern Ontario real estate costs, the Benchmarking Study made no adjustments whatsoever for the substantial differences in real estate costs when comparing the EWT to southern Ontario projects. Mr. Russo opined that it was unnecessary to do so, but Hydro One submits that the opposite is true. A real estate adjustment is necessary when comparing northern and southern Ontario projects if the intent of this Benchmarking Study is to provide the OEB with a reliable basis upon which to assess the reasonableness of all-in capital costs. There is no question that the land rights costs for the EWT[25] would have been substantially higher if the Project were completed in southern Ontario, and the southern Ontario comparator projects should have been adjusted for that difference.

Additionally, the selected Ontario comparator projects are the shortest of all the projects selected for comparison. Bruce-to-Milton measures less than half of the EWT line (40% of the length of the EWT 180km / 450km), and the Niagara Reinforcement Project ("NRP") measures less than a fifth of the distance of the EWT (17% of the length of the EWT 76km / 450km). This fact is important to note because one would expect economies of scale to be realized on projects of the

[22] Exhibit K2.5, Tab 7
[23] Transcript, Vol. 2 Page 134
[24] Transcript, Vol. 2 Page 135
[25] Exhibit C, Tab 4, Schedule 1, Attachment 3, Page 2 of 2

scale of the EWT. In fact, this is the evidence of the Applicant with respect to their spares strategy – economies of scale – or as the Applicant addresses it, the benefits that flow from buying in bulk.

> *MR. MAYERS: …We have a total of 1228 towers on the project. You buy in bulk like that, you get the best pricing. The same goes for the conductors, the OPGW, the insulators. You get the best price at that time because you bought the product in bulk.*[26]

Yet no adjustments were made for the obvious difference in scale in the Benchmarking Study. Nonetheless, NRP, the shortest of all the comparator projects by far, achieved the best cost on a per km basis even with the stated shortcomings of the Benchmarking Study. Hydro One submits that a project such as the EWT, which is more than five times greater in length than the NRP, should achieve greater savings to ratepayers than those achieved by the NRP on the base cost benchmarking basis which was undertaken by CRA. Just because the cost/km displayed in Undertaking JT3.1 of the Benchmarking Study for the EWT ($1.72M/km) is relatively close to the unadjusted NRP cost/km ($1.66M/km) does not mean the EWT forecast costs are reasonable.

2.1.3 Escalating Comparable Projects: The Handy-Whitman Index and the CAD/USD Foreign Exchange Rate

Finally, for the out-of-province and Ontario project comparators alike, the Benchmarking Study escalates the Handy-Whitman index for the Plateau region by the CAD/USD foreign exchange rate in an effort to create a Canadian equivalent to the Handy-Whitman index. There is no evidence that the Handy-Whitman index has been converted into CAD in Ontario using foreign exchange rates. Generally, conversions of the Handy-Whitman index, including those accepted by the OEB in proceedings referenced by the Applicant in this hearing[27], have been completed utilizing purchasing power parity (PPP). The use of PPP serves to reduce the volatile nature of foreign exchange rates that can produce large swings in growth even when economies are stable. For ease of reference, Figure 14 of the Benchmarking Study shows that between 2012 and 2019, the CAD/USD exchange rate increased from 1.00 to 1.33 – a 33% increase. Conversely, the PPP between the two nations has dropped from 1.245 to 1.213 over the same time period [28] - a 2% decrease. It is not surprising that escalating the Handy-Whitman index by the CAD/USD foreign exchange rate and not PPP produces results that support the viability of the NextBridge project. When asked through interrogatories to provide examples where foreign exchange rates had been

[26] Transcript, Vol. 2, Pg. 82
[27] EB-2019-0261 – Exhibit 1, Tab 1, Schedule 12, Page 14 – February 10, 2020
[28] Purchasing Power Parity results are publically available from the Organization for Economic Co-operation and Development - https://data.oecd.org/conversion/purchasing-power-parities-ppp.htm

used in the past, before the OEB, to convert the Handy-Whitman index and to adjust the Benchmarking Study for purchasing power parity, NextBridge responded:

> *It is burdensome for CRA or NextBridge to conduct an exhaustive search of the many other filings before the OEB, as requested by HONI... A constant exchange rate is used throughout the CRA report, meaning that the conversions are fully proportional. The use of a constant exchange rate represents a reasonable and sufficiently accurate approach to employing the Handy-Whitman guide for a Canadian application.*[29]

The NextBridge response is not inaccurate: a constant exchange rate that unnecessarily escalated the Handy-Whitman index by the USD/CAD foreign exchange rate was used by CRA throughout the report to further escalate the costs displayed for the comparable projects. However, for clarity, Hydro One simply asked for some examples to support NextBridge's utilization of the foreign exchange rate approach, given that the Applicant's evidence was that *the Handy-Whitman index has been used by expert economic consulting firms in total factor productivity studies presented as evidence in matters before the OEB*[30]. No examples were provided. During cross-examination, when asked what would happen to the results of the Benchmarking Study if PPP were used instead of foreign exchange rates to "Canadianize" the Handy-Whitman index, Mr. Russo responded:

> *MR. ENGELBERG: Are you familiar with purchasing power parity studies to look at differences, particularly between the U.S. and Canada?*
> *MR. RUSSO: I am familiar with purchasing power parity as a general concept.*
> *MR. ENGELBERG: Do you have an opinion as to whether the 2022 values would be higher or lower if purchasing power parity had been used rather than a simple foreign exchange comparison between the U.S. and Canadian dollar?*
> *MR. RUSSO: I haven't done the analysis, so I'm not sure I can give you an answer.*

Mr. Russo's further analysis on this subject is unnecessary. The results are evident given that foreign exchange rates have increased and PPP has decreased over the term of the Project comparators commercial operation dates (2012-2019). Had PPP been utilized instead of the foreign exchange rate approach used by CRA, the comparator projects would have a lower cost/km.

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[29] Exhibit I.NextBridge.HONI.6f
[30] Exhibit B, Tab 1, Schedule 7, Attachment 1, Page 6

2.1.4 NextBridge EWT Capital Forecast Costs

Hydro One understands that in Undertaking JT3.1, CRA has updated the base benchmarking results to show the EWT line project costs in 2022 nominal dollars ($774 million or $1.72M/km). Hydro One submits that the comparison should have always endeavoured to compare the capital costs that will be paid by Ontario ratepayers – comparator projects were escalated to 2022 dollars, and likewise the EWT capital forecast costs should be displayed in 2022 dollars. However, Hydro One submits that even at $774 million, this estimated value is predicated on the following:

(1) the costs materializing as forecast up to the commercial operation date;

(2) ignoring the present value of all costs forecast or yet to be disclosed that are expected to occur, such as the outstanding COVID-19 costs and other costs that NextBridge seeks to recover through the Construction Cost Variance Account over the next ten years; and

(3) ignoring the present value of all the forecast capital expenditures that NextBridge will incur over the planned 10-year deferred rebasing period for bird deterrents and ROW cameras.

