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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

Submission of the
Vulnerable Energy Consumers Coalition
(VECC)

April 27, 2021

Vulnerable Energy Consumers Coalition

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Introduction

The Board approved an issues list for this proceeding. We have addressed the issues list, but not necessarily in order. The body of our submissions is a narrative set around the standard cost of service formula and which we ordered to best describes our concerns with the Applicant's proposal. Generally, we have dealt with the issues of deferral and variance accounts within the subject areas they apply.

The Board has two related proceedings in this matter. Both go by the docket EB-2017-0182/0194/0364. The first was the initial leave-to-construction application with a decision date of December 20, 2018. For ease we refer to this at LTC 2018. The other implementing the Government directive on the matter was issued on February 11, 2019 and is referred to as LTC 2019. Another short-hand used in our submission is 10 years. We do realize the Applicant's proposal is 9 years and 9 months presuming its in-service date – its just easier to say 10 years.

While our submissions are critical in a number of places of their proposals our overall view remains the same as set forth in our submission in the 2018 LTC proceeding. We continue to believe that NextBridge offers a viable and well managed alternative to incumbent regulated transmission utilities in Ontario.

Overview of the Proposal

Upper Canada Transmission Inc. (NextBridge) is proposing to include in the Uniform Transmission Rate the revenue requirement (RR) for the high voltage transmission assets it has constructed under the Board's Leave to Construct Order EB-2017-0182/0194/0364 of February 11, 2019. The Application consists of a proposal for capital return costs on an initial test year rate base of $775 million, annual operating, maintenance and administration (OM&A) costs of $4.94 million, annual depreciation and property and income taxes of $9.26 and $0.58 millions respectively.

This results in a 2022 revenue a requirement of $55.7 million which is prorated to $41.8 million to account for an in-service date of April 1, 2022.

The full year annual cost of service of $55.7 is proposed to be adjusted annually by a revenue cap index formula which is described a "I-X" but, since no productivity or stretch factor is proposed, distills down to a simple annual inflation adjustment. The proposed inflator is the OEB's standard methodology of 70% of the percentage change in GDP-IPI and 30% the weighted annual percentage change in Ontario Average Weekly Earnings.

We have no particular objection to this method of deriving an inflation rate. Though we continue to hold that using industry specific inflation factors to adjust industry costs is a circular logic and for price (less so for revenue requirement) plans CPI is a more appropriate index.

The term of the plan is 10 years and in addition to an annual OM&A budget of $4.94M the Utility forecasts it will add incremental capital of $4.05 million over the following 9 years for a net addition at the end of the plan of $3.77 million. This is shown in the table below[1].

	2023	2024	2025	2026	2027	2028	2029	2030	2031
Gross Book Value	0.59	1.33	1.97	2.25	2.45	2.85	3.65	3.95	4.05
Accumulated Depreciation	0.01	0.02	0.05	0.07	0.10	0.14	0.18	0.23	0.28
Net Book Value	0.58	1.30	1.92	2.17	2.34	2.71	3.47	3.72	3.77

NextBridge does not propose to adjust its annual revenue requirement for the capital additions made during the term of the plan. The net additions during the plan term would be incorporated in a subsequent post 2031 rate plan.

In addition to an approved revenue requirement and formula adjustment NextBridge seeks to have approved a number of deferral or variance accounts:

- Revenue Differential Variance Account (RDVA);
- Debt Rate Variance Account (DRVA)
- Construction Cost Variance Account (CCVA);
- Taxes or Payments in Lieu of Taxes Variance Account;
- Z-Factor Treatment (Account 1572 – Extraordinary Event Costs)

The first two of these accounts are for the purpose of trueing up costs related to possible changes in the estimate in-service date and actual costs of debt expected to be secured once the assets are in or nearly in-service. The CCVA provides both adjustments for actual in-service costs but also for some costs expected after the assets are in-service. The final two accounts are anticipatory and are not related to any specific event or cost identified in this application.

While NextBridge does seek to record COVID-19 related costs it does not propose to use the Board's generic Account 1509. Instead, it proposes to use Account 2055 (CWIP).

[1] I.Staff-34

Cost Allocation - Uniform Transmission Rates (Issue 8)

Upper Canada Transmission Inc. (NextBridge) will join the current six Ontario Transmission Utilities whose costs are recovered by Uniform Transmission Rates (UTR). As shown by the most recent approved utility revenue requirements included in the UTR Hydro One Networks is by far the largest participant. If approved NextBridge's annual revenue requirement of between $55.7 and $66.6 million would make it the second largest participant in the UTR pool.

TABLE 2 – 2021 FINAL REVENUE REQUIREMENTS AND CHARGE DETERMINANTS

Transmitter	2021 Revenue Requirement[11]	Forgone Revenue[12]	Interest	2021 UTR Revenue Requirements	2021 Charge Determinants
FNEI	$7,988,092	$306,309	$2,244	$8,296,645	552 MW
CNPI	$4,647,201	$412,094	$16,331	$5,075,626	1,621 MW
Hydro One SSM	$41,512,836	$1,582,035	$11,578	$43,106,449	6,868 MW
Hydro One	$1,659,884,856	$27,337,659	$281,006	$1,687,503,521	658,109 MW
B2MLP	$33,024,615	$2,023,523	$14,510	$35,062,648	0 MW
NRLP	$8,227,858	$4,148,691	$79,218	$12,455,767	0 MW
TOTAL	**$1,755,285,458**	**$35,810,311**	**$404,887**	**$1,791,500,656**	**667,150 MW**

The UTR is collected via three cost pools: Network, Line Connection, and Transformation Connection.

NextBridge will join the small group of transmitters of B2M Partnership (B2MLP) and Niagara Reinforcement Limited Partnership (NRLP) who operate as single asset circuit connectors. These utilities have no delivery points and no charge determinants. They recover their revenue requirement as part of the Network pool of costs.

It is unclear to us and, somewhat surprisingly, apparently unclear to NextBridge, as to whether actual performance of its assets have any bearing on its ability to recover the revenue requirement it is seeking. Since no charge determinants are used in the calculation of its revenue requirement it is also not clear whether the Utility is exposed to any risk with respect to transmission demand.[2] As we discuss in the cost of capital section these are issues which we think Board should turn its mind to over the term of the rate plans of these three "single assets" transmission utilities.

[2] See the exchange with VECC at TC Vol 2, March 30, 2021, pages 111-114

Rate Base (Issue 6)

NextBridge's asset base will consist of 450 km of new double circuit 230 kV overhead electricity transmission line on a new right of way (ROW) between Thunder Bay to Wawa in Northwestern Ontario. This single function service is provided by four circuit components as shown below.

