April 27, 2021

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

Re: Upper Canada Transmission Inc. (UCT) 2022 to 2031 Transmission Revenue Application
AMPCO's Final Submissions
Board File No. EB-2020-0150

Dear Ms. Long:

Attached please find AMPCO's final submisisons in the above proceeding.

Best Regards,

Colin Anderson
President

Copy to: NextEra Energy Transmission Canada, LLC

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EB-2020-0150

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

AMPCO Submissions April 27, 2021

Upper Canada Transmission, Inc. (operating as NextBridge Infrastructure LP) (NextBridge) filed a custom incentive rate-setting application with the Ontario Energy Board (OEB) on November 4, 2020, under section 78 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that NextBridge charges for electricity transmission, beginning April 1, 2022 and for each following year through to December 31, 2031.

NextBridge is a new transmitter and is constructing the 450 km East-West Tie line, a double circuit 230 kilovolt transmission line, between Thunder Bay and Wawa. NextBridge began construction of the East-West Tie Line in September 2019. NextBridge forecasts an in-service date of March 31, 2022.

NextBridge is requesting approval of a Custom Incentive Regulation (CIR) plan to set rates beginning in 2022 consisting of:

- a Revenue Cap Index (RCI) framework;
- an IR term length of 9 year 9 months, for the period April 1, 2022 to December 31, 2031;
- a base revenue requirement of $55.7 million, prorated to $41.8 million for the period April 1, 2022 to December 31, 2022;
- recovery of $31.24 million in development costs previously approved by Decision and Order dated December 20, 2018 (EB-2017-0182);
- recovery of $5.33 million of pre-July 31, 2017 costs identified in Decision and Order dated December 20, 2018 (EB-2017-0182) as eligible for consideration as construction costs (referred to as Phase Shift costs);
- $737.1 million of construction costs;
- $1.2 million in spares;
- $4.9 million in base year OM&A;
- a projected In-service date of on or before March 31, 2022;
- establishment of the accounting orders for four variance accounts;
- establishment of a Z-factor account if material costs are incurred for unforeseen events for reasons beyond the company's control that occur during the IR Term, and
- inclusion in the UTR for the Network pool to allow for the recovery of NextBridge’s proposed rates revenue requirement for 2022, for nine months of service beginning on April 1, 2022.

Revenue Cap Index (RCI) Framework

NextBridge's proposed RCI framework is based on a revenue requirement determined by using a cost of service forward test year and a fixed annual adjustment to revenue requirement of 2% to take effect on January 1st in each year of the term except the first year, which takes effect April 1, 2022.

NextBridge's Test Year revenue requirement of $55.7 million is made up of the following components:

Component	Test Year ($M)
OM&A	4.9
Depreciation	9.3
Income Taxes	0.6
Return on Capital	41.0
Base Revenue Requirement	**55.7**
Prorated – 9 months of 2022	**41.8**

AMPCO takes no issue with the above proposed input amounts to Test Year revenue requirement and accepts the amounts for development costs, phase shift costs, construction costs and spares, quantified above. OM&A costs are discussed below.

RCI in the OEB's RCI framework is expressed as: RCI = I – X, where I is the Inflation Factor, based on the OEB's inflation factor for incentive rate setting and X is the Productivity Factor, which includes a Stretch Factor.

NextBridge's proposed formula for RCI = Inflation (2%) – Productivity Factor (0%). NextBridge proposes to adopt the OEB's Inflation Factor effective for 2020 of 2% and NextBridge has selected a 0% Productivity Factor (X) which includes a 0% Stretch Factor. NextBridge explains that it is a new entrant and has a structure unlike other transmission and distribution companies in Ontario and indicates its proposal reflects these circumstances.[1]

As shown in the table below, NextBridge's proposal, which is based on a 2% annual upward adjustment in revenue requirement, results in an increase in annual revenue requirement from $55.7 million in 2022 ($41.8 million prorated for nine months) to $66.6 million in 2031, or a total revenue requirement of $596 million over the 9 year 9 month IR Term. NextBridge's proposal includes locking in an ROE of 8.52% for the 9 year 9 month IR term.