At a minimum, the Benchmarking Study should have included the present value of the bird deterrents and ROW cameras in the capital cost comparison – these are the costs that should have been discounted, added to the 2022 nominal project costs and reported in 2022 dollars for comparison purposes. Doing so would add approximately $3 million to the 2022 capital costs of the EWT utilizing the 2% inflation rate requested in this Application[31]. However, the most significant hurdle to the EWT line in the Benchmarking Study is that the EWT line still has an extraordinary level of ambiguity associated with the actual final costs of the Project, with approximately 40% of the scope of work outstanding[32] and no contingency built into the $774 million forecast and yet no adjustment was made for this ambiguity in the Benchmarking Study. When asked whether there should be an increased sensitivity placed on these costs given their forecast nature while being compared to actual completed projects, NextBridge responded that *the forecasted costs are the best data available for the East-West Tie line and are therefore appropriate*.[33] Hydro One disagrees. NextBridge has a clear line of sight to its contractors' COVID-19 costs and could provide a forecast of what those costs will be for the purposes of conducting a sensitivity analysis, but NextBridge failed to do so. Similarly, NextBridge could have provided an estimate of what the future environmental costs could be despite not knowing the exact timing of the activities. It appears, based on testimony of Mr. Raffenberg[34], the limiting factor in developing this forecast was that the exact timing of *when* the caribou will be transferred,

[31] PV calculation of capital expenditure with a 2% discount rate
[32] Transcript, Vol. 3, pp. 139
[33] Exhibit I.NextBridge.HONI.6b
[34] Transcript, Vol. 1, pp. 63 line 20 to pp. 64 line 8

and *when* the island will be predator-free, is not known at this time; but it is obvious that a forecast cost could have been provided with a timing assumption. NextBridge failed to do so. The fact that costs were not divulged by NextBridge does not mean that such costs are unavailable or that there is no sensitivity that can be incorporated into the analysis. NextBridge could have disclosed these costs and/or provided forecast expectations on the quantum and timing of these costs. It would be unfair to conclude, as NextBridge has in responding to the interrogatory regarding the use of their forecast costs in the Benchmarking Study, that the best data available for the East-West Tie line is a cost of $774 million.

For all the aforementioned reasons, the capital benchmarking entitled *Base Benchmarking Results* originally filed at Figure 11 of Exhibit B, Tab 7, Schedule 1 Attachment 1 of the prefiled evidence and subsequently updated as Undertaking JT3.1 should not be relied on by the OEB

2.2 OM&A Benchmarking

NextBridge's allegation on OM&A in this Application is that overall, NextBridge's OM&A spending on a *per asset basis* is low in comparison to other transmitters in Ontario, as detailed in the Benchmarking Study[35]. Figure 10 of the Benchmarking Study provides the following total OM&A conclusions on a *per km basis*:

$k (CAD)	**Niagara 2020**	**Bruce Milton 2019**	**New EWT**
Total OM&A	830	1,600	3,005
Total kilometers	76	180	450
OM&A/km (CAD)	**10.92**	**8.89**	**6.68**

Figure 10 - Benchmarking Study: Bruce to Milton, Niagara & New EWT OM&A Benchmarking

The results of the Benchmarking Study are questionable for the following reasons:

(1) Mr. Russo clarified in cross-examination that NextBridge's per asset basis conclusions are their own and not what the Benchmarking Study evaluated;

(2) the NextBridge test-year OM&A costs is underestimated[36],thus calling into question the comparison against other projects;

(3) it arbitrarily excluded approximately $2 million of annual expenses for the EWT line associated with Indigenous Participation and Compliance costs on the basis that

[35] Exhibit F, Tab 4, Schedule 1, pp. 1
[36] Transcript, Vol. 1, pp. 83

NextBridge and CRA believe these are not directly comparable to the other projects, and unique to the EWT;

(4) it compared three different Indigenous partnership entities that have differing equity positions and different OM&A obligations; and

(5) it incorrectly increased the OEB-approved OM&A spend for Bruce-to-Milton LP and did not update it despite being notified of the error.

In addition, in responding to cross-examination questions on the topic of OM&A in the Benchmarking Study, NextBridge suggested that the comparator transmitters, NRLP and B2M LP (both of which have their general partner owned by Hydro One Inc.) despite being separately licensed transmitters, do not operate independently and are receiving services from Hydro One at an unrealistically low cost[37]. Hydro One submits that NextBridge's allegation in this regard is uninformed and inaccurate.

The following section of this submission will address the inaccuracy of NextBridge's statements and will elaborate on the five identified missteps in the Benchmarking Study specific to OM&A costs discussed above.

2.2.1 OM&A Spending on a Per Asset Basis vs OM&A Spending on a Per Km Basis

Despite NextBridge's assertions, the Benchmarking Study does not provide sufficient evidence that NextBridge's OM&A spending on a *per asset basis* is low in comparison to other transmitters in Ontario and the record of evidence does not align with that assessment.

> *MR. RUSSO: "NextBridge's conclusions are their own."*[38]
> *MR. RUSSO: "…I did not investigate spending on a per asset basis. The intent of my benchmarking study was to benchmark cost per kilometer..."*[39]

Indeed, the Benchmarking Study assesses costs on a per km basis, not on a per asset basis as alleged by the Applicant. Hydro One's submissions on this topic will continue to address the OM&A Benchmarking Study as a cost per km benchmark study, but Hydro One will highlight the disparity in the evidence of the Applicant before elaborating on the topic of NextBridge's benchmarked OM&A costs.

[37] Transcript, Vol. 2, pp. 171 - 172
[38] Transcript, Vol. 2, pp. 122
[39] Transcript, Vol. 2, pp. 161

B2M LP and NRLP own significantly shorter lines than the NextBridge EWT. Economies of scale distort the OM&A conclusions of the Benchmarking Study, as pointed out by Mr. Murray in his cross-examination of the NextBridge panel[40]. No adjustments were made to account for the size difference, EWT being more than double the length of the Bruce-to-Milton project and more than five times longer than the Niagara Reinforcement project. Hydro One submits that the measure utilized to justify the reasonableness of the NextBridge *minimal forecas*t is inappropriate.

2.2.2 NextBridge's Minimal OM&A Forecast

Cross-examination of NextBridge witnesses highlighted that the OEB must question the OM&A forecast provided by NextBridge: This was not a true test-year forecast. NextBridge's evidence was that they anticipate that OM&A costs will significantly differ from these estimates – *death by a thousand cuts*, as Ms. Tidmarsh repeatedly identified the OM&A cost pressure. Ms. Walding's testimony, in response to cross-examination questions from Mr. Rubenstein, went further and attempted to quantify the expected increases to the *minimal forecast OM&A*:

> *MR. RUBENSTEIN: Can I ask this question, Mr. Mayers or Ms. Walding? Is it your view that 2 percent increase on OM&A is not realistic? That's what I've taken away from much of the discussion this morning. What do you think your OM&A is actually going to increase annually?*
> *MS. WALDING: Well, number one, it's a minimal OM&A, and so the factors that are based into it will definitely increase by 3 percent, but none of that 3 percent -- that's just the base increases. None of that includes any of the other things that Mr. Mayers has talked about. And I would also like to ask Ms. Weinstein, if you can tell us --*
> *MR. RUBENSTEIN: Sorry, no, Ms. Walding, I asked a specific question. My question is this: If you don't think 2 percent is the reasonable amount, what do you think is a percentage that would reflect your actual OM&A increases over year?*
> *MS. WALDING: I think it's going to be lumpy. I don't think it's going to be a set amount. I think, like I said, in the question I just answered for you, it's the minimal, will be 3 percent. That would be the minimal.*[41]

What Hydro One understands from this testimony is that the minimal test year forecast OM&A of $4.94 million will increase at a minimum of 3% per year before accounting for any of the *death by a thousand cuts* variables.

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[40] Transcript, Vol. 3, pp. 51-57
[41] Transcript, Vol. 1, pp. 90

NextBridge also clarified during cross-examination by Mr. Rubenstein that it has not included any ongoing post-in-service costs related to the environmental permit (that they cannot forecast) in their OM&A forecast because, according to NextBridge, those costs would be associated with the capital costs for which they will be seeking recovery in the future through the Construction Cost Variance Account.