Table 1. NextBridge Assets by Functional Category

Circuit	Section	From	To	Functional Category
M37L	1	Lakehead TS	Marathon TS	Network
M38L	1	Lakehead TS	Marathon TS	Network
W35M	2	Marathon TS	Wawa TS	Network
W36M	2	Marathon TS	Wawa TS	Network

In the most current Quarterly Construction Progress Report (submitted April 22, 2021 and after the close of the hearing) the construction costs of these assets are currently estimated at $737,140,434.[3] This is an increase of $169,913 from the estimate provided in the original Leave-To-Construction Application (LTC 2018).[4] To this amount the Utility is seeking the recovery in rate base of $31.24 million in development, $5.331 million in "phase shift" costs, $1.2 million in asset spares and $230,000 in test year capital cost. The total opening and closing balance are shown in the PP&E continuity table below[5].

In the evidence, interrogatory responses and at the hearing NextBridge has stated it has a high confidence in the project costs coming within the outlined budget. It is our understanding that they exclude pandemic related costs which are expected to increase the capital expenditures by an unknown amount.

[3] UPPER CANADA TRANSMISSION, INC. (d/b/a NextBridge Infrastructure) East-West Tie Line Quarterly Construction Progress Report Reporting Period1: January 1, 2021 to March 31, 2021 Date Submitted: April 22, 2021

[4] Board Decision EB-2017-0182/0194/0364, December 20, 2018

[5] Exhibit C, Tab 4, Schedule 1, Attachment3, page 2of2

			Cost				Accumulated Depreciation				
CCA Class 2	OEB Account 3	Description 3	Opening Balance	Additions 4	Disposals 6	Closing Balance	Opening Balance	Additions	Disposals 6	Closing Balance	Net Book Value
N/A	1705	Land									
14.1	1706	Land rights	35,093,798			35,093,798	$ -	350,938		350,938	34,742,860
1	1708	Buildings and fixtures									
47	1715	Station equipment									
47	1720	Towers and fixtures	578,241,343			578,241,343	$ -	6,424,904		6,424,904	571,816,439
47	1730	Overhead conductors and devices	161,608,342	230,000		161,838,342	$ -	2,485,075		2,485,075	159,353,267
47	1735	Underground conduit									
47	1740	Underground conductors and devices									
17	1745	Roads and trails									
								$ -			
		Sub-Total	**774,943,482**	**230,000**	**$ -**	**775,173,482**	**$ -**	**9,260,916**	**$ -**	**9,260,916**	765,912,566
		Total PP&E	**774,943,482**	**230,000**	**$ -**	**775,173,482**	**$ -**	**9,260,916**	**$ -**	**9,260,916**	765,912,566

Since the project is not yet complete NextBridge is seeking approval of a CCVA account to capture any variation between the forecast and actual cost of the project (specifically the revenue requirement equivalent).

This is a highly unusual application in that while there was a leave-to-construct proceeding that process was ultimately cut short by the intervention of the Government of Ontario. NextBridge was granted by the Government the right to construct and operate the circuits known as the "East-West" tie. As such there are no forecast costs upon which the Board might rely upon in having already provided its LTC approval. Instead, that proceeding left the matter of costs unsettled and waiting for the two proponents (Hydro One being the other) to put forward a "not-to-exceed" (NTE) project cost for the project.

As agreed by NextBridge in the hearing the Order in Council does not constrain in any manner the Board's consideration of the costs that are reasonable to be recovered from ratepayers for this project.[6] As such NextBridge proceeded with the project on that basis and knowing the Board's concerns as expressed in the 2018 LTC proceeding.

[6] TC, Vol 2, March 30, 2021, page 70

In that proceeding the Board found that NextBridge was eligible to recover $31.241 million in development costs stating[7]:

> "*In summary, the OEB finds that NextBridge is eligible to recover $31.241 M in development costs plus any additional carrying costs until recovery as it finds these costs to be reasonable given the context of the Designation Process, the expectation of economic efficiency, and the events that occurred after the Designation Decision. Any costs in excess of $31.241 M that* ***NextBridge seeks to recover should be included in its NTE*** **(Not to Exceed)** ***price***. *Table 3 provides the costs eligible for consideration as construction costs.* (emphasis added)

Table 3 – Costs Eligible for Consideration as Construction Costs

Cost Category	Proposed $ million
Extended In-Service Date	
• EA Review Participation	$0.460
- Land Optioning Negotiations	$1.439
Unbudgeted at Designation	
- Land Acquisition Negotiations	$0.017
- Economic Participation	$3.415
Total	**$5.331**

This statement was made in the context of significantly lower construction costs proposal put forward by Hydro One. We interpret the Board to mean that it would consider both the $34.2 and $5.331 million costs (both costs put forward in this application) in the context of a NTE or "bid" (for the lack of a better word) that was cost competitive with that provided by Hydro One.

Given NextBridge's costs were significantly higher than Hydro One's it is reasonable to conclude that the Board considered it possible that all or some of the costs now being brought forward would ultimately be absorbed within the $737 million project cost put forward then as the total construction costs for this project. And it is reasonable to conclude that NextBridge knew or should have known it was at risk to recover this $49.5 million as part of this project. The onus therefore lies with the Applicant with the expectation that they would be looked to find ways to reduce or absorb at least some of these costs within a $737 million envelope.

While small in amount the $1.2 million in spares and the $230,000 proposed to be included as test-year in service costs are also in excesses of what might have been expected by the Board at

[7] LTC 2018, page 27

the time of the 2018 LTC. These are costs that would have reasonably been considered part of the overall project costs. As much was said by NextBridge in their exchange on the matter with VECC[8]:

> *MR. MAYERS: It's prudent to purchase the spare equipment to have on-site during construction for a number of reasons. One, it's to ensure you can complete the construction and have all of your required equipment. You can have damage. You can have equipment damaged during construction. You can have it damaged while it's being hauled to the site from rail or shipping, or from the trucks that deliver it, or from the forklift operators.*
>
> *So it's absolutely prudent to have additional equipment ordered to ensure it's on-site, so the contractor can continue to work and complete the project. It's also prudent because the cost of that, it becomes spare equipment at the end of the project is purchased at the same time as the bulk of the order itself. So we talked about seventeen towers. We have a total of 1228 towers on the project. You buy in bulk like that, you get the best pricing. The same goes for the conductors, the OPGW, the insulators. You get the best price at that time because you bought the product in bulk.*

The evidence of Mr. Mayers is clear. The costs of the spares was included in the cost of the overall construction estimates, that is the $737million from LTC 2018.

