Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

April 27, 2021

Ms. Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Long:

Re: Ontario Energy Board (OEB) Staff Submission
Upper Canada Transmission, Inc. (Operating as NextBridge Infrastructure LP)
Application for approval of electricity transmission revenue requirements for the period from April 1, 2022 to December 31, 2031
OEB File Number: EB-2020-0150

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 4.

Yours truly,

Original Signed By

Michael Price
Project Advisor, Generation & Transmission

Encl.

cc: All parties in EB-2020-0150

ONTARIO ENERGY BOARD

OEB Staff Submission

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

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

EB-2020-0150

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Contents

1 Summary of Application

Upper Canada Transmission, Inc. (operating as NextBridge Infrastructure LP) filed a Custom Incentive Rate-setting (Custom IR) application with the Ontario Energy Board on November 4, 2020, under section 78 of the *Ontario Energy Board Act*, *1998*, seeking approval for rates that NextBridge will charge for electricity transmission, beginning April 1, 2022 and for each following year through to December 31, 2031 (Application). The Application also seeks related orders approving the:

- recovery of $31.24 million in development costs approved by the OEB in the Decision and Order dated December 20, 2018[1]
- recovery of $5.331 million of pre-July 31, 2017 costs identified in the Decision and Order dated December 20, 2018[2] as eligible for consideration as construction costs (referred to as Phase Shift Costs)
- recovery of $737 million of construction costs tracked in the Construction Work In Progress Account 2055 (CWIP Account), established pursuant to the Decision and Order dated February 11, 2019[3]
- recovery of $1.2 million in spare equipment costs
- inclusion of NextBridge's proposed revenue requirement for 2022 (for nine months of service beginning on April 1, 2022) in the Uniform Transmission Rate (UTR) for the Network pool
- use of a Custom Incentive Regulation Model as a framework to annually adjust transmission rates for the period effective January 1, 2023 to December 31, 2031, which includes a revenue requirement determined by using a cost of service, forward-looking test year
- Accounting Orders establishing the following:
    - *Taxes or Payments in Lieu of Taxes Variance Account:* This account would track any revenue requirement impact of legislative or regulatory changes to tax rates or rules or tax-exemption status of partners
    - *Revenue Differential Variance Account* (RDVA)*:* This account would track the revenue impact, should there be a difference from the currently planned in-service date
    - *Construction Cost Variance Account* (CCVA)*:* This account would track any difference in revenue requirement resulting from the difference

[1] EB-2017-0182
[2] EB-2017-0182
[3] EB-2017-0182

between forecasted construction costs in the Application and the actual final project construction costs, including COVID-19 related capital costs and post-construction environmental costs

- *Debt Rate Variance Account* (DRVA)*:* This account would track the difference in the long-term and short-term debt rates used in the calculation of NextBridge's revenue requirement in the application and the actual long-term and short-term debt rate secured by NextBridge to finance the project

NextBridge has requested that the OEB's rate order be effective one day after the East-West Tie line comes into service, which is currently expected to occur on March 31, 2022.NextBridge is seeking approval to set its 2022 revenue requirements on a cost of service basis. The revenue requirement is for a full year's cost of service based on a Test Year of April 1, 2022 to March 31, 2023. NextBridge proposes a base revenue requirement of $55.7 million, which will be prorated in 2022 to $41.8 million to reflect the fact that the transmission line is expected to be in service for only nine months of 2022. The base revenue requirement and rate adjustments are proposed to be implemented through the OEB's approved UTR for the Network pool.

Over the 2022-2031 Custom IR term, NextBridge is seeking to recover in rates, through its proposed Custom IR Index, a base revenue requirement of $ 596.3 million.[4]

NextBridge estimates that its 2022 rates revenue requirement represents 3.31% of the total revenue requirement across all transmitters once added to the UTR. The revenue requirement will result in a total bill impact of approximately 0.32% for a typical residential customer consuming 750 kW per month.

Notice of the Application was published in December 2020. The approved intervenors in the proceeding are the Association of Major Power Consumers in Ontario, Building Owners and Managers Association Toronto , Consumers Council of Canada, Energy Probe Research Foundation (Energy Probe), Hydro One, the Independent Electricity System Operator (IESO), Michipicoten First Nation, School Energy Coalition (SEC) and Vulnerable Energy Consumer Coalition. Interrogatories were submitted by intervenors and OEB Staff by January 7, 2021. NextBridge provided responses to the interrogatories on January 27, 2021.

The OEB issued an approved issues list for this proceeding on February 9, 2021. A settlement conference was held on February 16,18, and 25, 2021. On March 4, 2021, NextBridge advised the OEB that a settlement had not been reached by the parties.

An oral hearing was held on March 29, 30, and 31, 2021.

[4] Exhibit E / Tab 1 / Schedule 1 / p. 2

NextBridge filed its Argument-in-Chief on April 9, 2021.

2 Background

In August 2013, NextBridge was designated[5] as the transmitter to complete development work of a new East-West Tie transmission line. The new East-West Tie line will be a 450 km double circuit 230 kV transmission line between Thunder Bay and Wawa, in northwestern Ontario. The new line will connect to existing Hydro One Networks Inc. (Hydro One) transformer stations.

On January 30, 2019, the Minister of Energy, Northern Development and Mines wrote to the OEB informing it that a directive to the OEB was being issued to amend NextBridge's electricity transmission licence to include a requirement that it develop and construct the East-West Tie line.

By Decision and Order dated February 11, 2019, NextBridge was granted leave to construct the East-West Tie line[6] and had its electricity transmission licence amended to require it to:

> *Develop, seek approvals in respect of, and proceed with immediacy to construct, expand, or reinforce the new transmission line between Wawa and Thunder Bay*[7]

[5] EB-2011-0140, Decision and Order, August 7, 2013
[6] EB-2017-0182
[7] EB-2019-0088

3 Submission Summary

The following table provides a summary of the main issues addressed in OEB staff's submission with respect to the Application. OEB staff has provided a high-level estimate of the impacts of its proposed changes on the revenue requirement and other items (as appropriate). The estimates with respect to the impact on revenue requirement were made in isolation of each other, and there is expected to be an interaction between many of the proposed changes which makes the cumulative impact less than the sum of the individual components. OEB Staff estimates that the overall impact to the revenue requirement is a decrease of $110.2 million if all staff proposals are accepted.

Table 1 – Submission Summary

Issues	Estimated Impact on 2022-2031 Proposals
General • OEB staff recommends that the OEB require NextBridge to receive sign-off by a Professional Engineer in Ontario, ensuring consistency of the project's technical specifications and design with the minimum technical requirements outlined in the OEB's East-West Tie Line designation process.[8] • OEB staff agrees with NextBridge's proposal that the effective date should be one day after the East-West Tie line comes into service and OEB staff supports inclusion in the UTRs effective April 1, 2022.	
Revenue Cap Application - Custom IR Framework • OEB staff submits the revenue requirement would decrease if the proposed fixed 2% inflation factor is not applied to fixed components and there is excess return on equity or return on debt due to declining asset value. • OEB staff submits that the inflation factor for NextBridge for 2023 to 2031, to the extent it is applicable in the Custom IR framework, should be	$68.4 million reduction[9]

[8] The following link describes the OEB's involvement with the East-West Tie line designation process, and includes the related case numbers: [East-West Tie Line | Ontario Energy Board (oeb.ca)](https://www.oeb.ca).
[9] Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 68 - $311.6 million Return on Equity Based on NextBridge's Proposed Revenue Requirement minus $243.2 million Deemed Return on Equity on Average Rate Base using 2020 Parameters

based on the annual OEB inflation factor for all electricity transmitters. • OEB staff submits that the cost of capital should be updated to use the current 2021 OEB-approved parameters. • OEB staff submits that there should be an annual reduction to the capital component of the rate of return to reflect the declining asset value and fixed depreciation. Staff has developed two potential proposals for the OEB's consideration: o Staff proposal 1 - a 0.0% inflation factor and a 0.5% stretch factor applied to both capital and OM&A o Staff proposal 2 - a 0.0% inflation factor and a 0.75% stretch factor applied to capital, and the transmitter inflation factor with a 0.3% stretch factor applied to OM&A • OEB staff recommends that an earnings sharing mechanism be put in place that would see any annual overearnings of more than 100 basis points above OEB-approved levels shared 50 per cent with customers. • OEB staff supports NextBridge's proposed update to reflect its actual debt rates in its 2023 filing for 2024 revenue requirements, and the disposition of variance account balances. • OEB staff supports a 9 year and 9-month length term only if appropriate adjustments are made to NextBridge's proposal to avoid overearnings.	$12.5 million reduction in proposed revenue requirement using 2021 cost of capital parameters
Transmission System Plan • OEB staff submits that the $0.23 million expense planned for the test year should be absorbed into the project construction cost budget and not added to rate base. In OEB staff's view, the Transmission System Plan adequately addresses the newly built condition of the transmission line. The prudence of any capital	$0.23 million reduction in test year

expenditures over the term will be considered in NextBridge's 2032 rebasing application.	
Performance • OEB staff takes no issue with the performance measures and associated targets other than submitting that the return on equity should have a target of 8.34% based on the 2021 OEB cost of capital.	
Operations, Maintenance and Administration • OEB staff is of the view that the regulatory, compliance and administration costs should be reduced by $0.783 million. • OEB staff takes no issue with the $0.58 million Ontario Corporate Minimum Tax expense proposed by NextBridge. • OEB staff takes no issue with NextBridge's depreciation policy and the calculated annual depreciation expense using that policy.	$0.783 million reduction in test year
Rate Base and Cost of Capital • OEB staff supports the recovery of $31.2 million of previously approved development costs. • OEB staff submits that project construction costs should be reduced from $737.3 million to $713.7 million. • OEB staff submits that the proposed $0.23 million of in-service additions be denied. • OEB staff does not oppose recovery of the $5.3 million phase shift costs and the $1.2 million spare strategy costs. • OEB staff submits that using the sub-account for "Other Costs" under the OEB's generic Account 1509 is a more appropriate approach to record the associated revenue requirement of the COVID-19 related costs.	$23.6 million reduction in construction costs and in-service additions resulting in a $16 million decrease in IR Term revenue requirements

• OEB staff has no concerns regarding the proposed timing of the review and disposition of the COVID-19 related costs and the associated revenue requirement, given that this allows for actual, audited figures to be presented and aligns with the timing of the disposition of the Debt Rate Variance Account.	
Deferral and Variance Accounts • *Taxes or Payments in Lieu of Taxes Variance Account, Account 1592*- OEB staff notes that there is no need to apply for this variance account in the application. OEB staff submits that it does not support NextBridge's proposal to use Account 1592 to record the impact of the change in the tax-exempt status for Bamkushwada, LP (BLP) • *Revenue Differential Variance Account* - Under OEB staff's proposal, NextBridge's revenue requirement would not be included in uniform transmission rates until the project is in-service. Therefore, there would be no need to track any revenue in advance of the in-service date. The RDVA is therefore not required. • *Capital Cost Variance Account* - OEB staff does not support NextBridge's proposal regarding any of the three components under this account. OEB staff submits that the establishment of this account is not appropriate • *Debt Rate Variance Account* - OEB staff generally supports the establishment of this account, albeit with two conditions	
Cost Allocation • OEB staff agrees with NextBridge's proposed methodology for cost allocation.	N/A
Total Impact on 2022-2031 IRM Revenue Requirement ($)	$110.2 million reduction in revenue requirements

The submission that follows is organized based on the approved issues list for this proceeding.[10]

[10] Decision on Issues List / February 9, 2021 / Schedule A

4 General (Issue 1)

4.1 Has NextBridge responded appropriately to all relevant OEB directions from previous proceedings? (Issue 1.1)

NextBridge is a new transmitter and this is its first revenue requirement application. Consequently, there are no OEB directions from any previous NextBridge cost of service proceedings that need to be considered as part of this Application. However, there are requirements related to the project as a result of the designation proceeding, amendments to NextBridge's licence, and the leave to construct decision and order.

As part of the designation proceeding for the East-West Tie line, the OEB set out minimum technical requirements to ensure that all proposed transmission line designs would be acceptable from a safety and reliability perspective.[11] NextBridge has known about these technical requirements since the specifications were released in November 2011. OEB staff is of the view that NextBridge should be required to confirm, as a condition of the rate decision and order, that its East-West Tie line meets or exceeds the minimum technical requirements outlined in the OEB's East-West Tie Line designation process.

NextBridge's licence includes the following conditions[12,13]:

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

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11 http://www.ontarioenergyboard.ca/oeb/_Documents/EB-2011-0140/pres_OEB%20Minimum%20Requirements.pdf
12 EB-2011-0222
13 Exhibit A / Tab 8 / Schedule 4 / pp.1-2

project referred to in paragraph 13.1 until such date as that project comes into service.

As a result of the reporting required by NextBridge's licence, quarterly reports have been filed since August 2019, including the most recent report for the January – March 2021 period. NextBridge is complying with these requirements on an ongoing basis.

As part of leave to construct approval being granted by the OEB, NextBridge was required to comply with the following orders:

2. NextBridge's leave to construct is subject to fulfillment of the requirements of the System Impact Assessment and Customer Impact Assessment and all other necessary approvals, permits, licences, certificates and rights required to construct, operate and maintain the proposed facilities.
3. Independent of any reporting requirements under NextBridge's licence, NextBridge shall advise the OEB of any proposed material change in the NextBridge-EWT Project in respect of routing, construction schedule, necessary environmental approvals, and all other approvals, permits, licences, certificates and rights required to construct the proposed facilities.
4. NextBridge shall coordinate with Hydro One to align the in-service date of the NextBridge-EWT Project with the in-service date for the Hydro One-Station Upgrades Project.

OEB staff submits that NextBridge is also complying with these requirements on an ongoing basis.

4.2 Are all elements of the proposed revenue requirement and their associated total bill impacts reasonable (Issue 1.2)?

NextBridge estimates that the addition of the East-West Tie line in 2022 transmission rates will result in a net impact on average transmission rates of 3.31% and an average transmission connected customer bill impact of 0.25%.[14]

The 2022 revenue requirement will result in a total bill impact of less than 0.32% for a typical residential customer consuming 750 kW per month.[15]

OEB staff has made several arguments that reduce the proposed revenue requirement, which have the impact of reducing rates and bill impacts. OEB staff has calculated that its arguments have the impact of reducing NextBridge's revenue requirement by

[14] Exhibit A / Tab 3 / Schedule 1 / p. 22
[15] Exhibit J / Tab 1 / Schedule 1

approximately $110.2 million over the IR term. The revenue requirement reduction for the test year is $3.5 million for 9 months.

4.3 Is the proposed effective date of April 1, 2022 and proposed timing for inclusion in the UTRs appropriate (Issue 1.3)?

NextBridge's application proposes a test year that establishes the base revenue requirement and the framework that establishes the IR period. NextBridge is proposing that the 9-month prorated 2022 revenue requirement of $41.8 million be included in 2022 UTRs effective January 1, 2022.[16] Any difference between the April 1, 2022 planned effective date and the actual in-service date would be charged to the RDVA.

NextBridge requests that the OEB's rate order be effective one day after the East-West Tie line comes into service, which is scheduled to occur on March 31, 2022. To address the possibility that the requested rate orders cannot be made effective by that time, NextBridge requests an interim order or orders to implement transmission rates and charges as of April 1, 2022, and the establishment of the RDVA to recover any differences between the interim UTR rates and the final UTR rates reflecting the OEB's revenue requirement order in this Application.