> *MS. WEINSTEIN: ... So our position is that these are all due to and directly related to the initial construction of the line are understood to be capital costs.*
> *MS. WALDING: And additionally, I'll also add to what Ms. Weinstein said, is we did not include any of these costs in our operating cost as well, and there will definitely be ongoing costs to this project that are due to those permits.*[42]

The cross-examination continued:

> *MR. RUBENSTEIN… This goes back to the question I asked previously; are these capital costs?*
> *MS. WALDING: So they can be capital costs. It really kind of depends a lot on how the regulator views them. So that is a part of it, as well as if they're directly related to the project being constructed of which they were.*
> *So there's different factors that go into saying whether or not they're capital costs or not. But one thing is for certain is they are not included in our OM&A budget, and they are not included because they change dramatically through time.*[43]

If the OEB's decision disagrees with NextBridge's atypical approach to dealing with ongoing costs post-in-service, NextBridge's OM&A budget will be greater than it is.

Further evidence of NextBridge's OM&A forecast being an underestimate is provided in NextBridge's attempt to refute SEC's declining rate base analysis, the "SEC 7 Analysis" provided at page 56 and 57 of Exhibit K1.2 that illustrates that NextBridge will exceed the 300 basis point off-ramp criteria in the back half of the 10-year rate period. Ms. Walding conceded that the SEC 7 Analysis does not:

> *MS. WALDING: …take into account what our real OM&A escalation is, as well as our OM&A exposure on the project.*

[42] Transcript, Vol. 1, pp. 62
[43] Transcript, Vol. 1, pp. 64

> *And so, you know, from a spreadsheet perspective you can say that this is what we are going -- what we're asking for, but we don't at all believe that that's what is going to materialize…*[44]

The record also shows conflicting testimony, citing both that NextBridge will absorb all OM&A costs above $4.94 million[45] and, conversely, that NextBridge may make use of a Z-factor for OM&A costs if the cumulative OM&A cost overruns exceed the materiality threshold[46].

In totality, the evidence and testimony make it apparent that the OM&A forecast does not reflect the actual OM&A that NextBridge expects to incur, is minimal and cannot be relied upon as a true representation of the OM&A costs that will be spent by NextBridge to own, operate and maintain the transmission line for comparison purposes in the Benchmarking Study. Utilizing a forecast and comparing that forecast against actual costs for other comparators has limitations. Those limitations are compounded when the forecast is underestimated as outlined by Ms. Walding:

> *MS. WALDING: …I do believe we have more cost pressures on this project than what is reflected in our costs for our test year, and by far*[47].

2.2.3 Incorrectly increasing the OM&A costs of B2M LP

As mentioned, the comparator group for OM&A includes the 2020 NRLP OEB-approved OM&A and the 2019 OEB-approved B2M LP OM&A. Notwithstanding the potential economies of scale difference, the Benchmarking Study arbitrarily inflates the B2M LP total OM&A costs beyond those approved by the OEB in EB-2019-0178. Hydro One highlighted the $400,000 error in the Benchmarking Study in interrogatories, but no change was made to the record, as NextBridge asserted that the change is *de minimis*[48]. For reference, the error increases B2M LP's approved OM&A budget by 25%. Had the correct actual OM&A costs been utilized, (specifically, $4.94 million for EWT[49] and $1.2 million for B2M LP) Figure 10 of the Benchmarking Study would show very different OM&A costs/km. The actual OEB-approved OM&A costs for each utility are shown in Table 3 below. The actual OEB-approved totals and the total EWT forecast OM&A are shaded and shown side-by-side with the figures originally provided in Figure 10 of the Benchmarking Study.

[44] Transcript, Vol. 1, pp 74
[45] Transcript, Vol. 2, pp 167-168
[46] Transcript, Vol. 2, pp 63-64 and Transcript Vol. 1, pp 143
[47] Transcript, Vol. 1, pp. 83
[48] Exhibit I.NextBridge.HONI.6n
[49] The Benchmarking Study sets the EWT OM&A at $3.005M to exclude costs that are considered unique to EWT. These costs are discussed in Section 2.2.4 of this submission.

Table 3 – OM&A Benchmarking Study Results If Updated with Actual Costs

$k (CAD)	Figure 10 - Niagara 2020	NRLP 2020 Total OEB Approved OM&A	Figure 10 - Bruce Milton 2019	B2M LP 2019 Total OEB Approved OM&A	Figure 10 - New EWT	New EWT Total Forecast OM&A
Total OM&A	830	850	1,600	1,200	3,005	4,940
Total kilometers	76	76	180	180	450	450
OM&A/km (CAD)	**10.92**	**11.18**	**8.89**	**6.67**	**6.68**	**10.98**

Table 3 clearly shows that once the actual OM&A values are utilized, NRLP's OM&A/km is almost the same as the EWT's despite being one-fifth of the length of the EWT line. It also shows that the B2M LP OM&A cost per km is significantly less than the EWT number. In fact, once the correct values are used, the OM&A per km for the 180 km B2M LP ($6.67k/km) line is not only less than the $10.98k/km actual EWT OM&A, but also less than the adjusted EWT cost per km value of $6.68k/km that arbitrarily excluded $1.94 million of total EWT OM&A costs shown in Figure 10 of the Benchmarking Study.

2.2.4 NextBridge's Exclusion of "Unique" Indigenous Participation & Compliance Costs

The Benchmarking Study reduces the EWT OM&A costs even further in the OM&A comparison to exclude approximately $2 million of the annual expenses for the EWT line. This represents a 40% reduction to the minimal NextBridge OM&A test year forecast.

When asked by both OEB Staff and Hydro One in cross-examination how Mr. Russo satisfied himself that this reduction was appropriate, Mr. Russo responded that it was based on his review of the voluminous NRLP and B2M LP revenue requirement filings and as a result of conversations with NextBridge.

> *MR. MURRAY: …Mr. Russo, I want to confirm whether it was you or NextBridge that determined that the 1.94-million-dollar adjustment should be made to this benchmarking comparison?*
> *MR. RUSSO: I certainly discussed it with NextBridge. They are the ones most familiar with the project. I relied upon their input, but after discussions I was convinced that, you know, the East-West Tie does indeed have unique attributes, traverses First Nations lands, and it has Indigenous participation and compliance costs that were not directly comparable to the other projects that I evaluated.*
> *MR. MURRAY: And on what basis did you determine it was appropriate to remove almost 40 percent of NextBridge's OM&A costs from this comparison?*

> *MR. RUSSO: I think I have just given you that answer, which is that I wasn't able to find sufficient evidence in any other projects that I looked at that there was significant large components of Indigenous participation and compliance costs.*[50]

In Mr. Murray's continued cross-examination of Mr. Russo, Mr. Murray asked Mr. Russo if he had considered contacting Hydro One before removing 40% of NextBridge's OM&A costs in the comparison.

> *MR. MURRAY: Given that you were going to be removing 40 percent of the costs, did you make any enquiries of HONI as to whether or not they had similar items that may have been under a different category?*
> *MR. RUSSO: I relied upon all the public information filed by HONI for Bruce-Milton and Niagara, which was voluminous, but, no, I did not reach out specifically to HONI*[51].

Mr. Russo did not reach out to Hydro One. He thought it was reasonable enough to discuss the OM&A differences only with NextBridge in order to reach his conclusion. When NextBridge was asked about the B2M LP and NRLP transmitters, those transmitters' Indigenous partnerships and those transmitters' OM&A payments for Indigenous economic participation, the NextBridge panel rebutted, during three pages of transcript associated with Mr. Murray's cross-examination, that there is no public information that discloses any costs.[52] Hydro One submits that B2M LP and NRLP do have Indigenous-related costs. If Mr. Russo had reviewed the voluminous public records of both NRLP and B2M LP, he would have realized that (a) the duty to consult and address any impacts raised during engagements is not unique to the EWT, (b) economic benefits (such as equity investment opportunity or contracting) are offered routinely in linear infrastructure projects and (c) both of those separately licensed transmitters are partnerships that include Indigenous equity. In fact, both B2M LP and NRLP have higher Indigenous equity positions than the 20% that will be eventually held by Bamkushwada LP in the NextBridge project. The equity positions of the Indigenous partners are documented in the audited financial statements of both utilities that were filed with the OEB[53][54]. The equity positions are cited in this submission only briefly to clarify the record.