Based on these circumstances it would be reasonable for the Board to make a reduction to the test year rate base of up to $51 million. However, that is not our proposal. In the 2018 LTC VECC argued for approval of NextBridge's proposal at "not to exceed" cost of $750 million. Due to the delay in the project, we calculate this amount should be inflated by approximately 2% or $15 million to a total PP&E of $765 million. To this we would add the $5.333 million which includes indigenous participation and land option costs which the Board found were misclassified as development costs but could be included as construction costs.

We submit this is a reasonable continuation of the Board's consideration of the matter in the 2018 LTC and would result in a modest reduction of approximately $5 million in the proposed in-service PP&E in the test year. In our view the Board should not resile from its original position of a "not-to-exceed" project cost. The test year PP&E as set forth by the Applicant should be reduced by $5 million and set as 770,173,482 for the closing rate base for the test year.

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[8] TC, Vol 2, March 30, 2021 pages 81-82

CCVA (Issue 7)

In our submission the CCVA should be established as a variance (not deferral) account and so as to capture any variance in total costs *below* the closing balance in the in-service test year of $775,173,482. That is, the account should be asymmetrical in favour of ratepayers.

NextBridge has also proposed to use the CCVA for costs occurring subsequent to the in-service. These costs are related to "*satisfy all requirements from the overall benefits permit or OVP in the amended environmental assessment or EA, those are expected to occur during construction and up to even ten years out*."[9] It is not clear to us whether the costs in questions would qualify as capital expenditures or whether they would be more accurately described as operating expenses. It is possible it would be a little of both.

In any event VECC opposes the establishment of the account for post-in service costs. Such accounts are contrary to the principles of multi-year rate (or revenue requirement) plans as previously approved by the Board. If the costs are known with some certainty, then they can be forecast and included in a multi-year plan. If they are not then the Applicant must choose between absorbing that risk or modifying its plan so as to better manage the risk. For example, in this case the Applicant could choose a shorter plan term so as to seek to incorporate any unforeseen capital expenditures earlier into a recalculated revenue requirement.

Timing of the Application (Issue 1)

If capital cost recovery certainty is desired by NextBridge it can withdraw its application and file again once construction is completed. There are no impediments to doing this. No evidence was presented from any of the financial institutions which may be providing debt financing for the project that would indicate otherwise. Bridge financing even for large projects in not unheard of.

We note that similar issues of uncertainty were dealt with by the Board in the proceeding for NRLP EB-2018-0275. In that case the Utility sought to have a revenue requirement approved 8 months prior to its estimated in-service date and the Board found:[10]

> "*NRLP is forecasting that the sale will be complete and its assets to be in-service in June 2019. The OEB finds that it is not necessary for NRLP's proposed revenue requirement to be made interim at this time, several months in advance of the expected in-service date for its assets. There is another opportunity for NRLP's revenue requirement to be*

[9] TC, Vol. 1, March 29, 2021, page 63
[10] Decision on Interim Rates, EB-2018-0275, December 20, 2018, page 3

included in the final 2019 UTRs, if appropriate, therefore the OEB finds NRLP's request premature."

The position of NRLP then is not dissimilar to that of NextBridge now. Both include a partnership with Indigenous communities and both sought to enter into the UTR pool prior to completion of all aspects of the project.

In any event, NextBridge has in a number of places and over a number times expressed certainty around its construction costs. It therefore should be satisfied with having those estimated capital costs used to calculate its revenue requirement. In our submission it should have an opportunity to seek recovery of only those extraordinary capital costs incurred due to the pandemic. If this is granted, we see no compelling reason for it to be able to recover costs in excess of its test year rate base and until such time as it rebases. If that is not satisfactory NextBridge should withdraw its application and return to the Board when it is comfortable with the rate base costs it seeks to recover.

COVID Account (Issue 6)

NextBridge proposes to capture COVID related costs within the accounting of its CWIP. We think this is the wrong approach. These costs should be explicitly identified outside of the normal project costs and included in a separate deferral account 1509. In our view disposition of account 1509 will require that the Board have baseline costs or other ways of ensuring that the costs are actually due to the pandemic.

Since almost all, if not all, of the expected costs are with respect to the construction of the assets we would expect NextBridge to come forward with a disposition proposal for these costs some time after the project is in-service.

Transmission System Plan (Issue 3)

During the term of the proposed rate plan NextBridge proposes a modest capital plan as shown below.[11]

[11] Exhibit B, Tab 1, Schedule 6, page 2

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

In our view the plan is reasonable and in keeping with the newness of the assets. The plan is largely based on required vehicles, monitoring cameras, and bird deterrent structures. NextBridge estimates the cost of purchasing an office is approximately $100,000 and plans to buy the office in 2024.[12] Storage space is planned to be acquired in 2025.[13]

The most uncertain part of the forecast is likely to be with respect to office and storage space. However, in our view the Utility has made reasonable efforts to forecast its capital needs. And we believe they are acting prudently in delaying the purchase of permanent maintenance and office space until they have had the time to assess operational requirements. This also means it is possible the Utility will not purchase the forecast space and will instead continue to lease office and other necessary space. We note that the annual expense associated with leasing office space is included the current OM&A estimate.[14]

Working Capital

Like B2M and NRLP NextBridge is not requesting any amounts for working capital. It notes that that the Board has already established in the B2M proceeding EB-2015-0026 that there is no need for a working capital allowance given that timing of the payments and revenue could be organized by the general partner to effectively ameliorate any meaningful lead or lag on those cash flows.

In our submission the proposal to exclude working capital costs is reasonable and in accordance to how similar types of utilities are treated. We think it noteworthy that the Applicant is being

[12] I.Staff-35
[13] I.Staff.36
[14] I.Staff-35

treated in this regard precisely the same as NRLP and B2M which operate similar types of utilities.

Depreciation (Issue 5)

These assets associated with this type of operation have long service lives as shown below.[15]

	Depreciation Rates Proposed by NextBridge	Reference in Foster Associates Inc.'s study below
1706 Land rights	1.00%	A (100 Yrs)
1720 Towers and fixtures	1.11%	B (90 Yrs)
1730 Overhead conductors and devices	1.54%	(Weighted C, D, E)
1730 Insulators & Arresters	1.67%	C (60 Yrs)
1730 Overhead Conductor / Ground Wire	1.43%	D (70 Yrs)
1730 Optical Ground Wire	2.00%	E (50 Yrs)

The total cost of depreciation and amortization associated with these assets is $9.26 million in the test year.

VECC has no issues with the proposed depreciation rates used by the Applicant. To the extent the Board requires adjustment to the capital base there would of course need to be an adjustment to the actual depreciation cost in the test year.

TAXES (Issue 5)

NextBridge tax burden is composed only of the Ontario corporate minimum tax (OCMT). The amounts to be included in the revenue requirement are set out below[16].