On October 25, 2018, Niagara Reinforcement LP (NRLP) filed an application with the OEB seeking approval for a new electricity transmission revenue requirement to be effective on an interim basis on January 1, 2019, even though the line was not coming into service until later in 2019. NRLP requested approval of an interim revenue requirement to be included in the calculation of 2019 UTRs in order to provide monthly revenue for NRLP. In that proceeding, the OEB decided that the request for approval for an interim revenue requirement effective January 1, 2019 was premature, and therefore was not approved.[17]

OEB staff observes that UTRs are normally set annually to be effective January 1 of the following year. As a result, absent a deviation from the normal practice, NextBridge's revenue requirement would not be included in the UTRs until January 1, 2023. Moreover, given the precedent in NRLP, the OEB is unlikely to include NextBridge in the UTRs before the East-West Tie line comes into service.

OEB staff notes that if the UTRs include $41.8 million effective January 1, 2022 then NextBridge will receive revenue in advance of its project being in service during 2022. Delaying NextBridge's inclusion in the UTRs until 2023 poses problems for NextBridge's indigenous partner, BLP. Specifically, NextBridge has stated that BLP needs project revenues timed with the East-West Tie line in-service date in order to secure funding for their portion of the East-West Tie line or make payments under the financing.[18] As a

[16] Exhibit A / Tab 3 / Schedule 1 / p. 5
[17] EB-2018-0275, Decision on Interim Rates, December 20, 2018
[18] Exhibit I. NextBridge / Staff.5(c) / p. 2.

result, OEB staff supports a deviation from the normal practice in this case to ensure BLP's participation in the project.

OEB staff further notes that Wataynikaneyap Power LP (Watay) is constructing another major transmission line project that is expected to come into service around the same time.[19] As a result, OEB staff submits that the OEB may want to consider an update to the UTRs in the spring of 2023 to incorporate NextBridge (and depending upon its ultimate in-service date, Watay).

As a result, OEB staff suggests that there is an opportunity to deviate from the normal practice for establishing UTRs and include NextBridge (and Watay) in the UTRs effective April 1, 2022, assuming both assets are in service at this time. OEB staff submits that the UTRs could be set on an interim basis for all existing transmitters in the province for January 1, 2022, and then once NextBridge and Watay's assets are in-service on or around April 1, 2022, the UTRs could be set on a final basis, with both of these two greenfield transmitters included. NextBridge and Watay could keep the OEB informed as to whether they are on track to meet their planned in-service dates and could notify the OEB once the asset is officially in-service (i.e. is used and useful).

OEB staff notes that under this proposal, NextBridge's revenue requirement would not be included in uniform transmission rates until the project is in-service. Therefore, there would be no need to track any revenue in the RDVA, and this account would not be required.

5 Revenue Cap Application (Issue 2)

5.1 Is the proposed Incentive Rate methodology appropriate (Issue 2.1)?

The OEB's *Handbook for Utility Rate Applications* (Rate Handbook) establishes an outcomes-based approach that provides flexibility in rate-setting options for utilities.[20] It sets out the OEB's expectation that utilities are to demonstrate ongoing continuous improvement in their productivity and cost performance while delivering on system reliability and quality objectives. The Rate Handbook notes that utilities are expected to demonstrate sustainable improvements in their efficiency and in doing so will have the opportunity to earn a fair return, and that the OEB will monitor utility financial performance to assess continuing financial viability and to determine whether returns are excessive.[21]

[19] EB-2018-0190, Watay LP Semi-Annual Report on CWIP Account and Backup Supply Arrangements, April 22, 2021
[20] OEB Handbook for Utility Rate Applications, October 13, 2016, p.3
[21] OEB Handbook for Utility Rate Applications, October 13, 2016, p.3

Revenue Cap Index

The annual revenue requirement methodology proposed by NextBridge is based on the Revenue Cap IR methodology and modified by NextBridge for purposes of its custom incentive rate-setting proposal.

To establish the annual revenue requirement for 2023 to 2031, a Custom IR Index is proposed in which the revenue requirement for 2023 is equal to the revenue requirement in the Test Year, inflated by the Custom IR Index.

The Custom IR Index is expressed as:

Custom IR Index = I − X

Where:

"I" is the Inflation Factor, based on the OEB's inflation factor for incentive rate setting

"X" is the Productivity Factor, which excludes a Stretch Factor

NextBridge proposes to use the OEB's electricity distributor inflation factor (I) for 2020, which is 2%. The proposed inflation factor is an external measurement of industry labour/non-labour weights with a weighted sum of:

- 70% of the annual percentage change in Canada's GDP-IPI
- 30% weight of the annual percentage change in the Average Weekly Earnings for workers in Ontario[22]

NextBridge also proposes to adopt a 0% total productivity factor for the test year.[23]

NextBridge is proposing a fixed 2% inflation factor for 2023 to 2031[24] rather than the annual OEB transmitter inflation factor, and a 0% (X) Productivity Factor, rather than any updated base productivity factor that may be provided by the OEB over the course of the next 10 years, to be applied annually over the 2023 to 2031 period.[25]

The X factor also reflects a proposal for a 0% stretch factor for the entire IR term.

In its Application, NextBridge's 2022 base revenue requirement of $55.7 million as shown in Table 2 is based on the outdated 2020 OEB cost of capital parameters. Contrary to the OEB's *Chapter 2 Filing Requirements for Electricity Transmission Applications* (Filing Requirements)[26], NextBridge has not updated its 2022 base

[22] Exhibit A / Tab 3 / Schedule 1 / p. 6
[23] Exhibit A / Tab 3 / Schedule 1 / pp. 5-6
[24] Exhibit I. NextBridge / Staff.3 / p. 2
[25] Exhibit A / Tab 3 / Schedule 1 / p. 22
[26] Filing Requirements for Electricity Transmission Applications / Chapter 2 Revenue Requirement Applications / p. 33.

revenue requirements to reflect the updated 2021 cost of capital parameters.[27] OEB staff's concerns with using 2020 OEB cost of capital parameters is discussed under issue 6.3.

Table 2 - NextBridge's Test Year Revenue Requirement[28]

Component	Amount ($ million)
Operations, Maintenance and Administration	4.94
Depreciation	9.26
Taxes	0.60
Return on Capital	41.0
Annual Revenue Requirement	**55.7**

Over the 2022-2031 Custom IR term, NextBridge is seeking to recover in rates, through its Custom IR Index, a revenue requirement of $596.2 million.[29]

OEB staff's submission on the proposed Custom IR framework is divided into two main categories in this section: (a) concerns with the proposed Custom IR Index; and (b) the required adjustments to the proposed Custom IR Index and proposed Custom IR framework to resolve OEB staff's concerns.

OEB Staff's Concern with the Custom IR Framework

NextBridge is seeking approval of a proposed Custom IR framework, which mechanistically inflates revenue requirements each year by a fixed 2% and has a productivity factor, including a stretch factor, of 0% from 2023 to 2031.

OEB staff assessed this Application with a view to ensuring that the proposal results in just and reasonable rates.

NextBridge's proposal will result in revenues well in excess of its actual costs, and therefore the proposal would result in rates that are not "just and reasonable" in OEB staff's view. NextBridge's proposal fails to take into account that its actual depreciation, taxes, and capital are essentially fixed on an annual basis. The only component underpinning its revenue requirement that is subject to fluctuations on an annual basis, is OM&A. As described later in this section, even OM&A is not fully exposed to inflationary increases due to the fixed nature of some costs and, in any event, makes up less than 10% of the total revenue requirement.

OEB staff calculated that if the revenue requirement was calculated taking into account depreciation, taxes and capital being fixed on an annual basis and only OM&A increasing by the annual 2% inflation proposed by NextBridge, the revenue requirement

27 Exhibit I. NextBridge / Staff.67 / p. 1
28 Exhibit A / Tab 3 / Schedule 1 / p. 5
29 Exhibit E / Tab 1 / Schedule 1 / Table 3 / p. 2

would drop to $547.7 million. This means that NextBridge's proposal for the mechanistic, fixed 2% annual inflation adjustment for the IR term applying to all components, including those that are fixed, results in an excess revenue of $48.5 million ($596.2 million minus $547.7 million). The amount of excess revenue could be reduced if the inflation factor was not fixed at 2% and a stretch factor was included, as proposed by staff later in this submission. Table 3 below presents the details of OEB's staff's scenario where the proposed 2% inflation factor only applies to OM&A, and not the fixed components.

Table 3 - Revenue Requirement[30]

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	TOTAL[31]
NextBridge Proposed Rates Revenue Requirement($M)	41.8	56.8	58.0	59.1	60.3	61.5	62.8	64.0	65.3	66.6	596.2
OM&A	3.7	5.0	5.1	5.2	5.3	5.5	5.6	5.7	5.8	5.9	52.9
Fixed Depreciation	7.0	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	90.3
Taxes	0.4	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	5.2
Return on Capital	30.7	41.0	41.0	41.0	41.0	41.0	41.0	41.0	41.0	41.0	399.3
Total Revenue Requirement	41.8	55.9	56.0	56.1	56.1	56.2	56.4	56.5	56.6	56.7	547.7[32]

*total numbers may not add due to rounding

In addition to the excess return of $48.5 million resulting from the annual inflation adjustment applying to fixed components as noted above, NextBridge's declining asset value on an actual basis, also contributes to excess returns. Under NextBridge's proposal, net fixed assets remain constant at 2022 levels for the entire 10 year IR term for purposes of determining its revenue requirement and UTRs.

As shown in Table 4 below, the average rate base for the 2022 test year is $770.4 million. Each subsequent year the average rate base is depreciated. The average rate base is $733.0 million during the IR term. With a 2020 OEB deemed ROE of 8.52% on 40% of the rate base, the total permitted ROE as shown in Table 5 would be $243.2 million. In NextBridge's proposal, by having the fixed inflation factor apply to the 2022 revenue requirement that is underpinned by a fixed rate base of $770.4 million, NextBridge would receive an ROE of $256.0 million over the IR term. This is an excess ROE of $12.8 million ($256.0 million minus $243.2 million) compared to what would be permitted based on the average rate base.

[30] Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 62
[31] Total numbers may not add due to rounding. This is applicable to total numbers in all tables
[32] Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 62, rounding correction from 548.1 to 547.7

Table 4 - Transmission Rate Base – Return on Equity [33]

($M)	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Average Rate Base	770.4	765.8	756.6	747.4	738.2	728.9	719.6	710.4	701.1	691.9	
Return on Equity @8.52% on $770.4M	19.7	26.3	26.3	26.3	26.3	26.3	26.3	26.3	26.3	26.3	256.0
Return on Equity @8.52% on Average Rate Base	19.7	26.1	25.8	25.5	25.2	24.8	24.5	24.2	23.9	23.6	243.2

Similarly, NextBridge's proposal results in an excess return relative to actual long-term debt costs. As shown in Table 5 below, with a 2020 OEB long-term debt rate of 3.21% on 56% of the average rate base, the total permitted return on long-term debt would be $128.3 million. In NextBridge's proposal, by having the fixed inflation factor apply to the 2022 revenue requirement representing a fixed rate base of $770.4 million, NextBridge would receive long-term debt of $134.3 million over the IR term. This is an excess amount on long-term debt of $6.0 million ($134.3 million minus $128.3 million) compared to what would be permitted based on the average rate base over the term of the plan.

Similarly, NextBridge's proposal results in an excess return relative to actual short-term debt costs. As shown in Table 5 below, with a 2020 short-term debt rate of 2.75% on 4% of the average rate base, the total permitted return on short-term debt would be $7.9 million. In NextBridge's proposal, by having the fixed inflation factor apply to the 2022 revenue requirement representing a fixed rate base of $770.4 million, NextBridge would receive short-term debt of $8.2 million over the IR term. This is an excess amount on short-term debt of $0.3 million ($8.2 million minus $7.9 million) compared to what would be permitted based on the average rate base.

[33] Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 64

Table 5 - Transmission Rate Base - Return on Debt[34]

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Average Rate Base	770.4	765.8	756.6	747.4	738.2	728.9	719.6	710.4	701.1	691.9	
Return on Long-term Debt @3.21% on $770.4M	10.4	13.8	13.8	13.8	13.8	13.8	13.8	13.8	13.8	13.8	134.3
Return on Long-term Debt @3.21% on Average Rate Base	10.4	13.8	13.6	13.4	13.3	13.1	12.9	12.8	12.6	12.4	128.3
Return on Short term Debt @2.75% on $770.4M	0.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	8.2
Return on Short term Debt @2.75% on Average Rate Base	0.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	7.9

In Summary, as shown in Table 6, based on consideration of the factors discussed above (i.e.) i) inflation not applying to fixed components and ii) using the average rate base calculated over the IR term), and using the 2020 cost of capital parameters proposed by NextBridge for illustrative purposes, the revenue requirement for NextBridge would be $527.8 million over the IR term, compared to the $596.2 million requested in NextBridge's application. This would be a reduction of $68.4 million.

[34] Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 66

Table 6 - Revenue Requirement based on Inflation not Applying to Fixed Components, Average annual Rate Base and 2020 Cost of Capital Parameters

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	TOTAL
NextBridge Proposed Rates Revenue Requirement($M)[35]	41.8	56.8	58.0	59.1	60.3	61.5	62.8	64.0	65.3	66.6	596.2
OM&A[36]	3.7	5.0	5.1	5.2	5.3	5.5	5.6	5.7	5.8	5.9	52.9
Fixed Depreciation[37]	6.9	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	90.3
Taxes[38]	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	5.2
Deemed Return on Debt Using Average Rate Base[39]	11.0	14.6	14.4	14.3	14.1	13.9	13.7	13.5	13.4	13.2	136.1
Deemed Return on Equity on Average Bate Base [40]	19.7	26.1	25.8	25.5	25.2	24.8	24.5	24.2	23.9	23.6	243.2
Total Revenue Requirement on Average Rate Base[41]	41.8	55.6	55.2	54.8	54.4	54.0	53.6	53.2	52.8	52.5	527.8

OEB staff submits that, excluding issues arising from the use of the out-dated 2020 cost of capital parameters which is discussed under issue 6.3, NextBridge's proposal would result in $68.4 million in excess revenue as a result of the following:

- $48.5 million due to a 2% fixed inflation factor applying to fixed components of the revenue requirement
- $12.8 million ROE resulting from not recognizing that rate base is declining
- $6.3 million return on long-term and short-term debt resulting from not recognizing that rate base is declining

NextBridge has proposed to mitigate the potential for overearning by funding a Transmission System Plan at a capital cost of $4.05 million from 2023 to 2031 with $0.28 million of depreciation absorbed by NextBridge.[42] NextBridge has also proposed that it would absorb any increases in excess of the forecast OM&A costs of $52.9 million over the IR term (Issues 2.2 and 5.1). In OEB staff's view, these offsets are

[35] Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 62
[36] Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 62
[37] Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 62
[38] Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 62
[39] Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 68
[40]Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 68
[41] Sum of OM&A, Depreciation, Taxes, Deemed Return on Debt and Deemed Return on Equity on Average Rate Base using 2020 cost of capital parameters
[42] Exhibit I. NextBridge / Staff.34 / p. 2

much lower than the potential excess revenue that NextBridge would receive under its proposal.