When Hydro One signed a first-of-its-kind agreement to form B2M LP in 2012, the negotiated terms were that the First Nation would acquire a 30% ownership interest in B2M LP. Similarly,

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[50] Transcript, Vol. 3, pp. 59
[51] Transcript, Vol. 3, pp. 61
[52] Transcript, Vol. 3, pp. 63-66
[53] EB-2018-0275 Draft Revenue Requirement and Charge Determinant Order - Exhibit 6.0 – April 23, 2020
[54] EB-2019-0178 – Exhibit A, Tab 6, Schedule 2

in NRLP, the Indigenous partners collectively hold a 45% equity interest in the transmitter. These are commercial terms and conditions that are negotiated by transmitters.

Hydro One is well aware of costs related to Indigenous participation. Contrary to NextBridge's evidence, these types of costs are not unique nor are they atypical for a large transmission project in Ontario. Hydro One is aware that these can be significant costs that are not expected to decrease and most likely will increase in the future. Hydro One submits that it would be inappropriate for the Benchmarking Study not to compare the costs ratepayers will ultimately pay, flowing from these commercial agreements.

Hydro One submits that a utility has many ways to compensate Indigenous communities and that the Indigenous communities themselves have many ways in which they wish to be compensated. Methods of economic participation can include, but are not limited to, direct payments, employment/job contract commitments, procurement opportunities, community benefits, equity ownership, shares, recurring annual payments, etc. These are commercially negotiated agreements. However, these commercially negotiated agreements ultimately impact Ontario's ratepayers. NextBridge has elected to offer Indigenous partners recurring OM&A annual payments. Those are the negotiated terms and conditions of NextBridge's commercial arrangement that NextBridge needs to defend. The fact that NextBridge has not provided any evidence formulating a justification for recovering these costs from ratepayers, in light of what has been recovered from ratepayers by the comparator group, does not mean that these $1.94 million of OM&A costs are unique to NextBridge. This does not mean that these costs should be ignored in the Benchmarking Study: in fact, the opposite is true. These are real costs that NextBridge has applied to recover from ratepayers and the Benchmarking Study highlights, to the OEB, these differences against the comparator group. Hydro One submits that the onus is on the Applicant to explain the actions it will take as a result of the Benchmarking Study and inform the OEB how their plans and programs demonstrate continuous improvement. When comparing Project costs, and more specifically, the costs that ratepayers will have to bear, costs must be consistently presented. This is especially true for a benchmarking study that asserts that the costs to be recovered from Ontario ratepayers are reasonable. To assist the OEB with establishing a directional indicator of efficiency, all costs should be included in the Benchmarking Stduy. The onus is then on the Applicant to justify these costs and explain why it is reasonable and prudent to recover these costs from ratepayers in light of the costs recovered from ratepayers by the comparator group. NextBridge has failed to do that.

2.3 Conclusions on the Benchmarking Study

In closing, Hydro One provides the following extract from the OEB's Handbook for Utility Rate Applications:

> *With the Custom IR rate setting options, a utility can customize the rate setting mechanism for their specific circumstances. Given this flexibility, the OEB will place greater reliance on benchmarking evidence for a Custom IR application to assess proposals over the five year term. When determining what areas to benchmark, a utility should consider the following potential criteria:*
> *Key areas where the utility's performance is considered particularly strong or particularly weak*
> - *Areas where expenditures are a key driver for the revenue requirement*
> - *Areas that have been targeted for specific programs*
> - *Areas where the OEB has expressed concern in past decisions*
> - *Areas related to performance metrics and/or performance scorecard measures*
> - *Linkages to customer engagement analysis*
>
> *Utilities are expected to present objective, well researched benchmarking information, supported by a high quality and thorough analysis (using either third party or internal resources) that can be rigorously tested.*[55]

In summary, Hydro One submits that the results of the Benchmarking Study are in doubt. The proponent of the Benchmarking Study made no effort to validate assumptions and conclusions with any members of the comparator group, other than NextBridge. Errors in the Benchmarking Study were identified but the Applicant refrained from addressing them. The Benchmarking Study fails to address the OEB's concerns with NextBridge's capital costs that were expressed in the EB-2017-0182 Decision. For all these reasons, Hydro One submits that the Benchmarking Study should not be relied on by the OEB as justification for the reasonableness or prudency of either NextBridge's capital or OM&A cost forecast.

[55] Ontario Energy Board Handbook to Utility Rate Applications, October 13, 2016 – pp 18-19

3.0 REVIEW AND SUBMISSION ON NEXTBRIDGE'S PROPOSED REVENUE CAP INDEX

NextBridge's proposed revenue cap index includes an inflation factor of 2%, with no productivity factor and no stretch factor. This proposal is inconsistent with recent OEB decisions for other transmitters, via settlement or written hearing alike, and results in forecast returns on equity (ROE) that are likely to exceed the OEB-allowed ROE by more than 300 basis points in the latter half of the IR period[56].

3.1 Regulated Rate of Return

On Day 3 of the hearing, Ms. Walding stated her belief that a utility should be guaranteed to achieve its intended rate of return every year.

> *MR. MURRAY: Ms. Walding, do you take the position that NextBridge is entitled to be guaranteed to earn its -- the deemed rate of return each and every year of the nine-year, nine-month term? Is that the position NextBridge takes?*
> *MS. WALDING: Definitely. We do, because that is the authorized ROE for the OEB, and if we manage our cost to what we have proposed in our application, then I do believe we should earn our authorized ROE.*[57]

This view is incorrect. It represents a fundamental misunderstanding of the implicit regulatory compact between utilities, their regulator and ratepayers.

In EB-2009-0084, the Board determined that the allowed ROE should be constructed from two distinct parts:

- A Risk-Free Rate component (base), and,
- An Equity Risk Premium to allow for the inherent risk of running an enterprise comparable in risk.

This framework is consistent with the Capital Asset Pricing Model commonly used in numerous jurisdictions to establish ROE.

The foundation of this ROE was the Risk Free Rate, which is based on a benchmark government bond that is effectively devoid of systematic market risk.

The principle of including the risk premium is that a utility does face certain risks. Typically, the largest and likeliest risk for a transmitter is associated with revenue. Moderate temperatures and

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[56] Exhibit K1.2, pp 56-57
[57] Transcript, Vol. 3, pp 121

reduced economic activity can lower peak demand load, which can lower the utility's revenue and result in a lower ROE. On the cost side, there are numerous possible operational or administrative disparities than can impact forecasts and produce negative unexpected variances.

Including a risk premium in the allowed ROE does not at all suggest that a utility should be guaranteed to earn the deemed ROE every year of a rate term, as Ms. Walding suggested in testimony. If all risks faced by a utility were effectively eliminated by a government agency, and the ROE of the utility were guaranteed in every year of the rate period, the relative risk of the enterprise would become similar to the government bond itself and an equity risk premium would become unnecessary. In that case, the utility should receive only the Risk-Free rate of return, with no equity premium.

Hydro One and its affiliates B2M LP and NRLP strongly disagree with Ms. Walding's view. Hydro One supports the notion that a utility that performs well has, from time to time, the opportunity to earn in excess of its allowed rate of return. From a long-term performance standpoint, this has the benefit of providing management with the incentive to find efficiencies that ultimately benefit ratepayers in the future. However, this ability to over-earn is valid only if a utility faces the possibility that it may also, from time to time, under-earn at a rate less than its allowed rate of return. This underlies the principle of the inclusion of the risk premium on the allowed rate of return, and it represents an important part of the regulatory compact with ratepayers in an incentive based rate regime.

NextBridge is asking for OM&A recovery of $4.94 million in its test year. NextBridge's benchmarking was performed with the goal of showing that this is a reasonable amount based on the fact that it compares with its peers in the industry. Hydro One disagrees with certain parts of that benchmarking, where it alleges that NextBridge's costs are significantly below B2M LP and NRLP. Those comparisons do not appear to hold up under scrutiny, as shown in Section 2.0 of this submission.