NextBridge RCI Proposal	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	TOTAL
NB Proposal Annualized RR ($M)	55.7	56.8	58.0	59.1	60.3	61.5	62.8	64.0	65.3	66.6	**610**
NB Proposal April 1, 2022 Effective Date ($M) (3)	41.8	56.8	58.0	59.1	60.3	61.5	62.8	64.0	65.3	66.6	**596**

AMPCO worked with other intervenors throughout the proceeding to analyze NextBridge's RCI proposal and has had the benefit of reviewing the draft submissions of the School Energy Coalition (SEC). AMPCO fully supports SEC's analysis which compares the revenue requirement collected under NextBridge's RCI

[1] Ex A T3 S1 P6

proposal described above to NextBridge's costs assuming OM&A costs increase by 2% annually and 2020 cost of capital parameters are used. The findings show that rate base declines each year from $770.4 million in 2022 to $689.5 million in 2031 due to depreciation, and the fact that NextBridge is not adding capital expenditures to rate base during the IR Term.[2]

NextBridge has identified $4.28 million of capital projects over the IR Term in accordance with its 10-year capital plan in its Transmission System Plan but is not adding the impact of these amounts to revenue requirement during the requested IR Term. Instead, NextBridge proposes to add the depreciated book value of capital expenditures during the IR Term to rate base at NextBridge's next rebasing of revenue requirement at the end of the IR Term.[3] When these amounts are included in rate base as part of the comparison, rate base in 2031 declines but is slightly higher in 2031 from $689.5 million to $693.3 million.

NextBridge's RCI proposal is imperfect and not appropriate in that it does not take into account the annual decline in rate base. If the revenue requirement calculation is structured to take into account the actual decline in rate base and NextBridge's 2% is applied to OM&A in every year over the IR Term, the forecast revenue requirement in 2031 is $52.6 million instead of $66.6 million and the total revenue requirement collected over the 10 year IR Term is $528.1 million, $68.1 million less than NextBridge's proposal.

The outcome of NextBridge's RCI proposal, is that NextBridge is over-recovering on rate base.[4] As shown in the table below, ROE increases from 8.52% in year one to 13.57% in year 10.

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Forecast ROE	8.52%	8.52%	8.52%	8.52%	8.52%	8.52%	8.52%	8.52%	8.52%	8.52%
Nextbridge Proposal ROE	8.52%	8.96%	9.47%	9.98%	10.53%	11.09%	11.68%	12.28%	12.91%	13.57%

NextBridge says it will manage all the expenses under the funding allowed by the revenue cap framework.[5] With a 68 million gap between NextBridge's RCI proposal and NextBridge's costs, there is no doubt that this is possible.

AMPCO submits in order to set just and reasonable rates, the RCI formula needs to be restructured to recognize NextBridge's unique situation of a declining rate base. Otherwise NextBridge will be over collecting from ratepayers, year after year, and the length of the IR Term exacerbates the issue.

Consistent with SEC's analysis, AMPCO proposes that the RCI formula be structured with a separate factor applied to each of OM&A and capital, to reflect the unique characteristics of each input to revenue requirement and the newness of the single asset being constructed.

<u>Proposed OM&A Factor</u>

OM&A costs of $4.92 million represent 8.8% of 2022 revenue requirement.[6] These costs are controllable

[2] SEC Compendium P56-57
[3] AMPCO-4
[4] 2022 Revenue Requirement prorated
[5] Transcript Vol 1 P27
[6] $4.9/$55.7

and are impacted by inflation and productivity. AMPCO submits it is appropriate to apply an I-X formula to OM&A costs. However, a Stretch Factor of 0% as proposed by NextBridge is not appropriate and inconsistent with Custom IR. AMPCO supports SEC's proposal to include a stretch factor on OM&A costs and 0.3%, which is the midpoint of the Board's 0% to 0.6% range, is reasonable.

A stretch factor on OM&A will provide an incentive to NextBridge beyond the rate of inflation and balance the needs of its customers and shareholders during the IR Term. AMPCO submits the OEB should approve a stretch factor on OM&A costs to incent further efficiencies to be shared with customers.

Proposed Capital Factor

Capital costs contribute 91.2% to 2022 revenue requirement and rate base is declining. AMPCO submits it is not appropriate to apply an I-X formula to these costs. These costs are fixed and not impacted by inflation or productivity. Consistent with SEC's analysis, the table below shows the percentage decline in capital related revenue requirement over the IR Term, with an average annual decrease of 0.93%. AMPCO submits a capital factor of 0.09 is appropriate.