Categories	Test Year
Accounting Income	21.47
OCMT Rate	2.70%
Net Income Taxes (OCMT Attributable to Taxable Partners)	**0.58**

[15] Staff-63
[16] Exhibit F, Tab 13, Schedule 1, page 2

We note that the amount of tax payable appears to be unchanged during all years of the plan. VECC has no issues with the tax calculations for the purpose of the revenue requirement. We do take issue with the Applicant's proposal for a Taxes and PILS variance account.

Tax Variance Account 1592 (Issue 7)

NextBridge is seeking approval of Tax Variance Account. We do not take issue with the tax variance account per se as it is in keeping with similar accounts allowed by the Board. These accounts are based on a priori assumption of 50/50 sharing of any benefit (or cost) of changes in tax rates which materially impact the Utility. We respectfully request that the Board make the expectation of sharing known to the Applicant in its Decision.

We do object to the provision that the account might capture the tax implication of changes to the ownership structure of the Utility. Bamkushwada, LP (BLP) will join the partnership, and its beneficiaries are not subject to PILs or corporate income tax. NextEra, Enbridge, OMERS, and Bamkushwada, LP will hold 40%, 20%, 20% and 20% of NextBridge's issued and outstanding limited partnership units respectively. Therefore, the taxable income in NextBridge allocated to Bamkushwada, LP will not be subject to income tax.[17]

As we understand the proposal NextBridge holds that a change in this partnership which might trigger a change in the tax payable could be included in the proposed tax variance account. We submit that this circumstance should not be covered by the standard tax variance account. The partnership is within the control of the owners of the Utility. Therefore, a change in the structure fails to meet the deferral/variance account standard of being outside of the control of Utility management or its owners.

OM&A (Issue 5)

NextBridge will have no employees. All OM&A is contractual but not completely fixed. The majority of NextBridge's maintenance services will be completed by a partnership between Hydro One and Supercom or provided by its partners NextEra Energy Transmission, LLC ("NEET") through its partner affiliate agreement ("NEET Agreement"). The Applicant will have a Service Level Agreement with its affiliate NextEra Energy Transmission, LLC ("NEET") and $1.7 million of the OM&A budget is due to the NEET service level agreement[18].

Supercom Industries LP (Supercom) is a partnership of six First Nations and Hydro One. The annual inspection costs are part of the overall $400,000 budget in the maintenance services

[17] Exhibit F, Tab 12, Schedule 1
[18] Undertaking JT1.1

contract with HONI/Supercom. The $400,000 budget is set without cost adjustment for 3 years, with an available extension for two additional years and with no escalation included.[19] NextBridge stated that other components of the OM&A costs are subject to inflationary pressures and used the City of Toronto CPI as a common inflation estimator.[20]

The OM&A costs presented in this proceeding are significantly higher than those presented in the 2018 LTC as shown below:[21]

$ Millions	**LTC Budget**	**Application Exhibit F, Tab 4, Schedule 1, Table 1**	**Delta**	**Variance Explanation**
Operations & Maintenance	1.27	1.27	0.00	None
Regulatory	0.21	0.07	(0.14)	Reduced regulatory labour expense
Compliance & Administration	1.45	1.67	0.22	Broke out Indigenous costs and Property Taxes & Rights Payments into new categories Additional costs from land rental fees (Property Owner Relations) All other Compliance & Administration fees are unchanged (Staff #30)
Indigenous Participation	0.50	0.89	0.39	Exhibit F, Tab 4, Schedule 2, Page 7/ Staff #32c
Indigenous Compliance	-	0.44	0.44	Exhibit F, Tab 4, Schedule 2, Page 7/ Staff #32c
Property Taxes & Rights Payments	0.50	0.60	0.10	Exhibit F, Tab 4, Schedule 2, Page 8/ Staff #32c
Total OM&A	**3.93**	**4.94**	**1.01**	

As shown in the table and as explained by Ms. Tidmarsh at the Hearing, a large portion of the cost increase from the 2018 LTC are due to a better understanding of the costs of indigenous engagement.[22] We found compelling the evidence of Ms. Tidmarsh explaining the reasons for the cost increases related to accommodating indigenous participation and land issues.

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[19] I.Energy Probe-25
[20] Undertaking JT3.2
[21] Undertaking JT2.1
[22] TC Vol 2, March 30, 2021, pages 118-119

NextBridge also provided benchmarking evidence with respect to OM&A costs.[23]

Figure 10. Bruce to Milton, Niagara & New EWT OM&A Benchmarking

$k (CAD)	**Niagara 2020**	**Bruce-Milton 2019**	**New EWT**
O&M Expenses	320	600	1,275
Admin. & Corporate[14]	510	200	1,665
Regulatory			65
Total OM&A	**830**	**1,600[15]**	**3,005[16]**

Total kilometers	76	180	450
OM&A / km (CAD)	**10.92**	**8.89**	**6.68**
OM&A / km (USD)	8.40	6.84	5.14

Footnotes
14. The figure for the Niagara project includes costs associated with the Managing Director's office
15. Includes "Incremental expenses" of $800k (CAD)
16. The new EWT also includes expenses for Indigenous Participation and Compliance costs. As these are not directly comparable to the other projects, and unique to the EWT, they have been excluded from this total.

In our view overall the evidence suggest that costs are inordinately high in relation to comparable utilities. The issue is not so much with the $1.275 million in costs classified as operation and maintenance. For those expenses, which largely relate to servicing the right away, lines and towers, NextBridge costs on a kilometer normalized basis are lower than comparable utilities.

In our submission NextBridge's updated of costs related to indigenous participation and compliance, while high, are reasonable. The Utility has had to negotiate and come to agreements with a number of Northern Ontario communities. As Ms. Tidmarsh explained this is not easy given the number of interests and keen sense of environmental stewardship in those places. One of the reasons VECC initially supported NextBridge's proposal was due to its ability competently address these types of issues. Generally speaking, the increase in costs for these items was explained as matters which could not be known until the project had reached more advanced stages of construction. We accept that explanation.

To answer the question of why cost might be too high one then must turn to the breakdown of the OM&A compliance and administration costs as provided in response to Undertaking JT3.4.