The intent of the Test Year methodology is that all known systematic costs are to be submitted for recovery. If NextBridge knows or firmly expects that its costs will exceed forecasts, it should include those costs so that they can be tested in evidence. And if its costs are found to be prudent and reasonable, as NextBridge asserts through its benchmarking, there is no need to allow NextBridge to make excessive profits over the rate period, as NextBridge is asking the Board to provide. NextBridge cannot claim that the submitted costs represent a fair and complete summary of its expected costs and then assert that there are numerous other costs they expect to incur that are not included in their forecast and that they must be allowed to recover significant additional equity returns to be fairly compensated. NextBridge's evidence seems to be that they should be allowed to earn a higher return on its declining rate base because NextBridge is unable to forecast its OM&A expenditures. This is not how rate-making in Ontario works.

3.2 NextBridge's Revenue Cap Index Compared Against NRLP Decision

Although smaller in size, NRLP is a similar situation to NextBridge in many ways and generally represents the best comparator with which to compare because:

- Both own dual-circuit 230kV lines;
- Both have Indigenous partners;
- Both will be in their first rate period after their assets enter service; and
- Both are majority-owned and supported by large, experienced utilities familiar with operations of the assets owned by the partnership.

By association, both NRLP and NextBridge face cost uncertainties and, as with any new business, both acknowledge that costs could exceed forecast. While Hydro One submits that the likelihood of cost impacts occurring to the extent suggested by NextBridge witnesses in cross-examination appears to be overstated, Hydro One acknowledges that certain risks exist, and undoubtedly some of them will occur. Accepting that the risk exists that some unknown cost impacts will occur, allowing a rate order that includes the potential to over-earn is appropriate. The question becomes – by how much.

Below is a condensed version of the numbers included on page 57 of Exhibit K1.2_SEC_Compendum. It is a simple analysis of the ROE that NextBridge will earn if its forecasts are correct.

Table 4 – NextBridge Estimated Rate Base, Revenue and ROE as Proposed

Year	**1**	**2**	**3**	**4**	**5**
Total Avg Rate Base ($M)	770.43	763.89	755.28	746.69	737.87
Forecast Revenue Requirement ($M)	55.72	55.48	55.11	54.77	54.39
Proposed Revenue Requirement ($M)	55.72	56.83	57.97	59.13	60.31
Forecast ROE	8.52%	8.52%	8.52%	8.52%	8.52%
Proposed ROE	8.52%	8.96%	9.47%	9.98%	10.53%

This analysis suggests that if NextBridge matches its forecasts submitted in evidence, the total overearning (Forecast Less Proposed Revenue Requirement) in the first five years will total $14.5M, which is equivalent to almost three full years of the forecast OM&A. Although not shown here, Exhibit K1.2 suggests that during years 6-10 of the proposed rate period, the excess returns increase dramatically, at an increasing rate, from those shown here in years 1-5.

In 2020, NRLP received rate approval for its initial rate period. The price cap formula had the following differences from that requested by NextBridge:

Table 5 – NextBridge's Revenue Cap Index vs NRLP's Revenue Cap Index

	NextBridge Requested	**NRLP Approved**
Base Inflation Factor	2%	Board set Rate – currently 2%
Change in Inflation Factor	Fixed at 2%	Changes annually to account for updated economics
Stretch Factor	0%	0%
Productivity Factor	0%	0%
OM&A Intensity Reduction	None	50% reduction to Inflation Factor
Settlement Capital Reduction Factor	0%	0.6% reduction
Earnings Sharing Mechanism	None	Sharing of earnings that exceed the OEB-approved return on equity by more than 100 basis points

NextBridge has asked for a Price Cap Index formula that allows for a 2% annual revenue increase with no adjustment for capital intensity and no allowance for the rate base decrease that NextBridge will face over the rate period. Hydro One submits that the Board should carefully review the Price Cap Index formula proposed by NextBridge.

Notwithstanding that NRLP inevitably expects to incur additional unknown costs (not unlike those described by NextBridge), below is a table that shows the same analysis done for NRLP, using the numbers presented on the record in evidence of that proceeding[58] and using the Price Cap formula approved for NRLP in 2020 for its initial rate period described above.

[58] EB-2018-0275

Table 6 – NRLP Estimated Rate Base, Revenue and ROE

Year	1*	2**	3	4	5
Total Avg Rate Base	117.84	116.25	114.66	113.07	111.48
Forecast Revenue Requirement	8.66	8.59	8.53	8.46	8.40
Forecast Revenue	8.66	8.69	8.71	8.74	8.76
Forecast ROE	8.52%	8.52%	8.52%	8.52%	8.52%
Proposed ROE	8.52%	8.72%	8.92%	9.13%	9.34%

* Starts with 1st full test-year (2020)
** excludes reduction due to lower financing rates achieved in the first test year

The total potential forecast overearning for NRLP over the five years (Forecast Revenue less Forecast Revenue Requirement) would total $0.92M, which is equivalent to one year of OM&A costs for NRLP. This analysis acknowledges that the potential for overearning for NRLP does exist. As stated above, allowing for the inevitability of certain unknown cost impacts and potential shortfalls in revenue for a brand-new utility means that allowing for this potential is appropriate, and the parties in the NRLP case settled on this as a fair arrangement. However, in the first five years, the extent of overearning in NextBridge's proposal is about 15 times more than that previously approved by the Board for NRLP. While Hydro One supports the notion that over-earning potential to account for increased risk is appropriate, this level of overearning appears unnecessary to cover a reasonable amount of additional costs.

To reduce the disparity, the Board should approve a Price Cap Index using parameters similar to those approved for NRLP. Doing so would allow some security to NextBridge so that it can comfortably endure certain cost impacts in its formative years and still earn its expected returns. However, this will also ensure that excessive profits, evident in NextBridge's current request, are not unduly earned in the event that its cost forecasts turn out to be close to correct as submitted.

Hydro One further submits that the OEB should also reduce NextBridge's proposal to include a five-year rate period only. Again, this provides NextBridge with reasonable flexibility in the early years of the asset but also provides comfort to ratepayers knowing that they have the ability to review and reset rates to prevent the excessive overearning that appears to be present in NextBridge's proposal in the latter half of the ten-year period.

3.3 <u>2020 Cost of Capital Parameters</u>

Hydro One's submissions on this topic is that NextBridge should be required to update their costs of capital parameters to align with those in effect at the time the revenue requirement will be established. In other words, the revenue requirement should be underpinned utilizing the OEB's 2022 cost of capital parameters. There is no compelling evidence on the record of this proceeding to have the OEB deviate from standard practice on this matter.

Additionally, NextBridge testimony suggesting that the ROE component of the 2020 cost of capital parameters is at a *"historic low"*[59] and should therefore be locked in to benefit ratepayers is apocryphal, and the current cost of capital parameters do not validate NextBridge's notion as true[60].

For these reasons, Hydro One submits that NextBridge's revenue requirement should be updated to reflect the OEB's 2022 cost of capital parameters once released.

[59] Transcript, Vol. 2, pp. 21
[60] OEB Letter on 2021 Cost of Capital Parameters – November 9, 2020

4.0 REVIEW AND SUBMISSION ON NEXTBRIDGE'S PROPOSED DEFERRAL AND VARIANCE ACCOUNTS

As part of this Application, NextBridge is seeking approval for the establishment of multiple variance accounts. Accounting orders are being sought for the establishment of:

- a construction cost variance account ("CCVA");
- a debt rate variance account;
- a taxes or payment in lieu of taxes variance account;
- a revenue differential variance account; and
- a Z-factor account if material costs are incurred for unforeseen events for reasons beyond the company's control that occur during the IR term[61].