NextBridge has indicated that two of the OM&A components are subject to inflationary pressures that are in excess of their proposed 2% inflation: the NextEra Energy Transmission, LLC (NEET) service level agreement and the HONI/SuperCom agreement.

Of the entire test year OM&A budget of $4.94 million, $1.7 million is covered by the NEET service level agreement.[43] NextBridge stated that the typical inflation for the NEET service level agreement is expected to be 3% annually.[44] Notwithstanding OEB staff's view of the appropriateness of a 3% inflation factor, OEB staff has calculated that a 3% annual inflation factor would result in an OM&A increase of $0.87 million[45] over the IR term, relative to NextBridge's proposed annual 2% inflation.

NextBridge also indicated that $1.66 million[46] of the test year OM&A budget (for Indigenous compliance and Indigenous participation costs, property taxes and rights payments) is subject to inflation at the Toronto CPI level, based on the contractual agreement between the First Nation and the federal government. In response to an OEB staff interrogatory[47], NextBridge provided that the Toronto CPI on average was 0.184% higher than the Ontario CPI for the past 10 years. Based on this, OEB staff has calculated that this higher inflation factor would result in an OM&A increase of $0.14 million[48] over the IR term above the Ontario CPI.

The remaining OM&A budget is $1.58 million in the test year. If NextBridge maintained this part of the budget at its proposed 2% annual inflation rate, then the total additional OM&A to be absorbed by NextBridge from these asserted higher inflationary pressures would be $1.01 million ($0.87 million plus $0.14 million) over the IR term.

OEB staff understands that NextBridge is proposing to absorb $1.29 million in costs over the IR term ($0.28 million in depreciation and $1.01 million in OM&A), relative to the potential excess revenue of $68.4 million that it would see through its proposal.

OEB staff submits that NextBridge's Custom IR framework should not be accepted as proposed. It does not reflect appropriate incentives to control costs and in OEB staff's view does not lead to just and reasonable rates.

[43] JT1.1
[44] Transcript_UCT_NextBridge_Vol 3_20210331, p. 50
[45] $19.06 million at 3% annually minus $18.19 million at 2% annually
[46] JT3.3
[47] Exhibit I. NextBridge / Staff.34 / p. 2
[48] $16.62 million at 2.184% Toronto CPI annually minus $16.48 million at 2% Ontario CPI annually

Just and Reasonable Return

NextBridge's application is filed under section 78 of the OEB Act. Under section 78 of the OEB Act, the OEB must determine whether the rates proposed are "just and reasonable". NextBridge bears the onus of establishing that its proposed rates are "just and reasonable".[49]

The "just and reasonable" standard was considered by the Supreme Court of Canada (SCC) in *Ontario (Energy Board) v. Ontario Power Generation Inc.*[50] (OPG) In this decision, the SCC explained that

> In order to ensure that the balance between utilities' and consumers' interests is struck, just and reasonable rates must be those that ensure consumers are paying what the Board expects it to cost to efficiently provide the services they receive, taking account of both operating and capital costs. In that way, consumers may be assured that, overall, they are paying no more than what is necessary for the service they receive, and utilities may be assured of an opportunity to earn a fair return for providing those services.[51]

Two key points to take away from the above statements by the SCC. First, consumers should only pay what the OEB expects it to cost to efficiently provide the services they receive. Anything more is not "just and reasonable" rates. Second, utilities should be assured of an *opportunity* to earn a *fair* return for providing those services. In this case, the evidence demonstrates that NextBridge's proposal would result in: (i) ratepayers paying tens of millions of dollars more than is required to efficiently run the transmission line; and (ii) the applicant earning an unjustified return for the services that it will provide.

This application differs from many costs of service/custom IR applications which typically involve utilities with numerous capital assets that were put into service at different time periods and where there will be needs to renew capital assets during the IR term. The OEB's *Renewed Regulatory Framework for Electricity* suggests that Custom IR applications are suitable where there are large or highly variable capital requirements.[52]

In contrast, NextBridge will have one newly built asset with significant depreciation expenses and limited capital additions during the IR term. As a result, without appropriate adjustments, NextBridge is virtually guaranteed to over earn during the IR

[49] OEB Act, s. 78(8)
[50] 2015 SCC 44
[51] *Ontario (Energy Board) v. Ontario Power Generation Inc.,* 2015 SCC 44, para. 20.
[52] *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*, October 18, 2012, p. 3; see also p. 14.

term. NextBridge's proposal is expected to result in an average annual rate of return of 11.00%[53] over the IR term.

The OEB's most recent deemed ROE is 8.34%. During the oral hearing, OEB staff put forward two rate structures that would enable NextBridge to earn, on average, a return slightly above the deemed ROE of 8.34% for the IR term. The first proposal (discussed in issue 2.2) was an Custom IR Index with a 0.0% inflation factor and a 0.5% stretch factor, included funding for the proposed $4.03 million transmission system plan assuming all of these costs are necessary, and provided an average ROE of 8.37% over the IR term. The second proposal (also discussed in issue 2.2) was a Custom IR Index with a 0.0% annual inflation factor and a 0.75% annual stretch factor applied to capital, and the OEB Transmitter inflation factor with a 0.3% annual stretch factor applied to OM&A. The second proposal also included funding for the proposed $4.03 million transmission system plan assuming all of these costs are necessary, and overall, provided an average ROE of 8.35% over the IR term.

In oral testimony, NextBridge representatives took issue with OEB staff's two proposals. Its representatives asserted that the utility should be guaranteed to earn the OEB's authorized rate of return.[54] NextBridge representatives further testified that if its return falls below the OEB's deemed rate of return at any point in the IR term, this would constitute unjust and unreasonable rates.[55,56]

OEB staff does not agree. For any regulated utility, there are fluctuations that occur from year to year that also lead to varying levels of actual ROE. In OPG, the SCC confirmed that the rate of return to equity investors is not guaranteed.[57] The SCC also stated that "…utilities must be allowed, over the long run, to earn their cost of capital, no more, no less". [58] That long-term focus does not prevent short-term variations from the OEB's deemed rate of return. In fact, the SCC upheld the OEB's decision that disallowed some of OPG's costs, where the disallowance could adversely impact OPG's ability to earn its cost of capital in the short run.[59]

[53] Transcript_UCT_NextBridge_Vol 3_20210331, p.102 Carly Weinstein, Manager Forecasting and Analysis, NEET stated opening 2023 Rate Base for staff calculations should be $765.9 million. OEB staff have recalculated the annual average rate of return as 11.00% if this adjustment is made. Originally, OEB staff have calculated the average return to be 10.91% - See Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 68. Average Rate of Return. Modified Calculation in Submission Appendix
[54] Transcript_UCT_NextBridge_Vol 3_20210331, p. 114, line 22 to p. 115, line 2.
[55] Transcript_UCT_NextBridge_Vol 3_20210331, p. 111, line 22 to p. 114, line 21.
[56] Transcript_UCT_NextBridge_Vol 3_20210331, p.102 Carly Weinstein, Manager Forecasting and Analysis, NEET stated opening 2023 Rate Base for staff calculations should be $765.9 million. OEB staff have made this adjustment and calculated that the annual return on equity does not fall below 8.35% for any year of the IR term under either staff proposal. OEB staff have also recalculated the annual average rate of return as 8.44% for the first staff proposal and 8.42% for the second staff proposal if this adjustment is made.
[57] *Ontario (Energy Board) v. Ontario Power Generation Inc.,* 2015 SCC 44, para. 17.
[58] *Ontario (Energy Board) v. Ontario Power Generation Inc.,* 2015 SCC 44, para. 76.
[59] *Ontario (Energy Board) v. Ontario Power Generation Inc.,* 2015 SCC 44, para. 120.

At the oral hearing, NextBridge's representatives testified "And 8.52 is our expectation and we are going to try to manage to that -- to the extent that we can manage to have something greater than that, then that's great. But, you know, our expectation is the 8.52".[60] This testimony conflicts with the mathematical reality of NextBridge's proposal. Even if NextBridge's actual OM&A costs were double the $4.94 million annual estimate for **each year** of the IR term, NextBridge would still significantly over earn by the end of 2031.

The Resolution to OEB staff's concerns with the Proposed Custom IR Framework

OEB staff submits that its concerns with the proposed Custom IR framework can be adequately resolved through direct adjustments to the Custom IR formula as outlined in OEB staff's two proposals, implementation of an earnings sharing mechanism (ESM), and adjustments to the OM&A budget.

As described through the submission, OEB staff proposed the following adjustments:

- Inflation not be applied to fixed components (Issue 2.1)
- An annual reduction to the rate of return components of the revenue requirement to reflect the declining asset value (Issue 2.1)
- The inflation parameter is based on the OEB approved transmitter parameters (Issue 2.2), and the OEB's annually calculated factor is utilized (if applicable, depending on the staff option selected)
- The inflation factor applied to operating and maintenance expenses includes a productivity (stretch) factor (Issue 2.2)
- An ESM is put in place that would see any annual overearnings of more than 100 basis points above OEB-approved levels be shared 50 per cent with customers (Issue 2.4)
- The cost of capital for the test year is updated to 2021 OEB approved parameters (Issues 6.3)

In addition, OEB staff submits that reductions directly to NextBridge's proposed rate base (section 6.2) and OM&A budget (section 5.1) may be necessary.

NextBridge proposed to adopt an inflation factor of 2%[61] which would be fixed for 2023 to 2031.[62] OEB staff submits that the Custom IR inflation factor should be 0%, except for with respect to OM&A as discussed in staff's option #2. As shown in Table 3 this would reduce the excess revenue due to inflation applying to fixed components by $48.5 million over the life of the Custom IR term.

[60] Transcript_UCT_NextBridge_Vol 1_20210329, p. 84.
[61] Exhibit A / Tab 3 / Schedule 1/ pp. 5-6
[62] Exhibit I. NextBridge / Staff.3/ p. 2

OEB staff has also commented on the declining asset value of NextBridge, and the resulting cost of capital decreasing over the IR term. From OEB staff's calculation, there appears to be an excess return on capital of about $19.1 million (Tables 4 and 5). NextBridge had proposed both a base productivity factor of 0.0% and a stretch factor of 0.0%.

Niagara Reinforcement Limited Partnership (NRLP) and B2M Limited Partnership (B2M) are single asset OEB-regulated transmitters which received rate orders in 2020 and include indigenous partnerships. As part of its benchmarking study in its application, NextBridge compared itself to both transmitters.

In the NRLP Settlement[63], it was agreed to include a capital adjustment factor (the "Settlement Capital Adjustment Factor") to account for NRLP's circumstances wherein the rate base of the company, and the resulting costs of capital, decline over time. As a result, the Parties agreed that NRLP would apply a Settlement Capital Adjustment Factor of 0.6% which was approved by the OEB. B2M[64] also agreed to the same Settlement Capital Adjustment Factor of 0.6% which was approved by the OEB.

As an alternative to a Settlement Capital Adjustment Factor of 0.6%, at the oral hearing, OEB staff put forward two proposals, as discussed in the next section. Both proposals allow NextBridge the opportunity to earn a return that meets or exceeds the OEB 2021 deemed ROE of 8.34%.

5.2 Are the proposed inflation factor and the proposed productivity factor appropriate (Issue 2.2)?

Inflation Factor

NextBridge has proposed a fixed 2% inflation factor for the IR term.[65] NextBridge proposes to adopt the OEB's calculation of the Custom IR inflation factor ("I") parameter, which effective for 2020 is 2%. NextBridge's proposed inflation factor is an external measurement of industry labour/non-labour weights with a weighted sum of:

- 70% of the annual percentage change in Canada's GDP-IPI
- 30% weight of the annual percentage change in the Average Weekly Earnings for workers in Ontario [66]

which is the OEB's electricity distributor weighted sum.

The OEB annually issues a letter to all rate-regulated electricity distributors and transmitters setting the inflation parameters.[67] The OEB has established sector specific

[63] EB-2018-0275
[64] EB-2019-0178
[65] Exhibit I. NextBridge / Staff.3 / p. 2
[66] Exhibit A / Tab 3 / Schedule 1 / pp. 5-6
[67] OEB 2021 Inflation Parameters, November 9, 2020

inflation factors. For electricity transmitters, the methodology was approved in decisions for several transmitters. The several transmitters referred to in the letter by case are Hydro One Sault Ste. Marie, Hydro One, NRLP and B2M. The OEB inflation factor for transmitters is slightly different than the distributor weighting proposed to be adopted by NextBridge. The inflation factor for transmitters has a weighting of 86% of the annual percentage change in Canada's GDP-IPI and a weighting of 14% of the annual percentage change in the Average Weekly Earnings for workers in Ontario.

OEB staff notes there is no compelling reason to have inflation calculated differently for NextBridge than for other electricity transmitters or to have a fixed 2% inflation factor for the IR Term

OEB staff submits that the inflation factor for NextBridge for 2023 to 2031, to the extent it is applicable in the Custom IR framework, should be based on the annual OEB inflation factor for all electricity transmitters. This would mean that annual update applications would be filed with the OEB to reflect the OEB's transmitter inflation factor.

Productivity Factor

NextBridge is proposing a total productivity factor of 0%. In the Application, NextBridge states that its only controllable costs are OM&A and because of the small amount of OM&A in general, as well as in comparison to the non-controllable costs (*e.g*. cost of capital, depreciation, income tax), productivity is nearly impossible to realize.[68]

As discussed in Issue 2.1, the declining asset value provides excess revenue of $19.1 million over the IR term. As a new entity with limited capital investments forecasted over the IRM term, and with OM&A expenses that are predominantly managed through service level agreements, OEB staff proposes that the total productivity factor including a stretch factor should consider both capital and OM&A costs.

OEB staff put forward two proposals at the oral hearing for the inflation factor and productivity factor for the IR term. The first proposal provided for an inflation factor of 0% and a productivity factor of 0.5% that would be applied to all components of the revenue requirement, using the Custom IR model proposed by NextBridge.[69]

The Custom IR index for staff's first proposal is expressed as:

Custom IR Index = I – X

Where:

[68] Exhibit A / Tab 3/ Schedule 1 / pp. 5-6
[69] Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 70

I is the Inflation Factor, based on the OEB's inflation factor for incentive rate setting, is set at 0%

X is the total Productivity Factor, which includes a 0% base productivity factor and a stretch factor set at 0.50%

OEB staff's first proposal would provide NextBridge with an average ROE over its IR term of 8.37%[70] which is higher than the OEB- approved 2021 ROE of 8.34%. The average return of 8.34% included consideration of funding NextBridge's $4.05 million IR term transmission plan, assuming all of these costs are necessary. This was done to ensure that OEB staff's proposal would result in NextBridge having the opportunity to earn a return that met or exceeded the OEB 2021 deemed ROE of 8.34% for the IR term.

The second OEB staff proposal separates OM&A from capital costs.[71] NextBridge's base revenue requirement on a cost of service based test year is $55.73 million. The test year OM&A cost is $4.94 million or 8.86% of the $55.73 million revenue requirement. As discussed in Issue 2.1, based on OEB staff calculations, NextBridge's proposal would also see it absorb $1.01 million in OM&A costs over the IR term; this assumes all of NextBridge's forecasted capital costs are necessary and assumes their proposed 2% annual inflation rate. The second staff proposal applies an inflation factor, less a productivity factor, to the OM&A costs (i.e. only to 8.86% of the revenue requirement). OEB staff proposes that the inflation factor should be based on the OEB transmitter inflation factor and that the productivity factor should be set at 0.3%, the midpoint of the productivity factor used for distributors.