[23] Exhibit B, Tab 1, Schedule 7, page 14

Compliance & Administration	**$1.67**	Exhibit F, Tab 4, Schedule 2, Pages 3-7 / See Staff IR #30	
Project Director's Office	$ 0.63		
Property Owner Relations	$ 0.17		
Non-Indigenous Stakeholder Relations	$ 0.25		
Corporate Services	$ 0.56		
Insurance	$ 0.06	Not included in the undertaking request	
Project Director's Office	**$0.63**		
Labour	$0.42	75% of labour in Project Director's Office - See Staff IR #30	NEET SLA
Office	$0.08	Office space and maintenance	
Annual Audit	$0.13	Independent financial auditor	
Property Owner Relations	**$0.17**		
Obtaining land permits	$0.00	Securing up to 10 permits for maintenance activities	
Labour - Land filings	$0.01	Annual land filings for existing permits	NEET SLA
Labour - Line list update	$0.01	Annual line list update for ~750 parcels (printing, title costs and data pulls)	NEET SLA
Labour - Mailouts	$0.01	Specific to landowners to provide key information and help prevent encroachments on the ROW	NEET SLA
Land tenure rental fees	$0.14	Annual fees or periodic reoccurring payments (e.g. MTO and MNRF Land Use Permit)	
Non-Indigenous Stakeholder Relations	**$0.25**		
Labour	$0.14	Stakeholder engagement program management	NEET SLA
Expenses	$0.02	Travel and other expenses related to in person stakeholder meetings	
Newsletters & Mailings	$0.03	Two public mailings annually - targeted communications for maintenance activities, etc.	
Newsletters & Mailings	$0.01	Translation costs of mailings into French	
Community Support	$0.04	Community support for 10 local communities	
Memberships / Associations	$0.01	For example, Northwestern Ontario Municipal Association	
Website / Social Media hosting	$0.02	Website and social media hosting	
Corporate Services	**$0.56**		
Labour - Accounting	$0.46	Finance, accounting, tax, debt management, compliance management, regulatory accounting, cost management (3 part time resources; Includes management oversight)	NEET SLA
Expenses	$0.09	Miscellaneous expenses (external support if needed for tax / accounting guidance)	
Expenses	$0.01	Travel and employee expenses	

In our submission administration, corporate and regulatory costs are simply too high. These costs are not intuitively scalable to the kilometres of line. In fact, it might be the opposite. For example, in more densely populated areas like that in which NRLP is situated, annual costs related to land rights might be higher than those of NextBridge because of the number of property owners encountered along the route. The reasonableness of comparing NextBridge costs with other utilities was explored at length by Board staff at the hearing[24]. From that examination we concluded that if comparison were to be made than they best way to do that would be to limit it to areas of like characteristic such as compliance and administration. These are activities which are not as heavily dependent upon the physical characteristic of the utility. For example, there is no apparent reason that regulatory costs might increase in proportion to the number of towers or kilometres of circuits.

The project director's office has a budget of $630k and corporate services has a budget of $560k. Notwithstanding this $1,190 in administration costs NextBridge purports to require additional funds for property owner relations, regulatory filing costs, and other matters like newsletters and maintaining a website. Some costs appear on the face of it to be repetitive. For example, NextBridge includes $130k for auditing of the project director's office even though one might expect this to be part of the duties provided by corporate services. And in fact, NextBridge states in its evidence that corporate services include "*compliance, internal audit and legal counsel*.[25]"

In our submission the Board should reduce the test year OM&A costs by $200,000. We derived this figure by taking the full cost for the Project Director Office ($630) and Corporate Services ($560k) and then added the land tenure rental fees (140k) and insurance costs (60k). Finally, to all of this we added an amount for community and stakeholder relations of $80k which, we submit, is a reasonable amount for items like newsletters, websites and memberships.

Arguably the Board could also disallow the separate cost put in for regulatory activities ($70k) since this might reasonably be encompassed in the Project Directors's office. However, neither our analysis nor NextBridge's budget is a precise matter. We submit $200k is a reasonable and justifiable reduction given the evidence.

Finally, we make the observation that the incremental capital plan (transmission system plan) anticipates projects for office and storage space which would, all other things being equal, shift costs from OM&A to capital during the term of the proposed plan. We also note that parts of the OM&A costs will be fixed for the first three years of the plan. We conclude from that that under the Applicant's revenue requirement adjustment proposal this would translate to an

[24] See TR Vol 3 March 31, 2021, pages 9-
[25] Exhibit F, Tab 6, Schedule 1, page 1

increase in those years in excess of the actual escalation of costs due to inflation. A modest adjustment to the test year OM&A budget helps ameliorate those concerns.

Cost of Capital (Issue 6)

NextBridge intends to maintain the OEB debt-equity ratio of 56% long term debt and 4% short term debt. While the Utility is seeking to fix the return on equity at the Board's 2020 ROE parameter of 8.52% it has requested the establishment of a Debt Rate Variance Account (DRVA) to track he differences in the long-term and short-term debt rate used in the initial calculation of the revenue requirement and the actual long-term and short-term debt rates eventually secured.

With respect to the actual capital structure (40/4/56) VECC submits that this is keeping with Board practice and should be accepted.

Cost of Equity

With respect to the cost of equity NextBridge has proposed to use the parameter issued by the Board for 2021 distribution utility rate filers. We submit the Applicant has not put forward any reasonable explanation for using a figure from October of 2019 for assets that will be in service in April of 2022. If the most recent common equity parameter issued by the Board of 8.34% were applied the difference in revenue requirement would by $1.5 million[26].

When asked NextBridge gave two explanations for using an outdated figure. One reason given was the need for certainty. That is that a known return on equity was needed by either or both NextBridge for the purpose of financing debt, or its partner BLP to obtain financing from the Aboriginal loan guarantee program[27]. No actual evidence was been presented to support either explanation and it seems unlikely that sophisticated lenders would not understand how the regulatory process works[28]. Nor was it made clear why any unapproved cost of equity figure would be particularly meaningful to a third party financier. In any event the Board is not bound by the consideration of third parties who may or may not provide financing to a project. And, notwithstanding good intentions, the Board has not been provided the authority to factor into its decision making the character or particular needs of an existing or potential shareholder.

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[26] I.Staff-65
[27] TC Vol.2, pages 108-110
[28] See for example, TR Vol.3 March 31, pages 95-

The other explanation given was that there is some nexus between the timing of the application and 2021 cost of capital parameters issued by the Board in 2019. What that might be was left unexplained.

It is de rigueur to adjust distribution applications for the most current Board figures on equity, affiliate debt or short term debt. Nothing provided or said in this proceeding would seem to alter that position. If the Board were to change its long-standing practice of applying the most current cost of capital parameters it would invite parties to cherry pick dates and times for filing application or resolving them. Perhaps more important it simply defies the logic that the rates (revenue requirement) should be based on the best and most recent evidence. A premise, we note, that is adopted by the Applicant in the setting long-term debt rates.

In our submission the Board should apply the most recent cost of capital parameters prior to the implementation of rates. All other things remaining the same it is a simple matter for the NextBridge to make this adjustment. Given the expected in-service date of April 2022 these rates would likely be published by the Board in October or November of 2021 and well before the setting of the new UTR. No party knows with certainty what those rates will be, and maybe because of this, it is the fairest sharing of risk between ratepayer and shareholder.