Hydro One generally supports the request but has some concerns with aspects of the accounts requested. Hydro One is cognizant that the review for divestiture of these variance accounts will occur in a future revenue requirement proceeding. However, in establishing these accounts, Hydro One submits that the OEB should provide guidance in this proceeding to help establish an eligibility framework that appropriately balances the interests of the Applicant and protects the interests of ratepayers.

Most of the remainder of Hydro One's submissions on this topic will be addressing the CCVA. However, Hydro One will also provide comments on the taxes or payment in lieu of taxes and the Z-Factor account.

4.1 Construction Cost Variance Account

As described in Exhibit H, Tab 1, Schedule 1, the CCVA is intended to track any difference in revenue requirement resulting from the difference between forecast construction costs documented in this Application and the actual final project costs. This account is proposed to track:

- COVID-19 related capital costs incurred during construction in excess of forecast construction costs in this Application;
- The difference between forecast construction costs and the actual construction costs at the point of the in-service date, including IDC; and
- Directly related costs associated with construction that extend past the in-service date, such as environmental costs that are a result of commitments in the Overall Benefits Permit and/or Amended EA for construction monitoring and mitigation programs that are not already accounted for in the forecast construction costs.

[61] Exhibit A, Tab 2, Schedule 1

4.1.1 Construction Cost Variance Account – COVID-19 Related Capital Costs

One of the criteria for establishment of a deferral account is that the account must meet the Board's materiality threshold. Despite the request for this variance account, NextBridge has not provided a forecast of what the COVID19 costs may be in the future or even an estimate of what the total current COVID-19 costs are expected to be. NextBridge should be able to obtain such an estimate from their contractors. As NextBridge has not provided this information, Hydro One submits that it is premature to consider establishment of this account.

> *MR. RUBENSTEIN: And you have not asked the contractor what's the bill running up to at this point?*
> *MS. TIDMARSH: At this point in time, we have not discussed those COVID costs with our general contractor because as I said, they are extremely variable. In some cases, we need to get to the end of the project to determine if some of those costs are in fact COVID related or fall within our general contractor's purview or outside of it, and then we can true it up from there.*
> *So no, we have not received our COVID costs and they are ongoing. For example, for the past year, people may think it just started off with are we buying PPE and hand sanitizer for people. So no, those costs evolve and in some cases, we've had to procure extra trucks so not more than two people are riding in a truck together. We've had to buy test kits to ensure people are getting tested and properly sent to health authorities.*
> *So the nature of our COVID costs has been evolving over time and likely will continue to evolve until COD.*
> *MR. RUBENSTEIN: How is it you're prudently managing the project if all these new things and new expenses because of COVID are being incurred by your contractor, but you haven't asked how much is this costing to date to get a sense of what the magnitude of those costs could be?*
> *MS. TIDMARSH: As I said, I wouldn't say that we are not all of these costs and that we're letting these costs run up.*
> *Negotiations are extremely important when it comes to a change order with an EPC contractor. So we have a fixed price contract with Valard and some of those costs may in fact be eaten by Valard when it comes to COVID costs.*
> *So NextBridge and Valard need to have a conversation and negotiation on what Valard will in fact eat and what NextBridge will in fact eat and pass on in our construction cost variance account. So those costs have not been discussed and we don't know the quantum of those until COD.*[62]

However, if the Board does decide to grant NextBridge deferral account treatment, Hydro One submits that a separate variance account should be established for COVID-19-related costs only. The account should clearly set out what costs would qualify to be included and how the

[62] Transcript, Vol. 1, pp. 109-110

determination of whether the COVID-19 costs are OM&A or capital will be made. Any capital costs used to derive the revenue requirement entries to the account, must be clearly identified and explanations as to how COVID-19 impacted these costs. NextBridge must submit detailed calculations used, including all rates (e.g. interest, ROE, tax rates) utilized in the model to record the revenue requirement impact. The materiality threshold for these costs should be met on a stand-alone basis. Hydro One submits that the Board should be guided by the current Consultation on the Deferral Account – Impacts Arising from the COVID-19 Emergency[63] such that NextBridge is treated in a similar manner as all other transmitters and distributors when it comes to recovery of COVID-19 costs.

4.1.2 Construction Cost Variance Account – Revenue Requirement Difference Between Forecast Construction Costs & Actual Construction Costs

Hydro One submits that NextBridge should not be allowed to receive a variance account to recover construction cost differences between the forecast provided in this Application to complete the Project and actual construction costs. Hydro One's submission is based fundamentally on the historical record of this Project.

4.1.2.1 NextBridge's EWT Forecast Project Costs During Development Transmitter Designation

As previously discussed, NextBridge (formerly Upper Canada Transmission) was awarded the opportunity to complete the development phase of this Project as a result of the OEB's decision in the OEB-initiated proceeding to designate an electricity transmitter to undertake development work for the East-West Tie Line[64].

The criteria for selecting a proponent to undertake the development work of the Project were articulated by the OEB in its decision that assessed the bids of multiple proponents; and the proposed cost (including estimates for development, construction, operating and maintenance phases) was certainly one of the criteria considered by the OEB[65].

The NextBridge estimate that underpinned their winning bid to complete this Project with an originally proposed in-service date of December 2017[66] is at page 32 of the Decision and Order in that proceeding:

[63] EB-2020-0133
[64] EB-2011-0140 – OEB Decision and Order, Phase 2 , August 7, 2013
[65] EB-2011-0140 – OEB Decision and Order, Phase 2 , August 7, 2013, pp 8
[66] EB-2011-0140 – OEB Decision and Order, Phase 2 , August 7, 2013, pp 27

> *UCT's development cost estimate is $22.2 million (third lowest among the applicants) which is the same for the Reference Plan and Recommended Plan. Its construction cost estimate is $409 million for the Reference Plan and $378 million for the Recommended Plan[67].*

4.1.2.2 NextBridge's EWT Forecast Project After Project Delay Announcement Up To LTC

After the OEB Phase 2 Decision, on September 30, 2014, the Ontario Power Authority (now the Independent Electricity System Operator) sent a letter to the OEB opining that there is merit in delaying the in-service date of the EWT line from the originally contemplated 2018 in-service date to a 2020 in-service date.

> *The OPA believes that there is merit in extending the current in-service date of 2018 in order to allow for additional time to develop the East-West Tie Expansion project,* ***with a focused aim of reducing its cost (emphasis added)*** *[68].*

In response to the Project delay, on October 29, 2014, the OEB sent a letter to NextBridge explicitly requesting a revised development schedule that included the following at a minimum:

> *The revised development schedule must include, at a minimum:*
> - *The proposed in-service date for the line;*
> - *A revised development schedule, including past milestones achieved and future milestones with proposed completion dates*
> - *A proposal for the frequency of reporting to the Board*
>
> ***UCT should also consider the impact on costs of any revised development schedule (emphasis added)[69].***

On December 29, 2014, NextBridge provided a response on all the requested items with the exception of providing an update on costs. NextBridge wrote in the letter to the OEB that it would be in a better position to provide updates on cost after a decision was rendered on whether NextBridge could traverse Pukaskwa National Park[70] and stated that the update would be provided by May 15, 2015. However, on May 15, 2015, no estimate of the impact on costs was provided. To be fair, NextBridge did convey in that correspondence, that their development costs would double, ultimately increasing to over $40 million as a result of (i) an extended development period that had almost tripled in length to 53 months instead of 18 months to refine the project scope through consultation, engineering design and other activities, and (ii) advancing activities originally planned in the construction cost estimate of $409 million, which would lead one to reasonably understand construction cost would be reduced.