The remaining 91.14% of the revenue requirement is for capital costs which would have the inflation factor set at 0% and the productivity factor for capital increased to 0.75% to account for the declining value of the asset. The 0.75% productivity factor was calculated to provide NextBridge with the opportunity to earn a return that met or exceeded the OEB 2021 deemed ROE of 8.34% over the term.

The Custom IR Index for the second staff proposal is expressed as:

$$\text{Custom IR Index} = (I_{cap} - X_{cap}) + (I_{oma} - X_{oma})$$

Where:

I_{cap} is the Capital Inflation Factor, which would be set at 0%

X_{cap} is the Capital Productivity Factor, which includes a Stretch Factor, and would be set at 0.75%

I_{oma} is the OM&A Inflation Factor, which would be based on the OEB transmitter inflation factor

[70] Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 70
[71] Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 72

X_{oma} is the OM&A Productivity Factor, which includes a Stretch Factor, and would be set at 0.3%.

OEB staff's second proposal would provide NextBridge with an average ROE over its IR term of 8.35%[72], which is higher than the OEB deemed 2021 ROE of 8.34%. The average return of 8.35% included consideration of funding NextBridge's $4.05 million IR term transmission plan, assuming all of these costs are necessary. This was done to ensure that OEB staff's proposal would result in NextBridge having the opportunity to earn a return that met or exceeded the OEB 2021 deemed ROE of 8.34%.

OEB staff submits that the productivity factor for NextBridge for 2023 to 2031 should be adjusted based on either staff proposal 1 with a 0.0% inflation factor and a 0.5% stretch factor, or staff proposal 2, with a 0.0% capital inflation factor and a 0.75% capital stretch factor, and the transmitter inflation factor applied to OM&A with a 0.3% annual OM&A stretch factor.

5.3 Are the proposed annual updates appropriate (Issue 2.3)?

NextBridge's proposal consists of a fixed inflation rate of 2.0% for the IR term and a productivity factor of 0.0% for the IR term. NextBridge stated in its Argument-in-Chief that it is proposing annual updates.[73] Specifically, NextBridge states that its annual updates will address updates to the variance accounts applied for and approved by the OEB including any rate revenue impact resulting from the clearance of these accounts. NextBridge also says that the annual update will allow for pro forma annual revenue adjustments applied for and approved by the OEB, such as the inflation factor. In NextBridge's view, the approach proposed is the same as that used by other transmitters, and, therefore, is appropriate for adoption by NextBridge. NextBridge also views this process as a flexible one that can address other updated information required by the Board.[74]

The OEB's *Reporting and Record Keeping Requirements* [75](RRR) require transmitters to provide annual information including affiliate arrangements and transactions, regulatory return on equity earned and audited financial statements for the preceding calendar year.

The custom IR annual updates would be in addition to RRR filings. The annual update in 2023 for 2024 revenue requirements would include the disposition of the variance accounts described below.

[72] Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 72.
[73] Argument-in-Chief / p. 17.
[74] Argument-in-Chief / p. 17.
[75] OEB Electricity Reporting & Record Keeping Requirements Effective March 31, 2020

NextBridge proposes that service quality and reliability performance measures will be tracked annually, and the results of this tracking will be reported to the OEB at the next proceeding.[76] OEB staff submits that the performance measure should be reported annually.

As further described below, NextBridge is only proposing an update of revenue requirements in its annual 2023 filing for establishing the 2024 revenue requirement to reflect its actual debt rates and dispose of variance account balances.

To reflect the actual cost of long-term debt in the revenue requirement, NextBridge proposes a one-time update in 2023 for 2024 rates of the cost of long-term debt. This update will reflect the actual market rate for project debt financing. This update is expected to occur only once in 2023 during the IR Term.[77] To reflect the actual cost of short-term debt in the revenue requirement, NextBridge also proposes a one time update of the cost of short-term debt that aligns with the update to long-term debt.[78]

NextBridge has also proposed three variance accounts that it will seek disposition of in its 2023 filing for 2024 revenue requirements. Firstly, the DRVA[79], which is proposed to track the difference in the long-term and short-term debt rate used in the calculation of NextBridge's revenue requirement in this Application and the actual long-term and short-term debt rate to finance the project. Secondly, the RDVA, which is proposed to track the revenue impact should there be a difference from the currently planned in-service date.[80] Finally, the CCVA, which is proposed to track any difference in revenue requirement resulting from the difference between forecasted construction costs in this Application, and the actual final construction costs including interest during construction, COVID-19 related capital costs incurred during construction in excess of forecasted construction costs in this Application and directly related costs associated with construction that extend past the in-service date, such as environmental costs that are not already accounted for in the construction costs.[81]

OEB staff supports NextBridge's proposal to update the revenue requirement for its actual debt rates in a 2023 filing for its 2024 revenue requirement. OEB staff also supports disposition of variance account balances at this time, subject to specific comments on the variance accounts noted later in this submission.

For other years where there is no disposition of variance accounts, OEB staff suggest that depending on the Custom IR framework approved by the OEB, the annual updates could range in form from a simple letter from NextBridge to the OEB confirming the approved revenue requirement to be included in the following year's UTR, or it could

[77] Exhibit G / Tab 2 / Schedule 2 / p. 1.
[78] Exhibit G / Tab 2 / Schedule 3 / p. 1.
[79] Exhibit H / Tab 1 / Schedule 1 / pp. 2 and 5
[80] Exhibit H / Tab 1 / Schedule 1 / p. 2
[81] Exhibit H / Tab 1 / Schedule 1 / pp. 2-4

require a more formal mechanistic application subject to OEB approval, similar to other transmitters. If OEB staff proposal #2 is adopted, OEB staff recommends that NextBridge file an annual rate application to implement the OEB's inflation parameters for each year.

5.4 Should there be earnings sharing mechanism? If so, how should it be implemented (Issue 2.4)?

The Filing Requirements state:[82]

> The OEB will require from transmitters applying for approval of revenue requirements under a Custom IR or Revenue Cap application a proposal to mitigate the potential for any significant earning by the transmitter above the regulatory net income supported by the approved return on equity, such as a capital variance account or an earnings sharing mechanism.

NextBridge does not propose an ESM. In an interrogatory response, NextBridge stated that it did not agree to an ESM for the following reasons:[83]

a) It is unique as a single asset transmitter and has a unique IR Term of 9 years and 9 months.
b) There is already an OEB appointed trigger of 300 bps for over earning.
c) NextBridge will report earnings annually and the OEB will have visibility into any over earnings.
d) This is a new transmission line – there is exposure for unplanned expenses that may mitigate over earnings.

OEB staff notes that B2M[84] and NRLP[85] are two recent examples of single asset transmitters that are subject to an OEB trigger of 300 bps for overearning and that will report earnings annually to the OEB, but also have an ESM in place. The only difference is an IR term for B2M and NRLP of 5 years compared to a proposed IR term for NextBridge of 9 years and 9 months.

The fact that NextBridge is proposing a longer IR terms does not lessen the need for an ESM. In fact, it increases the need for a mechanism to prevent excessive overearnings during an extended IR term.

B2M and NRLP have ESMs that require them to share with customers 50% of earnings that exceed the OEB-approved return on equity by more than 100 basis points in any year of the Revenue Cap Index term.

[82] Filing Requirements for Electricity Transmission Applications / Chapter 2 Revenue Requirement Applications / p. 3
[83] Exhibit I. NextBridge / Staff.66 / p. 1
[84] EB-2019-0178, Decision and Order, January 16, 2020
[85] EB-2018-0275, Decision and Order, April 23, 2020

OEB staff submits that NextBridge should have an ESM like those in place for B2M[86] and NRLP [87] which are also single asset transmitters with a declining asset value. Consistent with what was done in NRLP and B2M applications, OEB staff submits that an ESM deferral account should be established to record any annual over-earnings exceeding 100 basis points so that these can be shared with ratepayers in the next rebasing application (unless NextBridge requests disposition of the account during the term).

5.5 Is the proposed 9 year and 9-month length of the IRM plan appropriate (Issue 2.5)?

A minimum term of 5 years[88] for a Custom IR proposal is specified in the OEB's Filing Requirements. NextBridge has proposed a 10-year (9 year and 9-month) length for its IRM plan.

In the Hydro One Sault Ste. Marie Decision and Order[89] the OEB approved an 8 year IR Term and in the OEB's mergers, amalgamations, acquisitions and divesture policy the OEB allows up to 10 years to defer rebasing[90] OEB staff submits that a 10 year IRM plan is appropriate with a properly calibrated inflation factor, productivity factor, ESM and off ramp.

As noted above, NextBridge's proposal can be expected to result in an excess ROE of $68.4 million[91] due to a fixed 2% inflation factor and a declining asset value that is not being taken into account in the IR framework. This excess return grows exponentially over the IR Term and will, absent significant OM&A overspending, may lead to an OEB regulatory review due to earnings beyond 300 basis points above the deemed ROE.

By the end of December 2028, NextBridge's proposal can be expected to result in cumulative overearnings of $31.0 million compared to 2020 deemed ROE of 8.52%.[92] Moreover, NextBridge's ROE in 2028 would, assuming a 2% annual increase in OM&A costs, reach 11.70% and may trigger an OEB regulatory review.[93] The only way that NextBridge can be expected to avoid a regulatory review during the IR term is if its actual OM&A costs are significantly higher than forecast. As a result, NextBridge's

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[86] EB-2019-0178, Decision and Order, January 16, 2020/ Schedule A / Exhibit J / Tab 1 / Schedule 1 / p.14
[87] EB-2018-0275, Decision and Order, April 9, 2020, p. 5
[88] Filing Requirements for Electricity Transmission Applications / Chapter 2 Revenue Requirement Applications / p. 7
[89] EB-2018-0178, Decision and Order, June 20, 2019
[90] OEB Handbook to Electricity Distributor and Transmitter Consolidation, January 19, 2016
[91] Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 68 - $311.6 million Return on Equity Based on NextBridge's Proposed Revenue Requirement minus $243.2 million Deemed Return on Equity on Average Rate Base using 2020 Parameters
[92] Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 68
[93] Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / p. 68

proposal does not provide “a direct incentive to find efficiencies and implement innovation to cost control its capital and OM&A costs over the IR term”.[94]

OEB staff supports a 9 year and 9-month length term with the appropriate adjustments made to NextBridge’s proposal to avoid overearnings.

6 Transmission System Plan (Issue 3)

6.1 Have investment planning processes been appropriately carried out (Issue 3.1)?

NextBridge has described a capital investment plan for each year from 2022 to 2031, inclusive, comprised of expenses for “general plant” expenses consisting of an office and vehicles ($0.63 million), a storage yard ($0.3 million) to be acquired in 2025, and “reliability” investments ($3.35 million). NextBridge states that the reliability investment category consists of bird deterrents and right-of-way cameras.

NextBridge is not seeking recovery of the capital investment plan expenditures in the Application, except for the portion that falls in the test year, which consists of $0.23 million of reliability investments. NextBridge proposes to seek prudency for the remaining expenditures as part of its next rebasing that will occur at the end of the IR term; however, there will be annual revenue resulting from the $0.23 million included in the test year.

OEB staff submits that NextBridge has not provided sufficient evidence to justify the value and timing of the “reliability” investments in the capital plan. These investments consist of two categories: right-of-way cameras, and bird deterrents. It is unclear whether right-of-way cameras are standard features of Ontario transmission lines that provide operational benefits. In its Argument-in-Chief, NextBridge states that “as ROW cameras are installed over the IR term, NextBridge will evaluate the ability to reduce OM&A costs due to increased use of ROW cameras….”.[95] This suggests that the value of installing the cameras has not yet been established.

In its Argument-in-Chief, NextBridge also states that “NextBridge is legally obligated to install perch discouragers per the commitments in the approved Amended Environmental Assessment and Construction Protection Plan to mitigate against negative impacts to avian species".[96] If these perch discouragers are the same as the bird deterrents described as “reliability” investments, it is unclear why these deterrents/discouragers are being installed during the IR term and are not part of construction.

[94] Argument-in-Chief / p. 13.
[95] Argument-in-Chief / p. 21.
[96] Argument-in-Chief, p. 21

OEB staff submits that the $0.23 million expense planned for the test year should not be approved in addition to the $737.1 million construction cost. If bird deterrents are required by the Environmental Assessment and Construction Protection Plan, OEB staff does not understand why they would not already be included in the $737.1 million construction cost.

6.2 Does the 2022-2031 Transmission System Plan adequately address the condition of the transmission system assets (Issue 3.2)?

Given the newly built condition of the transmission line, the Transmission System Plan does not include investments to replace aging equipment. OEB staff submits this is appropriate for the East-West Tie transmission line, which will be placed into service having been recently constructed.

7 Performance (Issue 4)

7.1 Is the proposed monitoring and reporting of performance adequate (Issue 4.1)?

NextBridge proposes five performance measures and associated targets to be reported annually:

1. OHSA recordable injuries per year (target zero)
2. Return on equity (target 8.52%, which was 2020 OEB cost of capital)
3. Violations of NERC FAC-003-4, Vegetation Compliance standard (target zero)
4. OM&A cost per circuit km (target $10,977 per km, as per application revenue requirement)
5. Average System Availability (target 99%)[97]

In Exhibit B, Tab 1, Schedule 2 NextBridge also states that “In the absence of T-SAIDI and T-SAIFI metrics, NextBridge will provide additional information, on a best-efforts basis…” using two proposed formulas. These are the same formulas that are being reported by the NRLP and B2M transmission lines.[98]

OEB staff takes no issue with the performance measures and associated targets other than noting that the return on equity should have a target of 8.34% based on the 2021 OEB cost of capital parameters. OEB staff submits that the performance measure should be reported annually.

[97] Exhibit I.NextBridge.STAFF.59
[98] EB-2019-0178, Decision and Order, January 16, 2020 / Exhibit J / Tab 1 / Schedule 1, p. 17, and EB-2018-0275, Decision and Order, April 9, 2020 / Exhibit J / Tab 1 / Schedule 1, p.17.

8 Operations Maintenance and Administration (Issue 5)

8.1 Are the proposed spending levels for OM&A appropriate, including consideration of factors such as system reliability and asset condition (Issue 5.1)?

NextBridge proposes a total annual OM&A budget of $4.94 million for the test year. These costs can be broken down into: 26% ($1.27 million) for “operations and maintenance”, and 74% ($3.67 million) for “administration” (including regulatory, compliance and administration, Indigenous compliance, Indigenous participation, land payments and property taxes).

OEB staff does not support the level of OM&A costs proposed. In particular, OEB staff has concerns about the level of costs in the administration category. NextBridge has a $1.67 million annual budget for its “Compliance and Administration” costs in the administration category. This $1.67 million includes $558,000 under “Corporate Services” of which $456,000 is for NEET labour related to finance/accounting/compliance management.[99] Assuming an average hourly rate of $100, this would work out to 4,560 hours spent on these items over the span of a year, which would be the equivalent of approximately 2.5 full time employees.[100] It should also be noted that NextBridge’s total budget to carry out corporate service functions is even higher than the $558,000 as NextBridge stated that additional corporate service related costs have been included in the budget for the project director’s office.[101]

Another major component of the $1.67 million “Compliance and Administration” category is the $627,000 budget for the NextBridge project director’s office, which includes $422,000 for NEET-related labour.[102] The $627,000 amount is more than 2.4 times above the $260,000 managing director’s office budget in NRLP’s most recent application and more than 3.1 times above the $200,000 managing director’s office budget in the most recent B2M application.[103] OEB staff further submits that the costs of a director’s office are not proportionate to the length of a transmission line and thus there is no basis to find that a cost of $627,000 is reasonable. For example, costs for the NRLP director’s office are marginally higher than B2M’s costs even though the B2M transmission line is more than double the length of the NRLP line.