<u>Is the current cost of equity capital rates suitable to single asset transmitters?</u>

In this submission we argue for a shorter term than the 10 years sought by the Applicant. One reason for that is our concern that the cost of equity parameter issued by the Board for the purpose of setting rates for distribution utilities are not well suited for single asset transmitters like NextBridge, NRLP and B2M. And we think this matter is worthy of investigation by the Board. Given the Board's heavy workload and challenges during the pandemic we think it unlikely this can happen in the short term but hopefully within the next 5 years and in time for rebasing of these three utilities.

It has become clear to us after considering this Application and those of B2M and NRLP that all these utilities are uniquely positioned. None has charge determinants (i.e., load) incorporated into their revenue requirement. It is may also be true that the ability to perform for these single purpose utilities has no bearing on their ability to receive their approved allocation from the UTR pool. All three utilities are similar in that they appear to have little business risk, low financial risk and certainly less overall risk than a distributor or more traditional transmitter like Hydro One Networks. If true then it begs the question as to why is it just and reasonable to require of ratepayers a revenue requirement which embodies the higher risks profile of a distribution utility or a traditional transmitter to a utility who embody none of the characteristics of NextBridge, NRLP or B2M?

Whether our supposition is correct or not we think it bears at least investigation. And we think it is one more argument for a shorter rate plan. In the alternative the Board may find it has overcompensated NextBridge but lacks the ability to rectify that problem.

<u>Long-term debt</u>

Quite contrary to its position on the return on equity NextBridge's proposal is to update its revenue requirement post facto for actual cost of debt. We agree that using an embedded cost of debt is preferrable to using a forecast that might be embedded in a revenue requirement for as long as ten years. The best evidence is when more accurate numbers are known – much like with the return on equity.

NextBridge has said that "*it expects the debt profile to closely align with the amortization of the regulated rate base to maintain the authorized capital structure.*"[29] We took from that response that the Utility was attempting to lock in historically long-term interest rates to match the long-term nature of the underlying assets. During the hearing a different strategy seemed to emerge and one in which tranches of various rates and terms would considered. The impression left was that theses tranches were not designed simply to match the declining rate base but rather encompassed a different financial strategy.[30] We now doubt our initial view that NextBridge would largely (if incompletely) match the actual debt terms with the amortized life of the assets.

Whatever the case, if the proposal is accepted by the Board, the actual terms of long-term debt will not be understood until after it approves a revenue requirement. As we understand the proposal the disposition of the debt rate variance account projected to take place in 2023 would also include a proposal for an adjustment to the revenue requirement for the new embedded cost of debt. Given what we know now it may be that disposition of the Debt Rate Variance account will be a contentious and a somewhat complex proceeding. This is because some parties (certainly VECC) may wish to examine whether the Utility is taking full advantage of historically low rate and how the selection of debt tranches might impact a rebasing 10 years (if that is granted) from now.

In our view this is one more reason for the Board to limit the initial term of the plan to no more than 5 years. Doing so would be to simplify this matter by allowing a full review of the issue at the time of rebasing.

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[29] I.SEC-15
[30] See for example, TR Vol. 2, March 30, pages 103-

Rate Adjustment Plan

The result of the cost of service exercise considered above is a base revenue requirement as shown in the table below[31]:

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

This amount is prorated in the test year (2022) and subsequent to that it is increased by what is described somewhat ambitiously as an "incentive" ratemaking formula. This notwithstanding that there are no apparent incentives built into the formula itself. Specifically, there are no productivity or stretch factors. Furthermore a 2% per annum inflation factor is applied not only to the OM&A costs but also to the revenue requirement components underpinned by the capital assets. Why such assets would attract an inflationary increase is unclear. The result is less an incentive plan and more a calculus for an accelerating revenue requirement.

To see the clear lack of incentive – i.e., risk adopted in hopes that efficiencies will provide better returns – one need simply observe in the evidence the perfunctory setting out of revenue by a simple calculation – take last year and add 2%. That's it.

Where exactly the trade-off between effort and result is unanswered. There is a certain amount of doublespeak in an incentive plan without incentives and proponent who is keen on an incentive plan but who cannot identify any opportunities for efficiencies. It should cause the Board to ask - why would ratepayers not be better served by an annual cost of service adjustment of the revenue requirement? After all, by the Applicant's own evidence is that once the assets are in service their will be minimal incremental capital and OM&A. Why is it not better to simply adjust the cost of capital each year, record and make an adjustment for the

[31] Exhibit A, Tab 3, Schedule 1, page 5

declining rate base, make whatever modest changes are required to OM&A and be done with it? Who exactly is being served by a 10-year plan which increase costs by 2% each year while the asset base declines by about 1.5% each year?

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

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

To be fair there is a modest incentive factor is built into return on capital by the absorption during the rate plan of incremental capital expenditures. This is offset by the fact that some of this capital spending will displace OM&A costs as leasing costs are converted to purchased space. In any event both of these are not so much incentives in the sense they drive behavior but rather simple mathematical characteristics of the adjustment formula.

What is clear is that under the proposed rate adjustment formula NextBridge has introduced risk as to the actual and built-in inflation factor. Again here, the Utility has hedged this risk by building in a higher than justified return on equity to the formula.

The lack of incentives is hardly the biggest problem with the proposal. We accept that as a single function utility with passive assets with long lives the opportunity for efficiencies is limited (though somewhat confusingly the Applicant makes that point and its opposite).

The real problem lies in the fundamental and logical flaws of the proposal.

The first problem is that the proposal does not deal with rates but rather revenue requirement. Incentive plans are best when they are based om the premise of detaching the underlying cost of the utility from the prices it charges. Incentive plans based on revenue requirement are more complicated because the underlying costs form the basis of later adjustments. This can lead to problems with cost allocation which fortunately is absent in this case because there are rates to derive and the allocation of costs is to a single cost pool of the UTR. However, under revenue requirement plans the fact is they adjust cost not prices and therefore remain inherently tied to the initial setting of a cost of service.

The problems are greatly accentuated with this type of utility. NextBridge, like B2M and NRLP are passive asset-based utility. The amount of incremental capital and operating or maintenance costs are extremely small in relation to embedded capital cost. In this case those costs they constitute around 90% of the revenue requirement. It's as if the Board were regulating a distribution utility and the entirety of its assets consisted of a single substation replaced every 75 years. What form of incentive regulation might best apply in those circumstances?

We would argue that the first step would be to consider the OM&A stream of costs separately from capital costs. This is because while it may be possible to extract some efficiencies from even modest OM&A activity it will be highly improbable to find any efficiencies in the fixed asset once installed.