[67] EB-2011-0140 – OEB Decision and Order, Phase 2 , August 7, 2013, pp 32
[68] Ontario Power Authority letter to OEB, September 30, 2014
[69] Ontario Energy Board letter to NextBridge, October 29, 2014
[70] NextBridge letter to OEB, December 29, 2014

> *NextBridge seeks approval of incremental development costs of $23.2 million(nominal dollars) ("Extended Development Period Incremental Costs"). This amount is in addition to the Board-Approved Costs of approximately $22.4 million approved in the Phase 2 Decision. The total approved costs for the 53-month Extended Development Period would be approximately $45.6 million, compared to Board-Approved Costs for the original 18-month development period of approximately $22.4 million.* [71]

NextBridge did not inform the Board of the significant change in their construction costs until NextBridge filed their leave to construct application on July 31, 2017[72]. At that point, three years after the OPA's recommendation to extend the development period of the Project with the focused aim of reducing the cost of the EWT line, NextBridge filed a leave to construct Application with construction costs that exceed $770 million, or, in other words, more than $350 million greater than had been estimated four years earlier. This resulted in the Minister of Energy expeditiously requesting the IESO to reassess the need for the entire Project.

> *The scale of the cost increases is very concerning to the Ontario Government and it would be appropriate for the IESO to review all possible options to ensure that ratepayers are protected.*[73]

As the OEB is undoubtedly aware, Hydro One filed an alternative leave to construct application that was more cost-effective than NextBridge's. However, as stated much earlier in this submission, NextBridge successfully requested the Government to intervene so that the OEB could not make its own analysis and determination based on evidence at the hearing. However, it is important to note that the Order-in-Council stated the expectations that *the OEB will maintain its role in assessing the prudency of costs incurred by NextBridge throughout the construction of the line to ensure the project is built in a cost effective manner*[74].

Hydro One submits that there has been ample opportunity for NextBridge to update their costs since the filing of this Application. NextBridge has made it clear that 90% of the Project costs are under a fixed price contract; and though NextBridge has had four years since the filing of their leave to construct application to modify this estimate, they have not done so. In fact, NextBridge now states that there is no degree of error with their estimate.

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[71] NextBridge letter to OEB, May 15, 2015
[72] EB-2017-0182
[73] Minister of Energy Letter to the IESO, August 4, 2017
[74] Order-in-Council, January 30, 2019, pp. 2

> *MR. ELSAYED: So overall, I heard the term that there is no uncertainty in the project a number of times. So based on that discussion we just had, can you explain to me what this means, because I'm not sure if what I'm hearing indicates that the likelihood of overspend on this project is zero?*
> *MS. TIDMARSH: So NextBridge itself has no uncertainty. So we have a fully designed fully project. We have all of our major environmental permits that are needed. We have all our major land rights secured. We have all the things we need to construct the project, and we have been constructing it.*
> *The uncertainties that would arise are things that NextBridge does not know. So for example, we talked a little bit about if there was a storm and a tower came down because Mother Nature and northern Superior is very difficult.*
> *So if a tower comes down, that's an uncertainty and NextBridge at this point wouldn't know where that was, so that's an uncertainty. But NextBridge is certain on all the things that are part of its control, that it will be making the March 31, 2022, in-service date and its cost of the 737.*[75]

Given that the transmission line was to be designed and constructed to withstand a one-in-100 year event (a statistical measurement to assess extreme ice and wind events that have a 1% probability of occurring in any one year in Northern Ontario), Hydro One submits that in the unlikely event that such an event occurs, a Z-factor can address these remote risks and a CCVA is not required.

NextBridge insists in this Application that their forecast construction spend level from the Application is still reasonable. Given that the Project should be in-service in less than one year, it would be surprising if an event unknown to NextBridge's management at this time (outside the global COVID-19 pandemic and beyond the scope of a Z-factor) were to materially increase the cost of the Project.

This Project is not like other projects that have gone through a leave to construct hearing to a decision, and that fact and context are important to keep in mind. The OEB made this clear to NextBridge in their decision and order issued after the Order-in-Council.

> *Given the Directive, mitigation of ratepayer risk through a comparative analysis of two competing applications based on costs is no longer an option.*
>
> *The OEB remains concerned with the construction costs put forward by NextBridge. At designation, NextBridge's cost estimate for the construction of the transmission line was $409 million. By the time it filed its leave to construct application, NextBridge's construction estimate had increased to $737 million. NextBridge did not provide an updated construction cost estimate since filing its application nor did NextBridge submit a construction cost estimate associated with*

[75] Transcript, Vol. 3, pp. 142

> *a 2021 in-service date. During the oral hearing, NextBridge stated that if it did not have to accelerate to ensure a December 2020 in-service date, it could actually bring the construction costs in lower. This Decision and Order should not be taken as accepting the level of costs of the NextBridge-EWT Project for the purposes of recovery from ratepayers. NextBridge will have to demonstrate the prudence of its costs when seeking to recover those costs in the future.*[76]

NextBridge was originally granted designation to develop the EWT line with an-service date of December 2017. This designation was issued, in part, based on NextBridge's forecast construction cost of $409 million. In effect, if the OEB deems that all forecast construction costs of $742.4 million[77] are reasonable and prudent, NextBridge would have already been approved for a variance account well in excess of $300 million to address the exorbitant cost overruns. Approval of the cost overruns relative to the original $409 million estimate already undermines the integrity of the Phase 2 Decision. Approval of a further CCVA to capture the difference between this forecast and actual construction costs would further undermine the intent of the Order-in-Council that was already predicated on questionable documentation. For all the above reasons, combined with NextBridge's own repetitive assurance that their costs are "certain", Hydro One submits that the CCVA to capture the revenue requirement difference between the forecast construction costs and actual construction costs should be denied.

4.1.3 Construction Cost Variance Account – Costs Associated with Construction that Extend Past the In-service Date

Exhibit H, Tab 1, Schedule 1 outlines that these costs can be any directly related costs associated with construction that extend beyond the in-service date and provides environmental costs as an example.

As previously, discussed, whether these costs can be capitalized and not considered OM&A costs will be determined by the OEB. If the OEB does permit this component of the variance account to be established and to be capitalized, Hydro One submits the following context for the OEB's consideration in establishing the eligibility of costs to be tracked in this account.

(1) This account should be limited to environmental permitting compliance costs directly related to construction. In evidence, NextBridge provided no examples of any costs other than environmental permitting costs that would be captured in this account. Absent this qualification, this account would be analogous with allowing any costs directly related to construction after in-service. Hydro One submits that would be akin to the forecast

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[76] EB-2017-0182 – OEB Decision and Order – February 11, 2019 – pp.7

[77] Exhibit C, Tab 1, Schedule 1, pp. 2, Table 1 construction costs of $737.1 million, plus development costs of $31.2 million and phase shift costs of $5.3 million.

construction versus actual construction cost variance account discussed in Section 3.1.2 above that should not be permitted for the aforementioned reasons.

(2) Despite having over one year to update forecasts to reflect conditions imposed by the EA, any environmental permitting compliance costs tracked in this account should be limited to costs imposed by the permitting agency or the Ministry of Environment, Conservation and Parks. In other words, this account should be for items that were imposed by the regulator and/or permitting agency and not for commitments made by NextBridge as part of consultation activities. Hydro One submits that if NextBridge had made the commitments as part of their consultation effort, the cost estimate provided in this Application to complete these increased environmental obligations should reflect these commitments.

During cross-examination by Hydro One regarding the existing EWT lines lack of bird excrement deterrents, and right-of-way cameras for that matter, NextBridge said there is an environmental requirement to have such deterrents on transmission lines built today.

> *MR. ENGELBERG: Thank you. I have a question for Mr. Mayers now.*
> *Mr. Mayers, in your testimony yesterday you mentioned that bird deterrents are being considered. What will ultimately trigger that investment?*
> *MR. MAYERS: First off, we have the requirement to install bird deterrents per our amended EA...*[78]
> *MR. RAFFENBERG: If I could just add to what Mr. Mayers said. Bird deterrents were part of our amended EA, so I would gather that if you were building that line today, there would be the same condition for that line*[79].