The above concerns with the corporate services and project director’s office costs are examples of the larger concern that OEB staff has with administration costs. OEB staff has compared the ratio of operation and maintenance spending to total OM&A for NRLP, B2M and NextBridge. In B2M’s most recent application, operation and

[99] JT 3.4
[100] This assumes a 37.5-hour work week and 4 weeks of vacation per year.
[101] Transcript_UCT_NextBridge_Vol 3_20210331, p. 73.
[102] JT 3.4
[103] EB-2019-0178, Exhibit F, Tab 2, Schedule 1, p. 5 (Table 3) ; EB-2018-0275, Exhibit F, Tab 2, Schedule 1, p. 4 (Table 3).

maintenance costs were 41.7% of its total OM&A budget.[104] In NRLP's most recent application, operation and maintenance costs were 38.6% of its total OM&A budget.[105] In contrast, NextBridge's operation and maintenance costs are only 25.7% of its total OM&A budget.[106]

If NextBridge's administration costs were reduced to bring the ratio of operation and maintenance costs to total OM&A in line with the ratios in NRLP and B2M, the total OM&A costs would be $3.175 million.[107] OEB staff submits that a further adjustment to this OM&A should be made to account for the Section 28(2) permits to cross two First Nations reserve lands.[108] The B2M or NRLP lines do not cross First Nations reserves. As a result, the costs for these two permits are unique to the NextBridge line. This would result in $0.59 million[109] being added to NextBridge's adjusted OM&A, for a total OM&A of $3.765 million.

OEB staff considered whether Indigenous compliance and participation costs are unique to NextBridge, and a major contributor to its higher administration costs. However, the need to engage with and offer Indigenous communities the opportunity to participate in energy projects is not unique to northern Ontario. Rather, as set out in the Ministry of Energy's 2013 Long-Term Energy Plan, the Province of Ontario recognizes that First Nation and Métis communities have an interest in participating in the economic benefits from future transmission projects crossing through their traditional territories.[110] Both the B2M and NRLP lines cross the traditional territories of Indigenous communities, and these communities are partners in those transmission line projects.

OEB staff submits that it could be argued that the appropriate level of NextBridge's OM&A should be $3.765 million, which would represent a $1.175 million reduction from the $4.94 million budget proposal. However, OEB staff proposes that the $1.175 OM&A reduction be lowered by one-third to $783,333. This would result in a revised annual OM&A budget of $4.157 million. OEB staff proposes this smaller reduction as there may be certain efficiencies that Hydro One and Hydro One related entities (such as B2M and NRLP) would benefit from as experienced Ontario transmitters, efficiencies that new transmitters, such as NextBridge, may not readily possess.

OEB staff notes that the proposed reduction is a relatively conservative estimate given that the ratio of operations and maintenance to total OM&A is likely to increase with a

104 EB-2019-0178, Exhibit F, Tab 2, Schedule 1, pp. 1 (Table 1), 3 (Table 2) which shows that operations & maintenance were $0.5 million out of the total 2020 test year OM&A of $1.2 million.
105 EB-2018-0275, Exhibit F, Tab 2, Schedule 1, pp. 1 (Table 1), 2 (Table 2) which shows that operations & maintenance were $0.32 million out of the total 2020 test year OM&A of $0.83 million.
106 $1.27 million / $4.94 million
107 $1.27 million/3.175 = 0.4 (or 40%).
108 Transcript_UCT_NextBridge_Vol 2_20210330, pp.141-142.
109 Exhibit F / Tab 4 / Schedule 2, p. 9.
110 This plan is cited in NextBridge's application. See EB-2020-0150, Exhibit B, Tab 1, Schedule 3, pp. 3-4. A copy of the 2013 Long Term Energy Plan is publicly available at Achieving Balance - Ontario's Long-Term Energy Plan.

longer transmission line such as the East-West Tie line. Administration costs (such as a director's office, website, etc.) are not expected to increase proportionality to the length of a transmission line. By way of contrast, many operations and maintenance costs (such as vegetation management) are largely proportional to the length of the line.

In OEB staff's view, the $783 thousand reduction could (and should) be achieved largely through reducing NEET related administration/compliance costs including the costs for the project director's office, and corporate services. As discussed further in section 7.4 of this submission, the NEET related costs do not appear to be cost efficient and were not arrived at through an arm's length competitive process. As a result, NextBridge should explore a more cost-effective method to provide those services through a competitive RFP process. OEB staff does not, however, support reductions to Indigenous participation/compliance or section 28(2) permits and submits that any reductions in OM&A not come from payments made to Indigenous communities or their individual members.

8.2 Are the amounts proposed to be included in the revenue requirement for income taxes appropriate (Issue 5.2)?

NextBridge is a limited partnership under the federal *Income Tax Act*. A partnership is required to compute its taxable income, which is then allocated to its partners who are responsible for reporting income and payment of taxes.

NextBridge has proposed $0.58 million of tax expenses in its test year's revenue requirement of $55.7 million. NextBridge stated that the $0.58 million represents the Ontario Corporate Minimum Tax (OCMT) that is attributable to NextBridge's partners: NextEra Energy Inc. for $0.29 million; Enbridge Inc. for $0.14 million; Borealis NB Holdings, Inc. for $0.14 million and BLP for Nil amount.[111] NextBridge further stated that the tax savings associated with BLP's tax-exempt status has already been factored into the revenue requirement, as no OCMT attributable to that partner has been included.

NextBridge is not including any income tax expense in the revenue requirement as it has the regulatory taxable loss of $55.32 million in the 2022 test year.[112] The significant tax loss arises from the maximum application of the accelerated Capital Cost Allowance (CCA) for capital additions in the test year under the Accelerated Incentive Investment Program (AIIP).[113]

[111] NextBridge's Argument-in-Chief, page 30.
[112] Exhibit F, Tab 12, Schedule 1, Attachment 1.
[113] *Budget Implementation Act, 2019, No. 1*, S.C. 2019, c. 29, Part XI provides for a first-year increase in capital cost allowance deductions on eligible capital assets acquired after November 20, 2018.

OEB staff notes that, unlike other electricity transmitters that continuously record in-service capital additions year over year, NextBridge is mostly impacted by the AIIP in the test year, when NextBridge's single transmission line is forecast to go in-service. The AIIP applies to eligible capital additions between November 21, 2018 and December 31, 2027. While NextBridge's forecast aggregate capital additions from 2023 to 2027 is $2.45 million,[114] that amount is insignificant compared to the $774.94 million forecast net capital additions in the 2022 test year. The deductible CCA on the substantial capital additions in 2022 greatly exceeds NextBridge's forecast taxable income in that year. Accordingly, a projected taxable loss of $55.32 million is expected to be realized and carried forward for the remainder of the IR term.

OEB staff takes no issue with the $0.58 million OCMT tax expense proposed by NextBridge. OEB staff notes that another partnership with one transmission line, NRLP, has similarly included $0.6 million OCMT expense in its revenue requirement, which was approved by the OEB.[115]

8.3 Is the proposed depreciation expense appropriate (Issue 5.3)?

NextBridge's annual depreciation expense is $9.26 million, and it has requested inclusion of a full-year's depreciation expense in the test year's revenue requirement. NextBridge stated that it utilized a study that Foster Associates Inc. (Foster) prepared for Hydro One in support of Hydro One's 2020 to 2022 rate application[116] and this methodology is consistent with that approved for use by B2M and Hydro One in previous proceedings.[117]

OEB staff takes no issue with NextBridge's depreciation policy and the calculated annual depreciation expense using that policy. OEB staff notes that besides B2M, NRLP's 2020 revenue cap application[118] has also incorporated the same depreciation study by Foster. In addition, in its response to an OEB staff interrogatory[119], NextBridge explained that the depreciation rates proposed by NextBridge align with the useful lives of the corresponding new assets in Foster's depreciation study.

The OEB's Filing Requirements state that:

[114] The $2.68 million is a calculated total based on the capital spending each year from 2023 to 2027 in NextBridge's Argument-in-Chief, Table 3-1, Overall Capital Spend Plan
[115] EB-2018-0275.
[116] EB-2019-0082.
[117] Exhibit F, Tab 2, Schedule 1, Page 2.
[118] EB-2018-0275.
[119] Response to OEB Staff's Interrogatory #63.

> The OEB's general policy for rate setting is that capital additions would normally attract six months of depreciation expense when they enter service in the test year. This is commonly referred to as the "half-year" rule. The applicant must identify its historical practice and its proposal for the test year. Variances from this "half-year" rule, such as calculating depreciation based on the month that an asset enters service, must be documented with explanation.[120]

OEB staff does, however, note that NRLP's 2020 revenue cap decision and order had included a full-year depreciation that reflects a full year operation.[121] In addition, OEB staff notes that the OEB explained, in one electricity distributor's decision and order, that the intent of the half-year rule is to capture the fact that not all capital assets are put into service on January 1 of the test year.[122] Given NextBridge is a new partnership with one new transmission line that is to be placed into service on March 31, 2022 (one day before the proposed start of the test year), OEB staff supports the use of the full year depreciation expense in this case based on the OEB precedents discussed above. OEB staff further notes that the calculations that it has included in this submission are based on a full year's depreciation.

8.4 Are the services to be provided by third parties, and their associated costs, appropriate (Issue 5.4)?

NextBridge has described two service level agreements: one with Hydro One/SuperCom, and the other with NEET. Through interrogatory and undertaking responses, NextBridge has described the forecasted costs associated with these agreements as being $0.4 million for the Hydro One/SuperCom agreement, and $1.7 million for the NEET agreement.[123]

In answering interrogatories, NextBridge stated that these agreements would be finalized and filed on the record before the end of March 2021. However, the agreements have not been executed to date and so the details of what services will be provided under these agreements, how the services provided through these agreements will be coordinated between multiple parties, and whether the associated costs are reasonable, are all difficult to ascertain. In OEB staff's opinion, these questions cannot be answered fully until the executed agreements are provided. That

[120] Filing Requirements for Electricity Transmission Applications, February 11, 2016, Chapter 2, page 29.
[121] Page 21 of NRLP's 2020 Revenue Cap Settlement Agreement agreed on the depreciation expense of $1.59 million in 2020 test year. NRLP's 2020 Revenue Cap Application (Exhibit F, Tab 1, Schedule 1, Page 1) listed the depreciation expense of $0.79 million in 2019 and $1.59 million in 2020 and NRLP stated that the increase in higher depreciation expense in 2020 reflects a full-year operation.
[122] Sioux Lookout Inc.'s Decision and Order EB-2012-0165, August 22, 2013, page 4.
[123] Exhibit I.NextBridge.STAFF.29, p. 1, Exhibit JT1.1

said, the OEB can, to some degree, assess the reasonableness of the level of costs associated with the NEET agreement.

NextBridge has indicated its position that the Affiliate Relationship Code and its provisions that govern contracts with affiliates does not apply to its relationship with NEET.[124] OEB staff does not dispute that NEET does not fit within the current definition of affiliate for the purpose of the Affiliate Relationship Code[125]. As a result, provisions of the Code, which protect ratepayers from harm that may arise as a result of dealings between a utility and its affiliate, do not apply to dealings between NextBridge and NEET.

In OEB staff's opinion, the costs associated with the NEET agreement are not fully supported. First, the costs of the NEET agreement were not set as part of a competitive procurement process and there is little (if any) evidence to suggest that costs being paid under the NEET agreement are the most cost effective method for obtaining these services.[126] Second, NextBridge has agreed to increase the NEET costs at a rate of approximately 3% per annum over the IR term. Such an inflationary increase is higher than current inflation parameters used in Ontario's energy sector and there is no substantiation as to why this rate is appropriate for the life of the custom IR term. Third, as discussed above in section 8.1, the cost for administration work to be performed through the NEET agreement is much higher than its peers and has not been fully justified. As discussed under section 8.1, OEB staff has proposed reductions to the OM&A budget.

9 Rate Base and Cost of Capital (Issue 6)

9.1 Are the $737 M construction costs and $5.3M Phase Shift costs prudent for recovery (Issue 6.1)?

The OEB regularly reviews costs that have been (or will be) incurred by a utility to determine whether all or some of those costs should be recoverable from ratepayers. These reviews are sometimes referred to as "prudence reviews”. The burden to

124 Exhibit I Staff 28(b).

125 The Affiliate Relationship Code states that affiliate”, with respect to a corporation, has the same meaning as in the *Business Corporations Act* (Ontario). See sections 1(4)-1(5) of the *Business Corporations Act*. “

126 Transcript_UCT_NextBridge_Vol 3_20210331, pp.81-85; 90-91.

establish the prudence of costs lies upon a utility that is seeking cost recovery.[127] In a 2016 decision, the OEB explained that a prudence review requires a review of the facts:

> Prudence is not a "fact" that can be sworn to in an affidavit. Prudence (or imprudence) is a conclusion arrived at after reviewing the facts. Clearly a utility (or any party) cannot "prove" prudence by simply stating that it was prudent.[128]

Utilities cannot rely upon a presumption that costs incurred are prudent.[129] Rather they must provide sufficient evidence to establish the prudence of both the activity that was undertaken and also the quantum of costs for that activity.[130]

During the LTC proceeding, the OEB panel hearing that application stated that they were "concerned with the construction costs put forward by NextBridge".[131] That OEB panel further indicated that it was not "…accepting the level of costs of the 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."[132]

NextBridge's Argument-in-Chief asserts that the current application sets forth "substantial evidence" in support of the prudence of the forecasted construction costs.[133] A review of the application evidence does not support that claim. The quarterly reports which NextBridge points to in support of its construction cost claim do not establish prudence of its costs. For example, in the first quarterly report filed after the LTC proceeding, NextBridge re-allocated a large portion of its contingency to cover increased construction costs totaling approximately $41 million. The explanation for this eight-figure increase was limited to a reference to a revised in-service date which[134] contradicted statements by NextBridge during the LTC proceeding that a revised in-service date would lower construction costs.[135]

NextBridge's gross plant costs total $774.9 million, consisting of four items: development costs, phase shift costs, spare strategy costs, and construction costs. The December 2018 leave to construct decision found NextBridge eligible to recover $31.241 million in development costs from ratepayers. NextBridge has applied for $5.3

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[127] *Ontario (Energy Board) v. Ontario Power Generation Inc.*, 2015 SCC 44, para. 79.
[128] EB-2014-0053/EB-2014-0361/EB-2015-0044, Decision and Order, January 14, 2016, p. 24 upheld on appeal in *Natural Resource Gas Limited v. Ontario Energy Board*, 2017 ONSC 1763 (Div. Ct.), para. 12.
[129] *Ontario (Energy Board) v. Ontario Power Generation Inc.*, 2015 SCC 44, para. 104.
[130] Union Gas Ltd. (Re), 2002 LNONOEB 6, para. 123; see also EB-2015-0216, Decision and Order, November 19, 2015, p. 7.
[131] EB-2017-0182/EB-2017-0194/EB-2017-0364, February 11, 2019, Decision and Order, p. 7.
[132] EB-2017-0182/EB-2017-0194/EB-2017-0364, February 11, 2019, Decision and Order, p. 7.
[133] Argument-in-Chief / p. 33.
[134] EB-2017-0182, NextBridge Quarterly Report for February 11, 2019 – June 30, 2019 (filed August 30, 2019), p. 25.
[135] EB-2017-0182/EB-2017-0194/EB-2017-0364, February 11, 2019, Decision and Order, p. 7 where the OEB noted that "[d]uring 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."

million of “phase shift” costs pertaining to work that was completed between and overlapping the development and construction phases. NextBridge explains in the evidence that these costs improved the efficiency of the environmental assessment review, land optioning, Indigenous land negotiations, and economic participation agreement finalization, resulting in overall project cost savings.[136]

NextBridge has applied for $1.2 million of spare strategy costs pertaining to the spare equipment, including transmission towers, that NextBridge will be procuring prior to the in-service date. NextBridge explains in the evidence that the spares were sourced with favourable pricing as part of the original procurements, in order to avoid the long procurement time and high cost that would be associated with initiating a separate production cycle at a later time.[137]

The only evidence in NextBridge’s application that directly speaks to the prudence of its construction costs is the benchmarking report prepared by Charles River and Associates Inc. (CRA). However, OEB staff submits that the CRA report does not support the prudence of NextBridge’s costs.

The CRA report compares the NextBridge project budget with the costs of five other transmission line project costs based on the cost per kilometre.

OEB staff submits that the cost per kilometre for the NextBridge project shown in the CRA report cannot be used as is for benchmarking, due to errors in CRA’s inflation calculation. In advance of the oral hearing, OEB staff provided NextBridge with a spreadsheet showing what OEB staff believes is the correct calculation of the cost per kilometre for the NextBridge project: $1.8 million per kilometre.

During the hearing, the CRA witness stated that he did not take any issue with the math OEB staff used to calculate this $1.8 million per kilometre value, which was based on the methodology stated in the report; however, the witness equivocated on what methodology ought to be used to determine the cost per kilometre for the NextBridge project, at one point stating “I'm not even sure that inflation or adjustment to 2022 dollars is necessary or warranted”.[138,139] In JT3.1, NextBridge provides a revised value of $1.72 million per kilometre; however, there is no explanation of the methodology used to calculate this value, or why it is the appropriate methodology. Therefore, OEB staff does not accept the revision to $1.72 million per kilometre provided by NextBridge in JT3.1 as a better value.

[136] Exhibit I. NextBridge.STAFF.54 / p.3.
[137] Exhibit I. NextBridge.STAFF.54 / p.3.
[138] Transcript_UCT_NextBridge_Vol3_20210331, p. 31.
[139] Transcript_UCT_NextBridge_Vol3_20210331, p. 23.

Notwithstanding the errors in the calculation of the cost per kilometre of the NextBridge project, OEB staff finds the report useful for identifying a suitable comparator for the NextBridge project.

The comparator transmission costs referenced in the report are:

- B2M application and relevant transmission rate filings
- BC Hydro's information on the Northwest Transmission Line project
- Black & Veatch's 2014 transmission expansion planning report for the Western Electricity Coordinating Council
- Alberta Electric System Operator's transmission cost benchmarking Database
- NRLP's 2020-2024 Transmission Revenue Cap IR Application and Evidence Filing

Of these five, only the B2M transmission line and the NRLP transmission line have been constructed in Ontario. Transmission costs from other jurisdictions are less relevant comparators due to the differences in economic factors and regulatory environments.

The B2M project is a 180 km double circuit 500 kV transmission line that was placed in-service in 2012. The NRLP project is a 76 km double circuit 230 kV transmission line located in southern Ontario that was placed in-service in August 2019. OEB staff submits that the NRLP line is clearly the best comparator of the five presented in the benchmarking report due to it being a transmission line of the same voltage, constructed in Ontario, and completed less than three years before NextBridge's planned in-service date.

The benchmarking report found that the cost per kilometre for the NRLP project was $1.66 million per kilometre in 2022 dollars. The report states that this cost is based on the statement of average rate base for 2019 of $119.43 million from the NRLP 2020-2024 transmission rates proceeding.[140] In the benchmarking report, CRA inflated this cost to $125.97 million in 2022 dollars to arrive at the $1.66 million per kilometre value.[141]

Multiplying the $1.66 million per kilometre benchmark value (for NRLP) by the 450 km length of NextBridge's project results in a value of $747 million. This is $23.4 million less than the $770.4 million of average rate base for which NextBridge is seeking approval.[142]

[140] See EB-2018-0275 for further information.
[141] OEB staff notes that the methodology CRA used to inflate the NRLP cost involved dividing NRLP's statement of average annual rate base into 99.2% materials and 0.8% construction portions, with the materials portion inflating at 1.8%, and the construction portion inflating at 1.4%. While OEB staff consider this ratio unrealistic, the impact on the dollars per kilometre benchmark of increasing the construction portion such that the overall inflation is lower would be minimal.
[142] See Exhibit C /Tab 1 / Schedule 1 / p. 3 / Table 3

OEB staff take no issue with the $5.3 million of phase shift costs, nor with the $1.2 million of spare strategy costs.

OEB staff submits that NextBridge should be allowed to recover $713.7 million of construction costs. This is $23.4 million less than the $737.1 million for which NextBridge has applied. This reduction would align the average rate base for the in-service year of the East-West Tie line project with that of the NRLP project.

9.2 Are the amounts proposed for rate base appropriate (Issue 6.2)?

The Gross Plant consists of the following components which NextBridge is seeking recovery for:

Table 7: Gross Plant Components ($Millions)[143]

Gross Plant	Million ($)
Development	31.2
Phase Shift	5.3
Construction	737.1
Spare Strategy	1.2
Total Opening Gross Plant April 1, 2022	**774.9**
Test Year in Service Additions	0.2
Total Closing Gross Plant March 31, 2023	**775.2**
Average Gross Plant Test Year	**775.1**

The $31.2 million in development costs were approved in the Decision and Order dated December 20, 2018[144]. As these development costs were already reviewed for prudence and approved for recovery, they are included in the proposed opening rate base balance.

OEB staff submitted under Issue 6.1 that the construction costs should be reduced by $23.4 million to $713.7 million and the $0.23 million in-service additions should be denied.

OEB staff submitted in Issue 6.1 that the $5.3 million phase shift costs and $1.2 million spare strategy costs were appropriate.

NextBridge is seeking approval for an average gross rate base of $775.1 million for the test year. OEB staff has agreed that all rate base amounts are prudent except for the construction costs of $737.1 million, which should be reduced by $ 23.4 million to $713.7 million and the $0.23 million in-service additions, which should not be approved.

[143] Exhibit C / Tab 1 / Schedule 1 / p. 2
[144] EB-2017-0182

The OEB staff proposed average gross rate base of $751.5 million is summarized in Table 8.

Table 8: Gross Plant Components($Millions) - OEB Staff Submission

Gross Plant	Million ($)
Development	31.2
Phase Shift	5.3
Construction	713.7
Spare Strategy	1.2
Total Opening Gross Plant April 1, 2022	**751.5**
Test Year in Service Additions	0.0
Total Closing Gross Plant March 31, 2023	**751.5**
Average Gross Plant Test Year	**751.5**

The OEB staff reductions results in an average rate base for the test year of $747 million.[145] OEB staff has estimated its proposed changes in rate base to decrease the revenue requirement over the IR term by approximately $16 million.[146]

9.3 Is the proposed cost of capital, including the current forecast of long-term debt and the proposed 2023 update of the cost of long-term debt, appropriate (Issue 6.3)?

NextBridge's proposed deemed capital structure for rate-making purposes is 60% debt and 40% common equity of utility rate base, where the 60% debt component is comprised of 4% deemed short-term debt and 56% long-term debt. This structure is consistent with the OEB's report on the Cost of Capital for Ontario's Regulated Utilities.[147] The amount of deemed return based on 2020 cost of capital parameters used in NextBridge's application which was submitted on November 4, 2020 is shown in Table 9.

[145] $751.5 Million – 50%*$9.0 million depreciation
[146] IR Term Proposed Revenue Requirement $596.2 million x ($23.4 million/$770.4 million) *(($596.2 minus OM&A minus taxes) /$596.2 million)
[147] Exhibit A / Tab 3 / Schedule 1 / p. 16

Table 9 - Capital Structure with 2020 Cost of Capital Parameters[148]

Amount of Deemed Return	($Million)	%	Cost Rate %	($ Million)
Long-term debt	431.4	56	3.21	13.8
Short-term debt	30.8	4	2.75	0.8
Common Equity	308.2	40	8.52	26.3
	770.4	100	5.32%	41.0

The OEB issued the 2021 cost of capital parameters[149] on November 9, 2020 for all rate -regulated electricity distributors and transmitters, five days after NextBridge filed its application. Page 2 of the letter reads:

> The OEB updates cost of capital parameters for setting rates once per year. For this reason, the cost of capital parameters above will be applicable for all cost of service and custom incentive rate-setting applications (as applicable) with rates effective in the 2021 calendar year.

OEB staff submits that NextBridge's proposal to utilize 2020 cost of capital parameters is not consistent with this direction.

NextBridge's proposed return on capital using 2020 OEB cost of capital parameters is $41.0 million. OEB staff prepared Table 10 based on the 2021 cost of capital parameters. In its response to interrogatories[150], NextBridge, agreed that its return on capital for the test year would be $38.5 million, or a $2.5 million reduction, if the 2021 OEB cost of capital parameters were used instead.

[148] Exhibit G / Tab 1 / Schedule 1 / p. 3
[149] OEB 2021 Cost of Capital Parameters Letter, November 9, 2020
[150] Exhibit I. NextBridge / STAFF.65 / p. 1

Table 10 - 2021 Cost of Capital Parameters – Test Year 12 Months

Amount of Deemed Return	($Million)	%	Cost Rate %	($ Million)
Long-term debt	431.4	56	2.85	12.3
Short-term debt	30.8	4	1.75	0.5
Common Equity	308.2	40	8.34	25.7
Total	770.4	100	5.00%	38.5

NextBridge, however, did not agree to update its application based on the 2021 or 2022 OEB cost of capital parameters in its response to interrogatories.[151]

The OEB's Filing Requirements state that:

> The OEB's general guidelines for cost of capital in rate regulation are currently provided in the Report of the Board on Cost of Capital for Ontario's Regulated Utilities, issued December 11, 2009 (2009 Report). As per the 2009 Report, the OEB issues the cost of capital parameter updates for cost of service applications. Transmitters should use the most recent parameters as a placeholder, subject to an update if new parameters are available prior to the issuance of the OEB's decision for a specific transmitter's application.[152]

As noted above, NextBridge has not agreed to update its cost of capital parameters in accordance with the OEB's Filing Requirements. OEB staff submits that it should be required to do so, which would reduce the cost of capital by $2.5 million in the test year. Given that a decision of the OEB on this application would be expected to be issued before the 2022 cost of capital parameters are issued, OEB staff is not proposing to update for 2022 cost of capital parameters. However, because NextBridge's rates will not become effective until 2022, the OEB could consider NextBridge updating its 2022 revenue requirement to incorporate the 2022 cost of capital parameters, should the OEB wish to do so.

Currently, NextBridge does not have existing debt at third-party market rates. NextBridge will issue third-party debt to finance the East-West Tie line's long-term debt component of 56%. This financing transaction is estimated to occur in late 2021 or early 2022.[153] To reflect the actual cost of long-term debt in the revenue requirement,

[151] Exhibit I. NextBridge / STAFF.65 / p. 2
[152] Filing Requirements for Electricity Transmission Applications / Chapter 2 Revenue Requirement Applications / pp. 32-33
[153] Exhibit G / Tab 2 / Schedule 2 / p. 1

NextBridge proposes a one-time update in 2023 of the cost of long-term debt after the first 12 months in-service (April 1, 2022 to March 31, 2023). This update will reflect the actual market rate for project debt financing. It has also proposed a DRVA with disposition at the end of 2023, incorporating any changes resulting from the financing of the debt into its revenue requirement for 2024.

To reflect the actual cost of short-term debt in the revenue requirement, NextBridge proposes a one-time update of the cost of short-term debt that aligns with the update to long-term debt and the disposition of the DRVA.[154]

OEB staff submits that the proposal to update the actual cost of long-term debt in 2023 after it is issued in 2022, to update the actual cost of short-term debt, and to dispose of the DRVA incorporating any changes into its revenue requirement for 2024, is appropriate.

NextBridge stated that one benefit of its proposal is that the historical low cost of capital seen in 2020 would be locked in for close to ten years, which may result in significant customer savings. For example, when compared to the last ten years, NextBridge stated that locking in a low cost of capital would produce over $80.6 million in customer savings.[155] OEB staff observes that the 2021 OEB cost of capital parameters including a ROE of 8.34% are historically the lowest, not the 2020 cost of capital parameters as stated in NextBridge's Application and Argument-in-Chief.

As well, OEB staff is uncertain that the customer savings purported by NextBridge will materialize. NextBridge was asked through interrogatories[156] to quantify the premium that customers are incurring for rate certainty. NextBridge provided a historical analysis of the cost of capital for the past 10 years, and showed that if the historical cost of capital were repeated in the future, the savings to customers for locking in the proposed 2020 cost of capital parameters for the IR term could be $80.6 million. NextBridge reiterated this proposition in its Argument-in-Chief. OEB staff observes that with any investment proposal there is usually a disclaimer that historical financial performance does not guarantee future financial performance. There is no assurance that any of the suggested savings of $80.6 million for ratepayers would materialize.

In addition, OEB staff notes that NextBridge will be issuing long-term debt in early 2022 and any difference between the actual cost of long-term debt and the OEB deemed debt rate will be tracked in a variance account which NextBridge will seek disposition of in a 2023 application for its 2024 revenue requirement. In that same application, NextBridge will also seek to update its long-term debt rate for the remainder of the IR term to reflect its actual debt issuance. Consequently, there will be no savings for ratepayers on the 60% debt of its capital structure because NextBridge will be recovering from ratepayers

[154] Exhibit G / Tab 2 / Schedule 3 / p. 1
[155] Argument-in-Chief / p. 12
[156] Staff Interrogatory 70 a)

its actual debt cost for the IR term. That would then leave only the 40% of equity as suggested savings to ratepayers, calculated as approximately $32.2 million (40% of $80.6 million). NextBridge's analysis, however, uses the Weighted Average Cost of Capital instead of separating the cost of debt from the cost of equity.

The OEB-approved rate of ROE and the OEB-approved rate of return on debt are different values. So, the actual split of the $80.6 million suggested savings is not 40/60. During the years 2010 to 2019, the OEB deemed ROE varied between 8.78% and 9.85%, whereas the OEB-approved long-term debt rate varied between 3.72% and 5.87%. OEB staff's internal calculations find that the actual dollar split during 2010 to 2019 is closer to $20 million rather than $32 million. OEB staff is of the view that the suggested savings of $80 million would therefore only be $20 million, and that those savings are based on the unsubstantiated premise that historical performance can be used to determine future performance.