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	TOTAL
Total Capital RR ($M)	50.8	50.4	50.0	49.5	49.0	48.6	48.1	47.6	47.2	46.7	487.9
Variance (%)		-0.67%	-0.92%	-0.89%	-0.98%	-0.97%	-0.98%	-0.97%	-0.97%	-1.04%	-8.4%
Average (%)											**-0.93%**

Cost of Capital

NextBridge proposes to use the OEB's 2020 cost of capital parameters to set the revenue requirement for 2022. NextBridge does not plan to update to the latest 2021 cost of capital parameters with an ROE of 8.34%.[7]

AMPCO submits the 2022 revenue requirement should be set based on the OEB's 2022 cost of capital parameters once the data becomes available in late 2021, consistent .

OM&A Costs

NextBridge's Test Year OM&A budget forecast totals $4.94 million as follows:

OM&A Expense	**LTC Budget ($ M)**	**Test Year Budget ($ M)**	**Variance[8] ($M)**
Operations & Maintenance	1.27	1.27	0.00
Regulatory	0.21	0.07	(0.14)
Compliance & Administration	1.45	1.67	0.22
Indigenous Participation	0.50	0.89	0.39
Indigenous Compliance		0.44	0.44
Property Taxes & Rights Payments	0.60	0.60	0.10
Total OM&A	**3.92**	**4.94**	**1.01**

[7] SEC-8
[8] JT2.1

In the LTC Application, NextBridge revised its OM&A forecast from $7.4 million, and later $4.7 million before proposing and OM&A of $3.92 million per year.[9] The annual budget estimate for Compliance, updated for further efficiencies, accounts for the difference between $4.7 million and $3.92 million.[10]

The current Test Year OM&A budget of $4.92 million reflects an increase of $1 million from the LTC Application, primarily due to an increase in Indigenous costs and Compliance & Administration costs.

Within NextBridge's RCI framework, NextBridge indicates it will be responsible for any increases in OM&A expenses above its proposed 2% inflation factor which includes both known and unknown increases.[11] NextBridge has included an amount of $170,000 in OM&A for known unknowns.[12] Further, only $4.27 million of the OM&A budget is subject to inflation.[13] Applying an inflation factor to the remaining costs not subject to inflation provides an additional buffer to absorb cost increases.

NextBridge is seeking approval of a Z-factor account for unforeseen events outside of NextBridge's control that occur during the IR Term. With a Z-factor threshold of $278,000,[14] this mechanism can be used to address material unanticipated cost pressures that arise.

NextBridge's performance measure, OM&A Cost per Circuit Kilometer, has a target to keep OM&A per kilometer at the number filed in its Application, i.e. $10,977 for every year of the IR Term.[15] This was backed up at the hearing when NextBridge stated…. "we are setting very aggressive targets, and at the same time, you know, we're confident that we can keep O&M budget at the 4.94 million that we projected over that 10-year period."[16]

AMPCO submits the OEB should accept NextBridge's 2022 OM&A costs and expect that further efficiencies can be achieved as NextBridge gains experience working with Hydro One Networks during the IR Term. NextBridge expects its capital investments will improve reliability and reduce long term OM&A costs for the life of the project[17] A Stretch Factor on OM&A ensures ratepayers benefit from efficiency gains.

Construction Costs

NextBridge forecasts a total of $737.1 million in construction costs to complete the East-West Tie line, assuming an in-service date of March 31, 2022. This amount is consistent with the amount put forward by NextBridge in its Leave to Construct (LTC) Application.[18]

In its Argument-in-Chief in the LTC Application, NextBridge stated that its construction cost estimate is "a mature AACE International (formerly the Association for the Advancement of Cost Engineering) Class

[9] EB-2017-0182/EB-2017-0194/EB-2017-0364 Decision and Order dated December 20, 2018 P50
[10] B-2017-0182 Ex I.NextBridge.STAFF.54 (g)
[11] AIC P12
[12] Transcript Vol 1 P149
[13] JT3.3
[14] Transcript Vol 1 P143
[15] Staff-59 (b), ($4.94 million (total cost of OM&A in the Application) / 450km = $10,977
[16] Transcript Vol 1 P151
[17] Ex A T3 S1 P12
[18] EB-2017-0182/EB-2017-0194/EB-2017-0364 Decision and Order dated February 11, 2019 P7

2 estimate within a narrow accuracy band of plus or minus 10%" and, further NextBridge's estimate is on the cusp of becoming an AACE Class 1 estimate, which will occur upon approval of NextBridge's EA."[19]

NextBridge now reports that its EA has been approved[20], the construction cost estimate has reached a Class 1 estimate[21], the engineering design is close to 100%[22], and nearly 90% of its construction costs are secured under contract.[23] As shown in the table below, the accuracy band for the cost estimate would now be closer to plus or minus 3%.[24]

Generic Cost Estimate Matrix - AACE Recommended Practice No. 18R-97

	Primary Characteristic	*Secondary Characteristic*		
ESTIMATE CLASS	**MATURITY LEVEL OF PROJECT DEFINITION DELIVERABLES** Expressed as % of complete definition	**END USAGE** Typical purpose of estimate	**METHODOLOGY** Typical estimating method	**EXPECTED ACCURACY RANGE** Typical variation in low and high ranges
Class 5	0% to 2%	Concept screening	Capacity factored, parametric models, judgment, or analogy	L: -20% to -50% H: +30% to +100%
Class 4	1% to 15%	Study or feasibility	Equipment factored or parametric models	L: -15% to -30% H: +20% to +50%
Class 3	10% to 40%	Budget authorization or control	Semi-detailed unit costs with assembly level line items	L: -10% to -20% H: +10% to +30%
Class 2	30% to 75%	Control or bid/tender	Detailed unit cost with forced detailed take-off	L: -5% to -15% H: +5% to +20%
Class 1	65% to 100%	Check estimate or bid/tender	Detailed unit cost with detailed take-off	L: -3% to -10% H: +3% to +15%

NextBridge filed its first quarterly progress report on the project on August 30, 2019. The report indicates that after the issuance of the LTC, NextBridge undertook a re-budgeting effort based on the in-service date change from Q4 2020 to Q4 2021. The re-budgeting effort incorporated the timing of Indigenous and stakeholder consultation, environmental studies, permits, approvals, and authorizations to support the new in-service date.[25] As a result of this rebudgeting effort, 100% of the contingency was allocated, to Engineering and Construction (84%), Environmental & Remediation Activities (9%) and Indigenous Activities (7%).[26] NextBridge maintains that although there have been some savings from construction costs, the net impact due to the allocation of contingency is that the construction budget forecast has not changed.[27]

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[19] EB-2017-0182/EB-2017-0194/EB-2017-0364, NextBridge Argument-in-Chief, October 22, 2018, pp. 2-3.
[20] Transcript Volume 1 P16
[21] Transcript Volume 1 P159
[22] Transcript Volume 1 P160
[23] AIC P32
[24] EB-2017-0182 Exhibit K5.1P50
[25] AMPCO Compendium P12
[26] AMPCO Compendium P13
[27] Transcript Volume 1 P158

The latest quarterly progress report on the project filed April 22, 2021 shows that NextBridge has spent a total of $551.63 million of its budget or 74%, and is still tracking to spend $737.1 million in construction costs to complete the project.[28]

EWT Progress Report April 22, 2021	Total Spent to Date ($M)	Revised Total Budget ($M)
Project Spend	$535.95	$706.14
Interest During Construction (IDC)	$15.69	$31.00
Total Construction Costs	**$551.63**	**$737.14**

NextBridge's position is that there is no uncertainty around the $737.1 million in construction costs.[29]

In considering the above, AMPCO submits The OEB should accept NextBridge's construction costs to set the 2022 revenue requirement. NextBridge has confirmed cost certainty without a doubt.

IR Term

NextBridge RCI proposal includes a 9 year 9 month term. NextBridge submits that its IR term is appropriate as it provides rate stability and other tangible benefits to customers and is consistent with OEB policy.[30]

AMPCO does not support an IR Term beyond five years. In AMPCO's view a regulated entity should not be away from the regulator for an extended period of time. Doing so could lead to cost pressures upon rebasing and other issues given the potential changes that can occur over a decade. AMPCO submits a 5 year term also provides adequate rate stability.

Deferral and Variance Accounts

NextBridge seeks approval to establish five new deferral/variance accounts:

- Construction Cost Variance Account;
- Taxes or Payments in Lieu of Taxes Variance Account;
- Revenue Differential Variance Account;
- Debt Rate Variance Account; and
- Z-Factor.

NextBridge will seek disposition of the Taxes or Payments in Lieu of Taxes Variance Account at the end of the IR Term. The remaining accounts would be disposed off at the second annual update following in-service. The Z-factor account would be for unforeseen events outside of NextBridge's control that occur during the IR Term.

[28] Quarterly EWT Progress Report April 22, 2021 P33
[29] SEC 52(c)
[30] AIC P18

AMPCO does not have an issue with the proposed accounts subject to AMPCO's comments below related to the scope of the CCVA.

Construction Cost Variance Account (CCVA)

NextBridge proposes that the CCVA track any difference in revenue requirement and includes:

- differences between forecasted construction costs in this Application and the actual final project construction costs, including IDC;

- COVID-19 related capital costs incurred during construction in excess of forecasted construction costs in this Application;

- 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 OBP and/or Amended EA for construction monitoring and mitigation programs that are not already accounted for in the construction costs (i.e., environmental mitigation costs of $1 million that were included but occur post in-service date because they were known and quantifiable amounts).

Given the certainty with respect to NextBridge's construction costs discussed above, AMPCO does not support using the CCVA to record variances related to construction costs. The project design is essentially complete, the project costs are known and the project has consistently been on track to the $737 million forecast.

AMPCO takes no issue with establishing the CCVA to track COVID-19 related capital costs and costs past the in-service date as described above.

Performance Measures

NextBridge proposes to track and report annually on the following measures:[31]

- 0.00 OHSA Recordable Injuries per Year
- Return on Equity
- NERC Vegetation Compliance
- OM&A Cost per Circuit Kilometer
- Average System Availability

NextBridge proposes the following targets for each performance metric:[32]

[31] Ex D T1 S1
[32] Staff-59 (c)

YEAR	OHSA Recordable Injuries	ROE	NERC Veg Compliance Violations	OM&A $/km	Ave. System Availability
2022	0	8.52%	0	$10,977	99%
2023	0	8.52%	0	$10,977	99%
2024	0	8.52%	0	$10,977	99%
2025	0	8.52%	0	$10,977	99%
2026	0	8.52%	0	$10,977	99%
2027	0	8.52%	0	$10,977	99%
2028	0	8.52%	0	$10,977	99%
2029	0	8.52%	0	$10,977	99%
2030	0	8.52%	0	$10,977	99%
2031	0	8.52%	0	$10,977	99%

AMPCO submits the OEB should approve NextBridge's proposed performance metrics, and targets subject to target updates based on the OEB's decision on ROE and OM&A costs. With respect to Average System Availability, given the newness of the transmission line, the target for this measure should be closer to 100%.

T-SAIDI and T-SAIFI are typical transmission performance measures. However, NextBridge has no delivery points and therefore is unable to calculate T-SAIDI or T-SAIFI for its circuits independently. To calculate the T-SAIDI and T-SAIFI metrics, NextBridge indicates it would need to have direct visibility into HONI's transmission system and customer delivery points. NextBridge does not currently have such visibility, but it is willing to use best efforts to work with HONI to calculate the T-SAIDI and T-SAIFI metrics if it is desired that such metrics be provided as they indirectly relate to the East-West Tie line.[33]

AMPCO submits the OEB should require NextBridge to work with HONI to calculate this information (T-SAIDI & T-SAIFI) and include it as part of its annual performance measure reporting.

Earnings Sharing Mechanism (ESM)

AS discussed above, NextBridge's proposed RCI Framework results in the potential for NextBridge to overearn over the IR Term. NextBridge has included a 300 basis points trigger in its application to allow for a regulatory review by the OEB should it overearn. AMPCO 's position is that the RCI formula should be adjusted to avoid this outcome. That said, AMPCO submits the OEB should also approve an ESM as part of NextBridge's RCI framework to provide additional ratepayer protection against significant overearnings.

All of which is respectfully submitted.

[33] Staff-62 (a)