It is unclear whether this is a broad environmental regulator requirement or if this was something that was committed to by NextBridge in the EA. It is also unclear why NextBridge will be installing these deterrents after the asset has been energized if (1) it was indeed a condition of the amended EA and (2) as NextBridge confirmed in interrogatory responses, it is more complex to install bird deterrents after energization.

> *If the line is in-service, bird deterrents can be installed using a hot stick, but are typically installed by helicopter for efficiency. They can also be installed manually if line is deenergized.*[80]

[78] Transcript, Vol. 2, pp.158
[79] Transcript, Vol. 2, pp. 160
[80] Exhibit I.NextBridge.STAFF.37 pp 2

Finally, if the OEB agrees with Hydro One on the two previous sub-accounts requested, that would mean that the only post-in-service costs recorded in the CCVA would be related to conditions imposed by an environmental regulator or permitting agency. As with requests to establish a deferral account, the onus is on NextBridge to confirm that they have met the Board's criteria of causation, materiality and prudency. NextBridge has provided no cost forecast to allow the OEB to determine whether the materiality threshold has been met for the establishment of this account.

4.2 Taxes or Payment In Lieu of Taxes Variance Account

Hydro One's submission on this variance account request is that tax impacts resulting from a change in tax-exempt status of the partners of NextBridge that is caused by their own actions should not be the expense of ratepayers. OEB approval of the NextBridge proposal as filed, would be inconsistent with the recent NRLP and B2M LP decisions that approved the same account without this cost.

4.3 Z-Factor

Hydro One does not oppose NextBridge's request for a Z-factor. However, in establishing the framework for eligible costs for consideration under a Z-factor, Hydro One submits, as described in the filing guidelines, that NextBridge must **provide a clear demonstration that their management could not have been able to plan and budget for the event** (emphasis added) and that the harm caused by extraordinary events is genuinely incremental to their experience or reasonable expectations, e.g., weather-related events should be limited to items that are reported to be more rare than a one-in-100-year event in Northern Ontario.

5.0 CONCLUSION

Hydro One's submissions in this revenue requirement Application reflect the importance of this proceeding and the effects that the Board's decision will have on the Ontario electricity industry and ratepayers alike.

It is no secret that the province is continuing to explore future competitive transmission procurement, and this is the first decision that was intended to flow from the OEB Policy that sought to encourage new entrants to transmission in Ontario to drive economic efficiency for the benefit of ratepayers. However, it is clear, based on the record of this Application and the events that preceded the filing of this Application, that the goal of economic efficiency has been unsuccessful.

The OEB will need to balance the NextBridge construction cost estimate of $409 million that underpinned the Phase 2 Decision with a contemplated 2018 in-service date, with the current forecast of $774 million with a March 2022 in-service date. Going forward, it would be inappropriate for a proponent to be awarded a project based on a significantly underestimated construction cost forecast. Moreover, it is the OEB's mandate to ensure that these cost escalations are in the public interest. In part, the increase in costs is undoubtedly driven by the delay that ensued subsequent to the Phase 2 Decision that extended the development period significantly, i.e., inflationary cost pressures on labour and material. According to NextBridge's evidence, that Phase 2 Decision cost in 2022 dollars would be $489M[81]. However, it is also obvious based on the record that NextBridge ignored significant costs in their original bid, including Indigenous costs and interest during construction[82]. How the OEB addresses the significant deviation in costs from the Phase 2 Decision estimate and NextBridge's ability for recovery of those costs in light of the competitive proceeding will send a strong message to the industry. Furthermore, it is important to remember that the intent of the extended development period, as documented by the OPA, was to reduce the cost of the Project. It is clear that, based on the record of this Application, that goal was also unsuccessful.

In reviewing the $774 million estimate, Hydro One asks the OEB to keep in mind that given the Order-In-Council sought and obtained by NextBridge, the OEB was unable to mitigate ratepayer risk through a comparative analysis of two competing applications based on costs. Hydro One submits that the OEB will need to keep in mind that only 60% of the Project scope has been completed and that there is no contingency in the forecast $774 million. Furthermore, based on the latest quarterly report, only 25% of the forecast costs remains available to execute the Project[83].

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[81] Exhibit JT3.1
[82] EB-2017-0182 – Exhibit B, Tab 9, Schedule 1
[83] EB-2017-0182 – April 22, 2021 Report for March 31, 2021.

Additionally, NextBridge has sought a CCVA to capture (i) revenue requirement differences between the forecast construction costs and actual construction costs (ii) COVID-19 costs, and (iii) post-in-service cost associated the Environmental Assessment and Overall Benefits Permit requirement. These costs will ultimately be sought to be recovered from ratepayers, too. Despite the Phase 2 Decision, the multiple reporting requirements imposed by the OEB and the estimates underpinning the Order-In-Council, based on the indicators in this Application, it appears that the aim to deliver the Project for $774 million, $350 million greater than the Phase 2 Decision construction cost estimate may be unsuccessful as well.

Given these opportunities missed by NextBridge, the OEB has been asked to rely on the Benchmarking Study to validate the reasonableness of both OM&A and capital costs. Hydro One's submissions on this matter are provided in Section 2.0 of this submission. Hydro One opposes the misrepresentation of the Ontario projects in the Benchmarking Study. Hydro One suggests that the OEB closely review the Benchmarking Study because it does not appear to represent a reasonable comparison of NextBridge's costs relative to those of the comparator groups and the conclusions reached in the Benchmarking Study are derived by utilizing admittedly incorrect and incomplete information. Additionally, with respect to capital costs, the conclusions in the Benchmarking Study are predicated on the inconsistent application of base cost benchmarking multiples that were derived from the 2014 Western Electricity Coordinating Council Study by Black and Veatch ("2014 WECC Study")[84]. As to OM&A, the Benchmarking Study reduces NextBridge's OM&A costs on the basis that Indigenous costs are unique to NextBridge, which is a fundamental misrepresentation, given that they are not unique to the EWT. The onus, therefore, is on the Applicant to justify why costs that differ from the comparator group should be recovered from ratepayers. The Applicant has failed to do that.

With respect to the Revenue Cap Index proposed by the Applicant, Hydro One's submissions on this matter are provided in Section 3.0 of this submission. Hydro One submits that, at a minimum, the Board should consider imposing a Revenue Cap Index with the same parameters as those approved for NRLP. Doing so would allow some security to NextBridge that it can comfortably endure certain cost impacts in its formative years and still earn its expected returns. However, this will also ensure that excessive profits, evident in NextBridge's current request, are not unduly earned if its cost forecasts turn out to be close to correct as submitted. Hydro One further submits that the OEB should also reject NextBridge's ten-year proposal because of the extent of overearning in NextBridge's proposal in the latter half of the ten-year period.

[84] Exhibit I.NextBridge.STAFF.50 Attachment

With respect to the requested deferral and variance accounts, Hydro One's submissions on this matter are provided in Section 4.0 of this submission. In summary, focusing on the most substantive comments, Hydro One submits that:

- NextBridge should not be allowed to receive a variance account to recover construction cost differences between the forecast provided in this Application to complete the Project and actual construction cost;
- Should the OEB approve the establishment of a variance account to track capital costs associated with construction that extend past the in-service date, those costs should be limited to environmental permitting conditions imposed on NextBridge;
- NextBridge should create a separate variance account for COVID-19 costs, and the eligibility framework and method in how these costs will be recovered should be consistent with what is being established for capital costs for all other transmitters through the Consultation on the Deferral Account – Impacts Arising from the COVID-19 Emergency[85].
- Tax impacts resulting from a change in tax-exempt status of partners of NextBridge that is caused by their own actions should not be eligible for inclusion.

ALL OF WHICH IS RESPECTFULLY SUBMITTED by

Michael Engelberg

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Michael Engelberg
Counsel for Hydro One Networks Inc.

[85] EB-2020-0133