9.4 Is NextBridge's response to COVID-19 appropriate? Is NextBridge's proposed treatment of COVID-19 related costs appropriate (Issue 6.4)?

The ongoing COVID-19 pandemic impacted NextBridge's 2020 construction activities. On March 23, 2020, NextBridge notified the OEB that it was closing the work camps associated with construction. On April 3, 2020 NextBridge suspended all construction activities. NextBridge resumed limited construction activities on May 19, 2020 and had fully resumed construction activities by the time of the application.[157] NextBridge has stated that the six week suspension and related slowdowns in the spring of 2020 led to a five month delay in the in-service date for the East-West Tie Line, in order to avoid costs that would have been required to meet the previous fall 2021 in-service date, and maintain the construction cost forecast.

During the oral hearing, a NextBridge representative stated the following:

> MS. TIDMARSH: So at this point in time our COVID-related construction costs, we don't know the magnitude, considering we are still in the middle of the pandemic, sadly, and that by the time we get to COD we will have a better idea of what our COVID-related construction costs are. …so when the COD happens NextBridge will negotiate with Valard to determine what would be related to COVID, what would in fact still be part of their scope … the impetus is going to be on NextBridge to go through our general contractor's costs and make sure that those costs are prudent and that they're accounting for them. So at this point in time we don't know the magnitude or in fact what falls under a COVID-related cost versus a cost that could be under the general contractor's fixed price,

[157] Argument-in-Chief, p. 39.

> in which case NextBridge wouldn't be paying for that and neither would the ratepayers, because it's part of the fixed-price contract.[158]

OEB staff submits that it will not be possible to take a position on NextBridge's response to COVID-19 and the related costs at this time. There is insufficient evidence on the record to make such a determination. Moreover, the COVID-19 pandemic is ongoing and it would be more appropriate to consider NextBridge's complete response to COVID-19 and any related costs at a later date. OEB staff, however, takes no issue with NextBridge's decision to extend the in-service date to March 31, 2022 in light of the costs that would have been required to meet the original in-service date.

Accounting Treatment of COVID-19 Related Costs

NextBridge stated in its Argument-in-Chief that all COVID-19 costs are capital costs directly related to construction and has proposed to separately track the COVID-19 related costs in a new sub-account under the CWIP Account and the associated revenue requirement in a newly proposed CCVA.[159] In its response to an interrogatory from SEC regarding the reasons for not using the OEB's generic COVID-19 Account 1509 to record these costs, NextBridge stated that "NextBridge is not using Account 1509 as all costs incurred at this time, through the in-service date, are capital construction costs; it is understood that the deferral Account 1509 is for differences in earnings for transmitters with rates in place".[160]

In its proposed draft accounting order for the CCVA[161], NextBridge stated that "to ensure all accounting is finalized, an audit has taken place and [in] alignment with the disposition of the Debt Cost Variance Account, NextBridge proposes the disposition of this account in the second annual update following the in-service date". This proposed disposition includes the associated revenue requirement impact of the COVID-19 related costs.

On March 25, 2020, the OEB issued an accounting order establishing a generic COVID Account 1509 with three sub-accounts to record impacts arising from COVID-19.[162] One of the three sub-accounts established in the letter is sub-account Other Costs to record the other incremental identifiable costs beyond the costs recorded in the billing and system changes sub-account and lost revenue sub-account.

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158 Transcript_UCT_NextBridge_Vol 2_20210330, pp.16-17.
159 Argument- in-Chief, p. 40.
160 Response to SEC interrogatory #17.
161 Exhibit H, TAB 1, Schedule 1, Attachment 3, p. 1.
162 The OEB's Accounting Order for the Establishment of Deferral Accounts to Record the Impacts Arising from COVID-19 Emergency, March 25, 2020.

In its letter dated April 29, 2020, the OEB confirmed the applicability of Account 1509 and its sub-accounts to Ontario Power Generation (OPG) and electricity transmitters.

On April 13, 2021, the OEB issued a letter[163] specifically addressing the accounting treatment of the COVID-19 costs for OPG and "greenfield" utilities.[164] The letter states that:

> The OEB agrees that the circumstances for these greenfield utilities, and the impacts of the pandemic on them, substantially differ from other electricity and natural gas utilities, and a generic application of the guidelines to these entities would likely be impractical. Therefore, any ratemaking implications of the COVID-19 pandemic for these utilities should be determined in these utilities' respective rate proceedings.
>
> NextBridge's application for 2022-2031 transmission revenue requirements is currently before the OEB – it will be up to the panel hearing that application to determine whether and how to address any pandemic related issues in that proceeding, including whether to defer any such issues to another proceeding.

OEB staff submits that it has no concerns with NextBridge's proposal to record the COVID-19 costs in a new sub-account under the CWIP Account, given that the costs can be separately identified from the other construction costs. Whether these costs are tracked in a new CWIP sub-account, or the OEB's generic Account 1509, appears to have no significance at this time. However, OEB staff submits that the regulatory treatment (for example, the determination of capital or operating cost classification) of the COVID-19 related costs should be determined at the time when NextBridge brings forth a request for disposition of these costs.

OEB staff notes that NextBridge has stated that the COVID-19 costs are capital because they were incurred before the line is in-service. NextBridge further confirmed that the COVID-19 costs incurred as of December 31, 2020 had been capitalized in the CWIP Account as part of its 2020 Audited Financial Statements.[165] NextBridge also stated that the full quantum and nature of the COVID-19 costs are unknown at this time.[166]

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[163] The OEB's Letter dated April 13, 2021 re "Consultation on the Deferral Account – Impacts Arising from the COVID-19 Emergency (EB-2020-0133)".
[164] The "green field" utilities include Wataynikaneyap Power LP (Wataynikaneyap), NextBridge Infrastructure LP (NextBridge), and EPCOR Natural Gas LP (EPCOR) in respect of its Southern Bruce operations.
[165] Transcript_UCT_NextBridge_Vol 3_20210331, p. 124.
[166] Quarterly East West Tire Project Progress Report October 22, 2020, p. 31.

OEB staff notes that, in many instances, regulatory accounting aligns with that of utilities' financial accounting/reporting rules. However, regulatory accounting treatment does not necessarily require this alignment. For example, certain aspects of International Financial Reporting Standards are modified for regulatory purposes in the OEB's *Accounting Procedures Handbook* (APH).[167] Accordingly, OEB staff submits that the regulatory treatment of the COVID-19 costs (i.e. including the appropriate capitalization or expensing of those costs) should be determined in a future application when those costs are brought forth for disposition.

OEB staff does not support the use of the CCVA to record the associated revenue requirement impacts of the COVID-19 related costs for the following reasons:

- It is not appropriate to combine the associated revenue requirement impacts of the COVID-19 costs with the other two components (the revenue requirement impacts on the forecasted construction costs variance and post in-service environment costs) in the CCVA because of the following reasons:
    i. The associated revenue requirement impacts on the COVID-19 costs, are substantially different than the other components in the CCVA which have occurred (or will incur) in normal construction course of the line and which are unrelated to the pandemic.
    ii. NextBridge stated in the oral hearing that under the proposed approach, the materiality threshold for the CCVA is to be assessed on a combined basis.[168] In OEB staff's view, it is not appropriate to assess the materiality threshold of the COVID component along with the other two components in the CCVA. As explained in the accounting order for the generic COVID Account 1509, the COVID-19 costs recorded in Account 1509 are subject to the OEB's established materiality threshold on a stand-alone basis. OEB staff notes that NextBridge's proposed approach of aggregating the COVID-19 revenue requirement impact in the CCVA with other impacts unrelated to COVID-19 may effectively result in a lower materiality threshold for the COVID component.

- OEB staff is of the view that the recording of the associated revenue requirement of the COVID-19 costs should not be dependent on the OEB's approval of a new variance account, which is the case proposed by NextBridge. In addition, further in this submission, OEB staff has explained that it does not support the establishment of the CCVA for the other two variance components. The COVID

[167] Accounting Procedures Handbook, Article 315, pp. 7 -10.
[168] Transcript_UCT_NextBridge_Vol 2_20210330, p. 84.

costs are associated with one extraordinary event and need to be carefully reviewed before the revenue requirements are tracked and recorded. OEB staff is of the view that the revenue requirement impact is to be recorded when the OEB is satisfied with the COVID-19 costs and that the account is only needed at that time. OEB staff does not find that sufficient rationale has been provided by NextBridge to establish the revenue requirement impact account for the COVID-19 costs.

OEB staff submits that using the sub-account for “Other Costs” under the OEB’s generic Account 1509 is a more appropriate approach to record the associated revenue requirement of the COVID-19 related costs. OEB staff acknowledges that NextBridge is one of the greenfield utilities referred to in the OEB’s April 13, 2021 letter. However, OEB staff does not see any sound reason to depart from using this sub-account simply to record the pandemic’s impacts (capital or operating). OEB staff notes that in general, when utilities propose a new DVA, a new sub-account under Account 1508 Other Regulatory Assets is typically used in the draft accounting order. Establishing a new sub-account under Account 1508 to track the same COVID-19 related impacts that NextBridge already has an OEB-approved account for seems to add unnecessary complexity and redundancy. Furthermore, keeping these cost impacts standalone in the specified COVID sub-account under Account 1509 adds increased transparency and relevancy for the purposes of demonstrating materiality.

OEB staff has no concerns regarding the proposed timing of the review and disposition of the COVID-19 related costs and the associated revenue requirement, given that this allows for actual, audited figures to be presented and aligns with the timing of the disposition of the DVDA.

10 Deferral and Variance Accounts (Issue 7)

10.1 Are the proposed deferral and variance accounts, and the proposed scope and timing for disposition of these accounts appropriate (Issue 7.1)?

In its pre-filed evidence, NextBridge proposed four new deferral and variance accounts (DVAs). The DVAs requested include:

- Taxes or Payments in Lieu of Taxes Variance Account, Account 1592
- RDVA
- CCCVA

- DRVA[169]

NextBridge has also provided the draft accounting orders for all the above proposed DVAs. NextBridge stated that the materiality threshold for assessing the new DVAs is $278,500, which is calculated at 0.5% of the proposed revenue requirement of $55.7 million.

OEB staff submits on each of the proposed DVAs below:

Taxes or Payments in Lieu of Taxes (PILs) Variance Account, Account 1592

NextBridge is proposing this variance account to record the following components:

- differences that result from a change in, or a disclosure of, a new assessment or administrative policy that is published in the public tax administration or interpretation bulletins by relevant federal or provincial tax authorities.

- any tax impacts resulting from any changes to the assumed tax-exemption status of BLP from this Application. NextBridge stated that the current application has reflected the tax-exempt status of BLP.[170]

NextBridge proposes the disposition of the account at the end of IR term in its next rebasing application.

OEB staff notes that the first component of the variance fits into the general description of Account 1592 PILs and Tax Variances, as described in the APH. As a result, OEB staff does not take issue with this component. However, Account 1592 is a generic account available to all rate-regulated transmitters and distributors, including NextBridge, whenever the necessary conditions arise. OEB staff notes that there is no need to apply for this variance account in the application. NextBridge may use the OEB's existing Account 1592 for the purposes described in the first bullet above.

With respect to the second component, OEB staff submits that it does not support NextBridge's proposal to use Account 1592 to record the impact of the change in the tax-exempt status for BLP, because: 1) BLP's tax exempt status change caused by a change in or a disclosure of a new assessment or administrative policy or interpretation bulletins is to be captured in the scope of Account 1592; 2) the cost impact arising from BLP's tax-exempt status change that is caused by BLP's own actions should not be borne by the ratepayers ; and 3) the BLP's tax exempt status change would not have a material impact on NextBridge's revenue requirement in the test year. As discussed in the tax section of this submission, NextBridge's forecast tax expense of $0.58 million represents the OCMT which is attributable to the three taxable partners, and there was no other income tax expense included, due to the application of accelerated CCA that is

[169] Exhibit H, Tab 1, Schedule 1, pp. 1-5.
[170] Exhibit H, Tab 1, Schedule 1, p. 1.

going to generate substantial losses for tax purposes. OEB staff notes from the calculation of OCMT[171] that the OCMT that would have been attributable to BLP (had it lost tax-exempt status) is $0.14 million (i.e. 2.7% of the allocated regulated net income of $5.37 million), which is below the calculated materiality threshold of $278,500. In other words, if NextBridge had included the OCMT attributable to BLP, the OCMT amount in the revenue requirement of the test year would be increased from $0.58 million to $0.72 million.

Revenue Differential Variance Account (RDVA)

NextBridge is proposing the RDVA to record the difference between the revenue requirement based on the forecasted in-service date (March 31, 2022) and the revenue requirement that would have been calculated based on the actual achieved in-service date (earlier or later). NextBridge proposes the disposition of the account in its second annual update following the in-service of the assets, i.e. the application to be filed in 2023 for the inclusion in 2024 UTR rates.[172]

In its response to OEB staff's interrogatory regarding the prudence of the account[173], NextBridge stated that:

> As determined by the IESO, the NextBridge project is developed to provide the least-cost solution to supply power to Northwestern Ontario and delivering the project in-service is cost effective for customers. While NextBridge currently projects the March 31, 2022 in service date as achievable, unknown events, such as the ongoing COVID-19 pandemic, may impact the in-service date. The costs associated with addressing unknown events, such as COVID-19, will be prudently incurred as required to bring the East-West Tie line in-service. Therefore, it is reasonable to establish a revenue tracking account for the potential that either the East-West Tie line is brought into service prior to or after the March 31, 2022 in-service date.

In the oral hearing, NextBridge's representatives stated that "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 [$ million]".[174] OEB staff notes that based on OEB staff's proposal to update the UTRs once the East-West Tie Line is in-service, if NextBridge is not in-service on March 31, 2022 then finalization of 2022 UTRs will be delayed.

Given NextBridge's expressed confidence regarding the accuracy of the in-service date of March 31, 2020 and OEB staff's proposal to update UTRs for April 1, 2022, OEB staff

[171] Exhibit F-12-01-01 excel, Calculation of Utility Income Taxes
[172] Exhibit H, Tab 1, Schedule 1, p. 2.
[173] Response to OEB staff interrogatory #71
[174] Transcript_UCT_NextBridge_Vol 3_20210331, p. 142.

does not support the establishment of the RDVA. One of the OEB's rate-setting practices is that rates are set based on a forecast and rates are set on a final basis. OEB staff's view is that NextBridge should not have forecasting risk passed on to ratepayers through this DVA. NextBridge has raised the issue of whether-related events and the COVID-19 pandemic as examples of the uncertainties.[175] However, as explained in the submission, OEB staff believes that there is already a sufficient mechanism in place (Account 1509 or Z factor Account 1572) to track and record such costs.

Construction Cost Variance Account (CCVA)

NextBridge is proposing the CCVA to record the revenue requirement impacts of the following three components:

1) differences between forecasted construction costs in this application and the actual final project construction costs

2) 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 Environmental Assessment for construction monitoring and mitigation programs that are not already accounted for in the construction costs

3) COVID-19 related capital costs incurred during construction

NextBridge proposes two dispositions for the costs in the CCVA: one that occurs in the second update application (filed in 2023 for 2024 UTR rates inclusion), and another in its next rebasing application. NextBridge stated that:

> NextBridge seeks to leave the CCVA open for the remainder of the IR Term to account for activities that are a direct result of construction, such as environmental costs associated with the Overall Benefits Permit and Amended EA.[176]

In its Argument-in-Chief, NextBridge referenced a deferral account in another proceeding[177] to support the appropriateness of the CCVA:

> A recent settlement approved in the EB-2019-0261, Decision and Order (Nov. 19, 2020) supports the approval of NextBridge's proposed CCVA, because in that proceeding the OEB accepted deferral accounts prior to knowing the expected balance to be included in Hydro Ottawa Limited's (Hydro Ottawa)

[175] Transcript_UCT_NextBridge_Vol 3_20210331, p. 142.
[176] Exhibit H, Tab1, Schedule 1, p. 4.
[177] EB-2019-0261.

subaccount "1508 – Subset of system access capital additions (net of contributions) revenue requirement differential variance account".[178]

With respect to the second variance component in the CCVA (i.e. post in-service environmental and monitoring costs), NextBridge clarified that the costs can be bifurcated into two sub-components. The first sub-component is the initial $1 million that is known and quantifiable, but will be incurred post in-service date. This amount has already been included in the proposed $737.1 construction costs. The second sub-component is the subsequent post environmental and monitoring costs that involves additional variables associated with relocating wildlife on the land.[179] NextBridge provided an estimate of the post in-service environmental cost of $1.419 million from year 2 after the in-service date to year 5 in its application and stated that "After five years post in-service date, the costs are expected to be less than $10,000 annually".[180]

OEB staff submits that it does not support the establishment of the CCVA for the following reasons:

- There is no need to establish the variance account for the first component, i.e. the difference between the forecasted construction costs and the actual construction costs.

  i) OEB staff notes that NextBridge has expressed its confidence with respect to the forecast construction costs of $737.1 million throughout the application and evidence, and even back through all of the quarterly reports[181] and the leave to construct proceeding. Furthermore, in section 8.1 of this submission, OEB staff supports a $23.6 million reduction of NextBridge's proposed construction cost of $737.1 million. As a result, the need for the variance between the forecast and actual construction cost is not supported.

  ii) The variance account approved by the OEB in Hydro Ottawa's 2021 to 2025 Custom IR proceeding is an asymmetric account, in that "overspending or faster pace of spending will not result in recording debits in this account. Overspending or earlier spending will therefore not result in recording amounts to be recovered from customers during the 2021-2025 period".[182] As a result, Hydro Ottawa's capital variance account is

[178] Argument-in-Chief, p. 43.
[179] Transcript_UCT_NextBridge_Vol 3_20210331, pp. 122-123.
[180] Exhibit H, Tab 1, Schedule 1, p. 4.
[181] East-West Tie Line's Quarterly Construction Progress Reports from Q3, 2019 to Q4, 2020 that are filed in this application
[182] EB-2019-0261, Settlement Proposal, September 18, 2020, Attachment 6, Page 5, Accounting Order for Sub-account 1508 - Capital Additions Revenue Requirement (excluding sub-set of System Access) Differential Variance Account

not comparable with the symmetric variance account proposed by NextBridge in this application.

- With respect to the second component (post in-service environment costs), OEB staff submits that the post in-service environmental costs should be expensed rather than capitalized as part of the construction costs, in accordance with the US Generally Accepted Accounting Principles (US GAAP). The US GAAP rules for Property, Plant and Equipment state that the historical cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use.[183] OEB staff's view is that the post in-service environment costs, particularly the costs to be incurred following the in-service date during the IR term, are not costs that are necessary to bring the transmission line in service and do not appear to align with the capitalization requirements under US GAAP. As such, these costs should be managed under the proposed OM&A envelop instead of being recorded in the proposed CCVA to be recovered from ratepayers.

- OEB staff has already submitted in the COVID-19 section above that the associated revenue requirement impact of the COVID-19 related costs should be recorded in the sub-account Other Costs under Account 1509.

Debt Rate Variance Account (DRVA)

NextBridge is proposing to use the DRVA to track the difference between the long-term and short-term debt rates used in the calculation of NextBridge's revenue requirement and the actual long-term and short-term debt rates secured by NextBridge to finance the East-West Tie Line, once the actual debt rates are known.[184] In response to an interrogatory from Energy Probe, NextBridge stated that "NextBridge expects to know the actual cost of long-term debt closer to the March 31, 2022 in-service date".[185] NextBridge has proposed to dispose of this account in its second annual update to allow for the finalization of audited balances. In the response to an OEB staff interrogatory[186], and as explained in its Argument-in-Chief[187], NextBridge stated that "NextBridge proposes to track and dispose of a one-time update to its long-term debt costs such that it allows for a refund to customers if the costs of actual long-term debt decreases or increasing the cost of debt if actual long-term debt is higher than that proposed in the Application". OEB staff notes that the long-term and short-term debt rates proposed in the Application are based on the now out of date 2020 OEB deemed rates.

[183] USGAAP, Section 360-10-30-1.
[184] Exhibit H, Tab 1, Schedule 1, p. 5.
[185] Response to Energy Probe Interrogatory #30 c).
[186] Response to OEB staff Interrogatory #71 a).
[187] Argument-in-Chief, p. 44.

OEB staff notes that NRLP's 2020 revenue cap decision and order approved an account for the refinancing of NRLP's debt by way of a one-time update as part of its 2021 revenue requirement.[188]

In the oral hearing, NextBridge was asked whether it has considered the one-time update of the revenue requirement that was proposed and approved in NRLP's 2020 revenue cap application as an alternative to the variance approach proposed in the Application. In response, NextBridge's representative stated that:

> That's very similar to what we're asking for in the debt rate variance account, so it would be a one-time update. We did delay it for a period of time to make sure we had all the audited financials ready.[189]

OEB staff generally supports the establishment of the DRVA but only with the following two conditions:

1) This account is only related to the long-term debt rate or both the long-term and short-term rates. If the account is only to update the long-term debt rate, NextBridge should update the draft accounting order to reflect this updated wording.

2) The proposed DRVA approach has the same effect as a one-time update to the actual long-term debt rate in its revenue requirement.

Z-Factor Treatment Account 1572

In its Application, NextBridge stated that "NextBridge will potentially apply for Z-factor treatment if material costs are incurred for unforeseen events for reasons beyond the company's control that occur during the IR Term. NextBridge will apply for an accounting order for use of this account should such an event occur and will notify the OEB prior to including any amounts in this account".[190]

In its response to an Energy Probe interrogatory, NextBridge confirmed its understanding that the OEB does not approve the Z factor account in advance, but requires the utility to apply for relief, reflecting the circumstances related to the request.[191]

OEB staff agrees with Energy Probe that there is no need to apply for a generic account. Account 1592 is a part of the APH, and already available for use by all electricity transmitters and distributors, whenever circumstances permit.

[188] EB-2018-0275, Settlement Agreement, March 6, 2020, p. 27.
[189] Transcript_UCT_NextBridge_Vol 3_20210331, p. 129.
[190] Exhibit H / Tab 1/ Schedule 1 / p. 5.
[191] Response to Energy Probe Interrogatory #30.

Absent a specific proposal from NextBridge for the Z factor materiality, OEB staff submits that the materiality threshold of $278,500 proposed by NextBridge in this application should be used for any Z factor claim in its IR term.[192]

11 Cost Allocation (Issue 8)

11.1 Is the proposed cost allocation appropriate (Issue 8.1)?

All assets associated with NextBridge are classified as Network assets, consistent with the cost allocation methodology approved by the OEB for Hydro One Networks Inc. approved transmission rate application (EB-2016-0160). Accordingly, all the rates revenue requirement associated with NextBridge's transmission assets will be allocated to the Network pool.[193]

OEB staff has no concerns with NextBridge's proposed cost allocation.

[192] Exhibit A / Tab 3 / Schedule 1 / p.21

[193] Exhibit I / Tab 1/ Schedule 1 / p. 1

12 Summary of impact of Staff's Proposal

The following table summarizes the revenue requirements if all OEB staff adjustments proposed are considered together under Staff Proposal 2, including applying 2021 Cost of Capital parameters, rate base reductions and OM&A reductions.

Table 11 - OEB Staff Proposal 2 – Revenue Requirement - Capital - 0% Inflation Factor and 0.75 % Stretch Factor and OM&A - 2% Inflation Factor and 0.3% Stretch Factor

($M)	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	TOTAL
OM&A[194]	3.1	4.2	4.3	4.4	4.5	4.6	4.7	4.8	4.9	5.0	44.5
Depreciation[195]	6.8	9.0	9.0	9.1	9.1	9.1	9.1	9.1	9.1	9.1	88.4
Taxes[196]	0.4	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	5.2
Return on Equity[197]	18.7	24.6	24.4	24.2	24.0	23.7	23.5	23.3	23.1	22.9	232.4
Return on Debt[198]	9.3	12.4	12.2	12.1	12.0	11.8	11.7	11.5	11.4	11.2	115.6
Revenue Requirement	38.3	50.8	50.6	50.3	50.0	49.7	49.5	49.2	48.9	48.6	486.0
Average Rate Base[199]	747.1	742.6	734.3	726.3	717.7	708.9	700.1	691.7	683.1	674.2	
Return on Equity	8.34%	8.29%	8.31%	8.32%	8.34%	8.37%	8.40%	8.42%	8.44%	8.47%	8.37%[200]

The reduction in revenue requirement for the term is $110.2 million ($596. 2 minus $486.0 million).

~All of which is respectfully submitted~

[194] Includes $0.89 million Test Year Reduction
[195] Includes $23.6 million construction costs reduction and $0.23 million test year additions disallowance
[196] SEC submission
[197] Based on 2021 OEB cost of capital parameters
[198] Based on 2021 OEB cost of capital parameters
[199] Includes $23.6 million construction costs reduction and $0.23 million test year additions disallowance
[200] IR Term Average

13 APPENDIX

OEB Staff Tables 2 to 4[201] Modified based on 2023 Opening Rate Base of $765. 9 Million Suggested by NextBridge at Oral Hearing

OEB Staff Table 2 Modified – Transmission Rate Base - Return on Equity

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	TOTAL
Opening Rate Base ($M)	775.1	765.9[202]	756.6	747.4	738.2	728.9	719.6	710.4	701.1	691.9	
Depreciation ($M)	4.6	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	
Closing Rate Base ($M)	765.9	756.6	747.4	738.2	728.9	719.6	710.4	701.1	691.9	682.6	
Average Rate Base ($M)	770.4	761.2	752.0	742.8	733.5	724.3	715.0	705.8	696.5	687.2	728.9
Return on Equity on $770.4M using 2020 Deemed ROE of 8.52% ($M)	19.7	26.3	26.3	26.3	26.3	26.3	26.3	26.3	26.3	26.3	256.0
Return on Equity on Average Rate Base for Each Year using 2020 Deemed ROE of 8.52% ($M)	19.7	25.9	25.6	25.3	25.0	24.7	24.4	24.1	23.7	23.4	241.8
Return on Equity on $770.4M using 2021 Deemed ROE of 8.34% ($M)	19.3	25.7	25.7	25.7	25.7	25.7	25.7	25.7	25.7	25.7	250.6
Return on Equity on Average Rate Base for Each Year using 2021 Deemed ROE of 8.34% ($M)	19.3	25.4	25.1	24.8	24.5	24.2	23.9	23.5	23.2	22.9	236.7

[201] Exhibit K3.1 / Staff Compendium for NextBridge Panel 1 / pp. 64, 66 and 68
[202] Oral Hearing Transcripts / Vol. 3 / p.102 Carly Weinstein, Manager Forecasting and Analysis, NEET stated opening 2023 Rate Base for staff calculations should be $765.9 million.

OEB Staff Table 3 Modified - Transmission Rate Base - Return on Debt

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	TOTAL
Opening Rate Base ($M)	775.1	765.9[203]	756.6	747.4	738.2	728.9	719.6	710.4	701.1	691.9	
Depreciation ($M)	4.6	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	
Closing Rate Base ($M)	765.9	756.6	747.4	738.2	728.9	719.6	710.4	701.1	691.9	682.6	
Average Rate Base ($M)	770.4	761.2	752.0	742.8	733.5	724.3	715.0	705.8	696.5	687.2	728.9
Return on Long-term Debt on $770.4 M Rate Base using 2020 Deemed LTD of 3.21% ($M)	10.4	13.7	13.7	13.7	13.7	13.7	13.7	13.7	13.7	13.7	133.5
Return on Long-term Debt on Average Rate Base for Each Year using 2020 Deemed LTD of 3.21%($M)	10.4	13.7	13.5	13.4	13.2	13.0	12.9	12.7	12.5	12.4	127.6
Return on Long-term Debt on $770.4 M Rate Base using 2021 Deemed LTD of 2.85% ($M)	9.2	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	119.9
Return on Long-term Debt on Average Rate Base for Each Year using 2021 Deemed LTD of 2.85% ($M)	9.2	12.1	12.0	11.9	11.7	11.6	11.4	11.3	11.1	11.0	113.3
Return on Short term Debt on $770.4 M using 2020 Deemed STD of 2.75%($M)	0.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	8.2
Return on Short term Debt on Average Rate Base for Each Year using 2020 Deemed STD of 2.75% ($M)	0.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	7.8
Return on Short term Debt on $770.4 M using 2021 Deemed STD of 1.75% ($M)	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	5.3
Return on Short term Debt on Average Rate Base for Each Year using 2021 Deemed STD of 1.75% ($M)	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	5.0

[203] Oral Hearing Transcripts / Vol. 3 / p.102 Carly Weinstein, Manager Forecasting and Analysis, NEET stated opening 2023 Rate Base for staff calculations should be $765.9 million.

OEB Staff Table 4 Modified[204] – Revenue Requirement

($M)	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	TOTAL
Revenue Requirement [205]	41.8	56.8	58.0	59.1	60.3	61.5	62.8	64.0	65.3	66.6	596.2
OM&A (includes 2% Inflation factor)[206]	3.7	5.0	5.1	5.2	5.3	5.5	5.6	5.7	5.8	5.9	52.9
Depreciation [207]	7.0	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	90.7
Taxes[208]	0.4	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	5.2
Deemed Return on Debt on Average Rate Base using 2020 Parameters[209]	11.0	14.5	14.3	14.2	14.0	13.8	13.6	13.5	13.3	13.1	135.4
Deemed Return on Equity on Average Rate Base using 2020 Parameters	19.7	25.9	25.6	25.3	25.0	24.7	24.4	24.1	23.7	23.4	241.8
Return on Equity Based on NextBridge's Proposed Revenue Requirement	19.7	27.5	28.7	29.9	31.2	32.5	33.8	35.1	36.4	37.8	312.4
Calculated Return on Equity (%)	8.52 %	9.02 %	9.53 %	10.07 %	10.62 %	11.20 %	11.80 %	12.43 %	13.08 %	13.75 %	11.00% [210]

[204] Oral Hearing Transcripts / Vol. 3 / p.102 Carly Weinstein, Manager Forecasting and Analysis, NEET stated opening 2023 Rate Base for staff calculations should be $765.9 million.
[205] Exhibit E / Tab 1 / Schedule 1 / Table 3 / p. 2
[206] Exhibit F / Tab 1 / Schedule 1
[207] Exhibit F / Tab 11 / Schedule 1
[208] Exhibit F / Tab 13 / Schedule 1
[209] Exhibit G / Tab 1 / Schedule 1
[210] IR term Average