Capital costs will be depreciated on a straight-line basis returning to the shareholders each year a portion of their invested capital. The shareholder can expect a reasonable return on the remaining asset value in service each year, but no return on the monies it has already extracted through the depreciation expense. Otherwise, the shareholder is unjustly enriched with the ratepayer being asked to pay a return on monies no longer invested in the firm (and of course, the shareholder being able to invest those monies elsewhere). This is in fact the Applicant's proposal. All thing being equal, mathematically the formula leads to overearnings as compared to the initial test year. This is clear by the fact that the revenue requirement increases by 2% a year where as the asset base decreases, even after incremental expenditures by about $9 million a year.

This is contrary to both Board practice and just and reasonable rate making. The regulator should establish a rate (in this case revenue requirement) which in the test year is based on a reasonable rate of return. On a going forward basis if a formula is to be applied it must account for the fact that the shareholder is not significantly reinvesting in the asset and therefore extracting not just a <u>return on</u> but also <u>a return of</u> their invested capital. This is the simple regulatory and financial principle that was recognized in both the B2M and NRLP decisions of the Board.

There are of course differences, B2M was before the Board on its second 5-year plan term, whereas NRLP was, like NextBridge, establishing its first revenue requirement. In both cases the fundamentally unusual nature of this type of utility was recognized and addressed by capital adjustment factors (in the case of NRLP also by adjustments to inflation rates).

In their AIC NextBridge argues that the Board should not consider the recent cases of B2M and NRLP because they were approved as part of settlement agreements. Though they are somewhat inconsistent in the application of this principle (referring to the settlement in the Hydro Ottawa EB-2019-0261 proceeding to support their case for a CCVA[32]) we fundamentally agree with them. In the same way strictly speaking there is no precedential value of any Board decision or for that matter any articulated policy of the regulator. Each panel of the Board is required to consider the matters before it on the basis of the evidence before it. Nonetheless we think all parties would agree that the Board's decisions, irrespective of whether they arrived at as part of a settlement or are the outcome of a lengthy hearing, reflect its views as to the reasonableness of the outcome. The Board does not approve settlements that are not in the public interest or that it does not find reasonable.

Both prior decisions for utilities which are essentially of the same unique character as NextBridge addressed the fundamental problem of a declining rates base. We agree that the precise way of making this adjustment is not directly informed by these settlements. That the issue needs to be addressed is uncontroversial and can only be denied if one chooses to reject the simple mathematical presentation of the problem.

In our submission the question is not whether the Board should make an adjustment to the proposal to address the declining asset base during the term of the plan, but how. In our submission the remedy is to first subdivide the formula into two parts. There is clear reasonableness is considering productivity and inflation adjustments for OM&A no matter how small. Applying the same principles to embedded and unmoving depreciating capital is hard to justify. For that reason, the second part of the revenue requirement formula should adjust the capital return to account for the declining asset base of the Utility.

<u>OM&A adjustment</u>

With respect to OM&A we believe there is merit in the argument that the size and nature of the operations limit the ability to find efficiencies. As outlined in our discussion on the test year revenue requirement we would make a modest adjustment to the initial or base amount of

[32] AIC, page 43

OM&A to $4.7 from $4.9 million. We also note that some forecast capital expenditures will further reduce pressure on future OM&A. We believe the Board would be acting reasonably in making an annual adjustment of so that only 75%-90% of the 2% inflation is applied to each year's OM&A. Again, while reasonable this is not our proposal. It is our view that the global pandemic has increased the risk of volatility in inflation and that risk lies more strongly against the interest of the Applicant. Some of this risk can be mitigated by a shorter plan term. For these reasons we believe a better solution is to reduce the initial OM&A by 200k as noted above and to increase it thereafter by 2% but only for a period of 5 years.

Capital Adjustment Factor

VECC was a party in the recent B2M proceeding and we have had the opportunity in this proceeding to work closely with other intervenors to understand their views as to what form of capital adjustment factor might be reasonable in this case. Our view is that there is no precise answer to that question since the adjustment factor is one (big) part of the overall revenue requirement setting plan. Other factors include how OM&A is set and adjusted, what inflation factor should be used and how should it be adjusted. There are also issues as to what variance or deferral accounts are allowed, whether an earning sharing plan is part of the plan and how long the plan should last. In our view an adjustment factor of between 0.6% and 0.9% is a reasonable bookend for this adjustment. In essence the more risk reduction the Board provides through these other aspects of the plan the higher should the capital adjustment factor should be. In the absence of any other consideration mathematically an annual reduction of approximately 0.9% would leave the Utility in the position to recover its approved cost of equity.

We also believe that the establishment, or not, of an earning sharing mechanism (ESM) is informative. While ESM are not replacements for proper rate (revenue requirement) making they do offer a safety net against monopoly rents being extracted from ratepayers.

The term of the plan is also important. In our submission fixing a term longer than 5 years puts ratepayers at unjustifiable risk. This is especially the case when financial metrics like bond yields and other costs of capital are in extreme fluctuation. In our view the risk is largely asymmetrical and to the detriment of ratepayers since it is only bounded by the "300 basis point review" policy of the Board. It is our observation as an active participant in electricity distribution sector that even 300 basis point overearning may not be sufficient to have rates reconsidered. On the other hand, the Applicant is protected by various deferral accounts and "z-factor" mechanisms which work to minimize the risk to shareholders.

Earning Sharing Mechanism (Issue 2)

VECC supports the introduction of an earning sharing mechanisms of 50/50 sharing at 100 basis points above the approved return on equity and based on the assumption of a 10 year plan term. This addition to the plan protects ratepayers from any unknown or unintentional aspects of the plan which might unjustly reward the shareholders at the expense of ratepayers.

If the plan were reduced to a five year term, then VECC believes the ESM might be adjusted to provide greater rewards to the Applicant in order to induce any available efficiencies. Under a five year plan VECC would support a sharing mechanism at 300 basis points and provided the capital adjustment factor was set toward the upper bound of 0.9%.

NextBridge argues against an ESM is in their Argument-in-Chief (AIC). However, the relevance of referenced decisions of the Board of 2005 with respect to natural gas is questionable. The more recent expressions by the Board on the matter and as set out by the Applicant in their AIC simply point out that if the incentives within a plan are robust then and ESM may be counterproductive[33]. To wit of course if there are no incentives in a plan then all the more need for an ESM. As in the case presented.

Term of the Plan (Issue 2)

NextBridge has proposed a ten-year plan. We would suggest that if the Board were to reduce the return on equity by applying the most current figures, make the Applicant at risk for any capital overruns, and require incentive reductions to its OM&A then NextBridge might find a ten year term less appealing. The Applicant has proposed a number of ways to minimize the risk to shareholders over the term. It has proposed an inflated initial return on equity, a generous OM&A annually inflated by 2%, a number of deferral and variance accounts to protect if from unknown events or incremental costs and most importantly an annual adjustment plan which guarantees returns above the regulated rate. Should any of this not be enough it is seeking the ability to apply for z-factor relieve should anything go awry. And in the unlikely event should returns fall below the 300 basis point "basement" the Utility may return to the Board for relief. And what do ratepayers get in return? If the Utility exceeds 300 basis points (which conveniently under the proposal mathematically happens around year 7 of the plan) the Board might, or might not, require it to adjust it revenue requirement.

The question we think should be considered by the Board is what is the benefit to ratepayers of a ten year term? We can think of few – perhaps an inflation risk on its small OM&A budget.

[33] AIC, April 9, 2021, page 17

The risk to ratepayers is that the Board "gets it wrong" and the plan inordinately enriches NextBridge at their expense.

As we have explained in our section on the cost of capital the unique characteristics shared by NextBridge, NRLP and B2M deserve closer examination by the Board. These are not "normal" utilities. They do not deliver to metering points or have an active role in the IESO market. Fundamentally they "asset companies" which hold lines between stations of an operating transmitter. That they justly attract the same risk premium as a full fledged transmission or distribution utility is certainly a question worth examining. 10 years is a long time for ratepayers to wait for relief if the Board were to conclude these types of utilities are being over compensated based on their financial and business risk profile.

Frankly, we generally oppose any rate plan greater than 5 years. This because the future is simply unknown and more unknown the longer one projects. Who would have projected a global pandemic in 2019? Who knows what the economy of Ontario will look like when this one is over? Our observation is when things go bad regulated utilities are sure to seek relief (accounts for load loss, bad debt, extra costs, storm damage etc.). When times are good barely a peep is heard from them. In our view a 10 year (9 years/9 months) actually means ten years if things are good – if not will see you sooner.

VECC submits a plan with a maximum of 5 years (4 years 9 months) is prudent.

Performance and Reliability (Issue 4)

NextBridge's proposal is to report Average System Availability rather than a SAIFI or SAIDI type of metric. NextBridge will report a single number for this number for this metric which should be greater than the target listed below.

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%

VECC supports the proposal to report on Average System Availability and the metrics NextBridge has proposed.

However, we also believe that NextBridge should develop T-SAIDI and T-SAIFI metrics. The reason the Utility has not done so is that it does not have any customer delivery points or metered assets which normally are required to develop such metrics.[34] We understand this problem and the potential hesitancy to develop such metrics.

In our view the Board should attempt to find common metrics for the three "single asset" transmitters. Both NRLP and B2M report Average System Availability. However, both Utilities have also agreed to provide T-SAIDI/SAIFI metrics. In the NRLP settlement agreement approved by the Board these are described as:

NRLP agreed that it would provide two performance metrics, which measure interruptions to HONI delivery points caused by NRLP's circuits. The proposed contribution measures would not be NRLP's true T-SAIDI and T-SAIFI measure because NRLP has no delivery points, but the denominator would be all HONI delivery points. The formulas for the two proposed measures are:[35]

$$T - SAIFI_{NRLP\ Contribution} = \frac{\sum_{i=1}^{k}(SF_i + MF_i)}{n}$$

$$T - SAIDI_{NRLP\ Contribution} = \frac{\sum_{i=1}^{k}(SD_i)}{n}$$

Where:

- *n is the total number of HONI delivery points.*
- *k is the total number of HONI delivery points that may be impacted by NRLP circuits.*
- *SF and MF are the number of sustained and momentary interruptions experienced at Delivery Point i in a given year caused by NRLP circuits.*
- *SD is the duration of the sustained interruptions experienced at Delivery Point i in a given year caused by NRLP circuits.*

The Board explicitly noted a similar agreement in the B2M proceeding[36]:

[34] I.EP-24

[35] Decision and Order, EB-2018-0275, Niagara Reinforcement Limited Partnership, April 9, 2020, Exhibit J, Tab 1, Schedule 1, pages 17-18

[36] Decision and Order, EB-2019-0178, B2M Limited Partnership, January 16, 2020, page 3

B2M LP does not have any customer delivery points, which are the basis of interruption based reliability performance measures such as System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI). B2M LP measures Average System Availability, which does not rely on a delivery point interruption. B2M LP will continue to measure Average System Availability and will produce an additional reliability metric, which will measure the contribution of B2M LP's circuits to interruptions at Hydro One Networks Inc.'s delivery points.

The Board found both proposals reasonable. For the sake of consistency and to be able to benchmark these single asset transmitters against each other we believe T-SAIDI/SAIFI metrics should be also be developed by NextBridge.

In their Argument-in-Chief the Applicant has indicated a willingness to explore these metrics[37]. In order for this to happen it may also be helpful for the Board to indicate its expectation that Hydro One Networks will work with NextBridge to develop T-SAIDI/SAIFI metrics.

Implementation (Issue 1)

NextBridge proposes to seek recovery from the UTR beginning April 1 of 2022. In order to adjust for any variation in the expected in-service date it proposes the establishment of a revenue deferral variance account (RDVA).

We support this proposal as it is the proper mechanism to account for the uncertainty in the project and the in-service period some of which may be beyond the control of NextBridge.

We would note that the concept of "in-service" may be a matter of dispute as between when NextBridge is finished its project and when Hydro One is able to accommodate the new connections at its station facilities and when both are accepted by the IESO as being relied upon for power transfer. In our view the IESO is the authority in that matter. The Board may wish to consider asking NextBridge for confirmation of IESO acceptance of its assets being in-service in order to properly determine the balances in the RDVA.

DVA (Issue 7)

The only DVA we have not addressed in the body of this argument is the Z-Factor Treatment (Account 1572 – Extraordinary Event Costs). As we understand it NextBridge is asking for establishment of the account based on the premise that this is required in order to be able to avail itself at some future date to some extraordinary detrimental event.

[37] AIC, April 9, 2021, pages 24-

VECC has no issue with NextBridge being eligible for such treatment, however we do not think the establishment of the account is necessary at this time. Such accounts allow for retrospective rate making and so, in our view should not be established prior to a regulated utility making an a priori case for the account and in accordance with the Board's long established principles on this type of account. Instead, in our submission the Board should simply make it known that the Utility is eligible for such treatment and that at the time of any such event it should seek the Board permission to establish such an account. This would allow the Board (with the input of interested parties should that be considered important) to make a determination in the first instance

Reasonably Incurred Costs

These are our respectful submission.

VECC submits that it has acted responsibly and efficiently during the course of this proceeding and requests that it be allowed to recover 100% of its reasonably incurred costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED