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

DECISION AND ORDER

EB-2020-0150

UPPER CANADA TRANSMISSION INC.

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

BEFORE: Emad Elsayed
Presiding Commissioner

Allison Duff
Commissioner

Pankaj Sardana
Commissioner

June 17, 2021

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

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1 OVERVIEW

This is a decision by the Ontario Energy Board (OEB) on an application from Upper Canada Transmission, Inc., operating as NextBridge Infrastructure LP (NextBridge) to charge electricity transmission rates.

NextBridge filed a Custom Incentive Rate-setting (Custom IR) application with the OEB on November 4, 2020, under section 78 of the *Ontario Energy Board Act*, *1998*, seeking approval for rates that it will charge for electricity transmission, beginning April 1, 2022 and for each following year through to December 31, 2031.

As part of the Custom IR, NextBridge sought approval to set its 2022 revenue requirement 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 with a Revenue Cap Index formula to annually adjust transmission rates for the period effective January 1, 2023 to December 31, 2031. NextBridge proposed a base revenue requirement of $55.7 million, which would 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.

Over the 2022-2031 Custom IR term, NextBridge sought to recover in rates, through its proposed Custom IR framework, a base revenue requirement of $596.2 million. In this Decision, the OEB makes the following key determinations regarding the application:

- Request for recovery of $31.2 million in development costs for the East-West Tie line is approved
- Request for recovery of $5.3 million of pre-July 31, 2017 "phase shift" costs is approved
- Request for recovery of $737.1 million of construction cost balance in the Construction Work In Progress Account is approved
- Request for recovery of $1.2 million in spare equipment costs is approved
- Request for inclusion of a revenue requirement of $41.8 million for 2022 (for nine months of service beginning on April 1, 2022) is not approved as proposed. The $41.8 million shall be revised
- Regarding the establishment of the following deferral and variance accounts:
    - Request for a Taxes or Payments in Lieu of Taxes Variance Account is unnecessary and not approved

 - Request for a Revenue Differential Variance Account is unnecessary and not approved
 - Request for a Construction Cost Variance Account is approved with the addition of an end date and a defined scope
 - Request for a Debt Rate Variance Account is approved with the addition of an end date

- Request for approval of the Custom IR framework from January 1, 2023 to December 31, 2031 is not approved as proposed. The Revenue Cap Index formula which annually adjusts the approved 2022 revenue requirement will include an inflation factor of 2.0% less a stretch factor of 0.3%. An Earnings Sharing Mechanism and an Earnings Sharing Deferral Account are added to the Custom IR framework. In addition, the proposed 9-year and 9-month term is reduced to a 5-year and 9-month term.

- Request for a rate order effective one day after the East-West Tie line in-service date is approved with a Foregone Transmission Revenue Deferral Account. The base revenue requirement and rate adjustments will be implemented through the OEB's Uniform Transmission Rates within the Network pool.

- To determine the revised annual and prorated 2022 revenue requirements and total bill impact to customers, NextBridge shall file a draft rate order incorporating the OEB's findings in this Decision.

2 THE PROCESS

NextBridge filed its application on November 4, 2020. The OEB issued a Notice of Hearing on November 24, 2020.

The OEB issued Procedural Order No. 1 on December 16, 2020 which established the timetable for a written interrogatory process and approved parties as intervenors. The approved intervenors were:

- Association of Major Power Consumers in Ontario (AMPCO)
- Building Owners and Managers Association Toronto (BOMA)
- Consumers Council of Canada (CCC)
- Energy Probe Research Foundation (Energy Probe)
- Hydro One Networks Inc. (Hydro One)
- Independent Electricity System Operator (IESO)
- Michipicoten First Nation (MFN)
- School Energy Coalition (SEC)
- Vulnerable Energy Consumer Coalition (VECC)

OEB staff also participated in the proceeding. Interrogatories were submitted by intervenors and OEB staff by January 7, 2021. NextBridge provided responses to the interrogatories on January 27, 2021.

Procedural Order No. 2 was issued on February 5, 2021. It established a timetable for the filing of a proposed issues list, settlement conference, and for steps relating to the settlement process. The OEB issued its approved Issues List on February 9, 2021.

A settlement conference was held on February 16, 18, and 25, 2021, but no settlement was reached by the parties.

Procedural Order No. 3 was issued on March 10, 2021. It scheduled an oral hearing and a timetable for written submissions. The oral hearing was held on March 29, 30 and 31, 2021.

NextBridge filed its Argument-in-Chief on April 9, 2021. OEB staff, AMPCO, CCC, Energy Probe, Hydro One, MFN, SEC and VECC filed submissions on April 27, 2021. BOMA filed a letter with the OEB noting that it supported and adopted the positions set out in SEC's submissions. NextBridge filed its reply submission on May 11, 2021.

3 DECISION ON THE ISSUES

3.1 General (Issue 1)

Issue 1.1: Has NextBridge responded appropriately to all relevant OEB directions from previous proceedings?

In 2011, the OEB undertook a competitive designation proceeding to select a transmitter to carry out development work for the East-West Tie line and ultimately NextBridge was selected to carry out that work. 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.[1]

The subsequent leave to construct decision[2] required NextBridge to report on any material change in the East-West Tie line and coordinate the in-service date for the transmission line with Hydro One's related station work. In addition, NextBridge was required to obtain, and comply with the requirements of all necessary approvals, permits, licences, certificates and rights required to construct, operate and maintain the East-West Tie line.

OEB staff submitted that NextBridge should be required to confirm that its East-West Tie line meets or exceeds the minimum technical requirements outlined in the OEB's East-West Tie line designation process as a condition of this Decision.

No other party took issue with NextBridge's response to previous directives.

In its reply argument, NextBridge indicated that it was agreeable to obtaining confirmation as suggested by OEB staff if this Decision were to require it.

Findings

There were no directions from previous cost of service proceedings as this is NextBridge's first such application. However, the OEB finds that NextBridge is complying with other OEB requirements such as those conditions associated with designation, licensing, leave to construct approval and regular reporting.

[1] http://www.ontarioenergyboard.ca/oeb/_Documents/EB-2011-0140/pres_OEB%20Minimum%20Requirements.pdf
[2] EB-2017-0182 / Decision and Order / February 11, 2019.

One exception is the requirement that NextBridge obtain confirmation that the design of the East-West Tie line meets the minimum technical standards set out in the designation proceeding by the OEB.

This requirement was included in a decision from the previous leave to construct proceeding, where the OEB stated that “the successful applicant will be required to provide a formal sign-off and approval from a Professional Engineer in Ontario ensuring compliance of its project’s technical specifications and design with the OEB’s minimum technical requirements/standards outlined in the Designation Process.”[3]

The OEB is directing NextBridge to conform with this requirement. This confirmation shall be filed by NextBridge as part of its filing with the OEB to demonstrate when the line is placed in service. The cost of obtaining the confirmation shall be recorded in the construction cost variance account.

As construction is ongoing, NextBridge indicated that it will continue to comply with the OEB’s requirements and file the following information after the close of record in this proceeding.[4] As a result, the OEB expects NextBridge to file the following:

- Quarterly Construction Updates
- Final Hydro One Supercom Service Level Agreement
- Customer Connection Cost Recovery Agreement
- NextEra Energy Transmission LLC Service Level Agreement
- Connection Facilities Agreement between NextBridge and Hydro One

Finally, once the East-West Tie line is ready to be placed in service, NextBridge is expected to file a third-party independent engineering study to delineate the end of commissioning.

[3] EB-2017-0182, EB-2017-0194, EB-2017-0362 / Decision and Order/ December 20, 2018.
[4] Transcript Vol. 3 / pp. 132-136.

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

NextBridge proposed a revenue requirement of $55.3 million for the April 1, 2022 - March 31, 2023 test year. NextBridge proposed that the $55.3 million be prorated to $41.8 million to reflect the fact that the East-West Tie line will be in service for only nine months of 2022.

NextBridge estimated that adding the East-West Tie line in 2022 to the uniform transmission rates (UTRs) in Ontario will result in a net increase in average transmission rates of 3.31% and an average transmission connected customer bill increase of 0.25%. For a typical residential customer consuming 750 kW per month, the 2022 total bill impact will be less than 0.32%.

AMPCO, CCC, Energy Probe, Hydro One, SEC, VECC and OEB staff made submissions which would reduce the proposed revenue requirement and the associated total bill impact.

In reply, NextBridge submitted that its proposed revenue requirement and resulting bill impacts are reasonable and should be approved.

Findings

In this Decision, the OEB has reduced NextBridge's proposed revenue requirement for 2022. As indicated in the Implementation section of this Decision, the OEB directs NextBridge to file a draft rate order that incorporates the OEB's findings. The draft rate order shall include revised annual and prorated 2022 revenue requirements and total bill impacts on customers for the OEB to assess.

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

NextBridge proposed 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 rate orders cannot be made effective by that date, NextBridge requested an interim order or orders to implement transmission rates and charges as of April 1, 2022. NextBridge also requested the establishment of a revenue deferral variance account (RDVA) to recover any difference between the interim UTRs and the final UTRs. NextBridge proposed that the 9-month prorated 2022 revenue requirement of $41.8 million be included in 2022 UTRs effective January 1, 2022. NextBridge indicated that it has a high degree of confidence that it will achieve the March 31, 2022 in-service date for the East-West Tie line, barring any unforeseen events. NextBridge submitted that adoption of the RDVA allows the OEB to set the 2022 UTRs and avoid an update during 2022.

OEB staff submitted that the OEB may want to consider an update to the UTRs in the spring of 2022 to incorporate NextBridge's in-service date. OEB staff further noted that Wataynikaneyap Power LP (Watay) is constructing another major transmission line project that is expected to come into service around the same time.[5]

OEB staff submitted 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 new transmitters included. OEB staff noted that under this proposal, NextBridge's revenue requirement would not be included in the UTRs until the East-West Tie line is in-service and there would be no need to establish a RDVA.

VECC and SEC supported NextBridge's proposal to seek recovery from the UTRs beginning April 1, 2022, and to establish a RDVA to adjust for any variation in the expected in-service date.

Both VECC and SEC commented on when the asset should be considered to be in-service. VECC suggested that the OEB could ask NextBridge for confirmation from the IESO regarding acceptance of the assets being in-service to properly determine the balances in the RDVA. SEC stated that the line should not be considered to be in-service until it has actually been successfully tested with electricity flowing through it, which may not be the case if NextBridge has completed construction, but Hydro One is delayed in constructing the associated transmission stations.

Energy Probe suggested that if the in-service date is delayed by more than three months, then the final in-service costs, cost of capital and 2022 UTRs should be updated.

In its reply, NextBridge submitted that its proposed RDVA ensures that revenues are synchronized with the in-service date, but the RDVA would not be necessary if the OEB conducts a UTRs update at the in-service date. NextBridge suggested the UTRs update

[5] EB-2018-0190 / Watay LP Semi-Annual Report on CWIP Account and Backup Supply Arrangements / April 22, 2021.

be decoupled from the in-service date of the Watay project and that the UTRs update accommodate in-service dates prior to March 31, 2022, or after March 31, 2022.

Findings

The OEB accepts NextBridge's proposal that the effective date be one day after the in-service of the East West-Tie line. As there is no guarantee the in-service date will be April 1, 2022, despite NextBridge's assurances, the OEB finds it appropriate for the UTRs to be updated once the asset is ready for service.

UTRs are generally updated on an annual basis, effective January 1 of each calendar year. With new assets coming into service, the process should be augmented to accommodate more than one update such that the UTRs charged in Ontario accurately reflect current transmission costs. During the hearing, NextBridge confirmed that it will file documents to demonstrate when the asset is ready for service (see the Order section of this Decision). The OEB will endeavor to update the UTRs for NextBridge's asset within 60 days of receipt of that filing.

To address the period, if any, between the in-service date and the UTRs update, the OEB approves the establishment of a foregone transmission revenue deferral account, in accordance with the OEB's uniform system of accounts. The balance in that account will be disposed at the next annual UTRs update.

Accordingly, the OEB does not find it necessary to establish interim rates for NextBridge or establish a RDVA as proposed.

3.2 Revenue Cap Application (Issue 2)

Issue 2.1: Is the proposed Incentive Rate methodology appropriate?

NextBridge proposed a Custom IR rate-setting framework that sets a 2022 annualized base year revenue requirement of $55.7 million, determined on a cost of service basis, and then in each subsequent year of the Custom IR term, inflates the previous year's approved amount through a Revenue Cap Index (RCI). The RCI formula would be a traditional I-X approach, and NextBridge proposed that the inflation factor would be fixed at 2.0% and the productivity factor (including any stretch factor) would be set at 0.0% for the entire Custom IR term. The 2022 annualized base year revenue requirement would increase each year by 2.0%, beginning in 2023 through to 2031.

The proposed 2.0% inflation factor is the OEB-approved industry-specific inflation rate for 2021 applications.

NextBridge's proposed 2022 base revenue requirement of $55.7 million as shown in Table 1 is based on the 2020 OEB cost of capital parameters. NextBridge did not update its 2022 base revenue requirement to reflect the deemed 2021 cost of capital parameters.

Table 1: NextBridge's Proposed 2022 Base Revenue Requirement[6]

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

NextBridge submitted that its proposed rate framework is appropriate considering the OEB's expectations for incentive regulation and considering the project's value to customers. NextBridge proposed a 9-year and 9-month Custom IR term, and noted that this would lock in a historically low cost of capital with the risks of expected and unexpected cost increases borne by NextBridge. For example, when compared to the cost of capital parameters over the last ten years, NextBridge stated that locking in the 2020 cost of capital would produce over $80.6 million in customer savings.

Most intervenors and OEB staff opposed the proposed rate framework, arguing that it would result in significant overearnings by NextBridge over the proposed Custom IR term. SEC submitted that in approving any rate framework, the OEB must ensure that it will result in rates, or in this case, a revenue requirement, that are just and reasonable.[7] SEC submitted that over time, as NextBridge's costs decrease due to a declining rate base, and the revenue requirement increases, as per the RCI formula, that NextBridge would over earn. SEC calculated the gap between the revenue that would be collected under NextBridge's proposed rate framework, and NextBridge's forecast costs, and found that the difference was $68.1 million. SEC's analysis indicated that the

[6] Exhibit A / Tab 3 / Schedule 1 / p. 5.
[7] OEB Handbook for Utility Rate Applications / pp. 1, 5.

overearning would increase over the Custom IR term, with NextBridge expected to earn a return on equity (ROE) in 2031 of 13.75%. In order to address the overearnings concern, SEC proposed that a two-part approach, which would adjust annually the Operations, Maintenance and Administration (OM&A) and capital-related portions of the revenue differently as part of the RCI. In SEC's view this is the most appropriate method for setting NextBridge's revenue requirement from 2023 to 2031. SEC proposed that the OM&A would be adjusted annually by a traditional I-X approach using a stretch factor of 0.3%, and that the capital-related revenue requirement would not be inflated at all, with a negative adjustment factor of 0.93% applied instead to reflect the declining rate base and thus declining costs.[8] Based on this two-part approach, SEC stated that the ROE, based on forecast costs while varying slightly from year-to-year, would average 8.52% (which equals the deemed ROE for 2020).

SEC further submitted that if the OEB did not want a two-part approach and preferred one single adjustment to the revenue requirement, that could be accomplished through an annual RCI that is based on adjusting the previous year's approved revenue requirement by inflation minus a stretch factor minus an Adjustment Factor. Under this approach, SEC proposed a revenue requirement equal to:

Previous Year Revenue Requirement times (1 + 0.02 - 0.003 - 0.0235)

SEC noted that if the OEB adopted this approach, it must fix the inflation factor and stretch factor for the entire Custom IR term.

A number of intervenors supported SEC's calculation of the overearnings and proposed approaches for addressing the overearnings issue – sometimes with minor variations.

OEB staff submitted that under section 78 of the OEB Act, the OEB must determine whether the rates proposed are "just and reasonable". OEB staff provided a similar analysis to SEC and argued that NextBridge's proposal would be expected to result in an average annual rate of return of 11.00% over the Custom IR term. OEB staff also submitted that in terms of the $80.6 million in customer savings NextBridge believes will accrue to customers by locking in the 2020 capital parameters for the Custom IR term, investment proposals normally include a disclaimer that historical financial performance does not guarantee future financial performance. In addition, OEB staff suggested there will be no savings for customers on the debt portion of the capital structure because NextBridge will be recovering from customers its actual debt cost for the Custom IR

[8] SEC Submission / p. 21.

term. In other words, in OEB staff's opinion, there is no assurance that any of the suggested savings of $80.6 million for customers would materialize and any savings would only be from the equity portion of the capital structure.

Like SEC, OEB staff also submitted a two-part approach, which would separately adjust the OM&A and capital-related portions of the revenue differently as part of the RCI, to address the overearnings concern. OEB staff's proposal was (i) for capital: an inflation factor of 0.0% and a negative capital factor of 0.75%; and (ii) for OM&A: the annual OEB-inflation factor less a stretch factor of 0.3%. OEB staff stated its proposal would provide NextBridge with an average ROE over its Custom IR term of 8.35%, which is higher than the OEB deemed 2021 ROE of 8.34%.

As an alternative to its two-part approach, OEB staff also put forward an approach which would apply the same inflation and productivity to both OM&A and capital. OEB staff's proposal using this approach was for an inflation factor of 0.0% and a productivity factor of 0.5% for all components of the revenue requirement. OEB staff calculated that this would provide NextBridge with an average ROE over its Custom IR term of 8.37%.

Hydro One submitted that the OEB determined[9] that the deemed ROE should be constructed from two distinct parts: a Risk-Free Rate component (base), and an Equity Risk Premium to allow for the inherent risk of running an enterprise comparable in risk. This framework is consistent with the Capital Asset Pricing Model commonly used in numerous jurisdictions to establish ROE. The foundation of this ROE was the Risk-Free Rate, which is based on a benchmark government bond that is effectively devoid of systematic market risk. Hydro One stated that including a risk premium in the deemed ROE does not at all suggest that a utility should be guaranteed to earn the deemed ROE every year of a rate term.

Hydro One submitted that the proposed RCI formula should be assessed a productivity factor and stretch factor for both OM&A and capital that aligns with the RCI factors already approved for similar transmitters in Ontario.

Hydro One supported the notion of overearning potential in order to account for increased risk, however, claimed that NextBridge's level of overearning appears unnecessary to cover a reasonable amount of additional costs. To reduce the disparity, the OEB should approve a Revenue Cap Index using parameters similar to those approved for Niagara Reinforcement Limited Partnership (NRLP).

[9] EB-2009-0084.

In its reply argument, NextBridge responded to concerns raised by the other parties about overearnings. Specifically, as an acknowledgement to the points raised by the parties and OEB staff, NextBridge proposed an Earnings Sharing Mechanism (ESM) that goes beyond the automatic review trigger of annual ROE greater than 300 basis points. NextBridge proposed a 50% ESM if actual ROE is greater than 100 basis points over its deemed ROE. NextBridge noted that its proposal should be evaluated by reference to the OEB's Report on Renewed Regulatory Framework for Electricity (RRFE). The RRFE incorporates three important principles for rate changes following a cost of service review - the Decoupling Principle, the Comprehensiveness Principle, and protection from over-earnings through a mandatory dead band, or the Over-Earning Principle. NextBridge suggested that adherence to these principles would lead the OEB to approve formulaic changes to rates over the Custom IR term that do not incorporate separate adjustment factors to the formula for capital and OM&A costs. NextBridge further proposed that the RCI formula of RCI equals inflation minus a productivity factor of 0.0% should be accepted as proposed without applying any stretch factors. NextBridge stated that in comparison, the SEC and OEB staff proposals depart from these Principles and the Hydro One proposal seeks to impose its NRLP settlement on NextBridge without regard to other more relevant OEB precedent.

Findings

The OEB finds that NextBridge's Custom IR proposal is not aligned with the requirements of the RRFE. The RRFE provides a strong foundation for an outcomes-based approach to align the interests of utilities and customers. The RRFE also postulates rate-setting over an incentive rate-setting mechanism (IRM) term in a manner that decouples price that a utility charges from its costs and does so in a comprehensive manner. This is deliberate and is designed to incent the behaviours, which include providing the opportunity for utilities to earn, and potentially exceed, the deemed ROE.[10]

The RRFE also clearly sets out the OEB's expectations for utilities filing Custom IR applications, including that rates be based on a minimum five-year term. The RRFE further provides the general policy direction for this rate-setting method and notes that the OEB expects that the "specifics of how the costs approved by the Board will be recovered through rates over the term will be determined in individual rate applications. This rate-setting method is intended to be customized to fit the specific applicant's circumstances. Consequently, the exact nature of the rate order that will result may vary

[10] Report of the Board: A Renewed Regulatory Framework for Electricity Distributors: A Performance Based Approach, October 18, 2012, p. 11.

from distributor to distributor".[11] Furthermore, the RRFE notes that the nature of utility investments ideally suited for a custom incentive framework "will be most appropriate for distributors with significantly large multi-year or highly variable investment commitments that exceed historical levels".[12] This is clearly not the case with NextBridge's current application as NextBridge will have one newly built asset with significant annual depreciation expenses and limited capital additions over the Custom IR term.

The OEB agrees with OEB staff and intervenors that, as a single asset transmitter with only minimal capital expenditures proposed over the Custom IR term[13], depreciation of $9.26 million per year[14] is forecast to exceed annual additions to NextBridge's rate base. This will undoubtedly result in a declining rate base over the proposed Custom IR term.

Given a steadily declining rate base, the OEB finds that adjustments to NextBridge's proposed RCI formula are necessary to protect the interests of customers, while still permitting NextBridge to earn its deemed ROE. Absent such adjustments to the RCI formula, the OEB notes that the proposed annual increases to NextBridge's revenue requirement are expected to be sufficient to allow the risks of expected and unexpected cost increases to be absorbed by NextBridge, such that NextBridge's expected ROE would exceed its deemed ROE. Accordingly, over the revised Custom IR term, NextBridge's base revenue requirement will be adjusted annually using a Revenue Cap IR methodology, whereby, the revenue requirement for the test year + 1 will be equal to the revenue requirement in the test year, inflated by an RCI as approved below.

Issue 2.2: Are the proposed inflation factor and the proposed productivity factor appropriate?

NextBridge proposed a fixed 2.0% inflation factor and a total productivity factor of 0.0% for the Custom IR term in its application.

OEB staff and intervenor submissions discussed productivity factors under a proposed two-part approach, which would adjust annually the OM&A and capital-related portions of the revenue differently as part of the RCI, and the more traditional one-part approach, which would apply the same inflation and productivity to both OM&A and capital. Both approaches are discussed in more detail under Issue 2.1. Several parties proposed that

[11] Ibid, p. 18.
[12] Ibid, p. 18.
[13] Exhibit A / Tab 3 / Schedule 1.
[14] Exhibit F / Tab 11 / Schedule 1.

the inflation factor should be annually adjusted to reflect the OEB-approved inflation factor for transmitters.

In its reply argument, NextBridge submitted that with respect to inflation, several parties have proposed that the inflation factor should be annually adjusted to reflect the OEB-approved inflation factor for transmitters. NextBridge stated that it does not oppose this proposal.

Findings

The OEB does not approve the RCI as proposed in the application. The OEB approves an RCI that includes an inflation rate of 2.0%, a productivity factor of 0.0% and a stretch factor of 0.3% for the approved Custom IR term.

The RCI is expressed as: RCI = I – X, where: “I” is the inflation factor and “X” is the productivity factor and the stretch factor. The first application of the RCI formula will apply to NextBridge’s 2023 rates.

The proposed inflation factor of 2.0% is equal to the current OEB-approved transmission-specific inflation factor for 2021 and is approved for the Custom IR term.

The proposed productivity factor of 0.0% is consistent with the productivity factor for Ontario transmitters and is approved for the Custom IR term. No party objected to a productivity factor of 0.0%.

NextBridge proposed no stretch factor which is equivalent to a stretch factor of 0.0%. The OEB has applied a 0.0% stretch factor to certain electricity distributors based on its total cost performance as benchmarked against other distributors in Ontario. The most efficient distributor is assigned the lowest stretch factor of 0.0%. Conversely, a higher stretch factor, up to 0.6%, is applied to a less efficient distributor to reflect the incremental productivity gains that the distributor is expected to achieve. As a new transmitter in Ontario, the OEB finds it appropriate to apply the mid-point of the range, which is 0.3% for NextBridge.

The OEB finds that a stretch factor of 0.3% along with a 5-year and 9-month Custom IR term is sufficient to incent efficiencies to be shared with customers. In the absence of evidence in this proceeding, the OEB finds that the Pacific Economics Group’s “Empirical Research in Support of Incentive Rate-Setting: 2019 Benchmarking Update" Report (PEG Report), applicable to Ontario distributors, is informative for stretch factors applicable to transmitters.[15] The OEB also approved a stretch factor of 0.3% for Hydro One Sault Ste. Marie's[16] revenue cap framework from 2019 to 2026 referencing the PEG Report, and finds it appropriate to establish parity and fairness to the extent possible among transmitters in Ontario.

The OEB notes that the approved RCIs for the B2M Limited Partnership (B2M) and NRLP transmission projects were based on an RCI formula that incorporated a productivity and stretch factor of 0.0%, but with a separate capital adjustment factor. Both B2M and NRLP transmitters had OEB-approved RCI formulas set pursuant to settlement proposals, and so reflected negotiated agreements as opposed to adjudicated decisions. Accordingly, while the B2M and NRLP projects are apt comparators in many respects, for purposes of the annual RCI adjustments, the OEB finds it more appropriate to apply the same stretch factor from a comparatively similar, adjudicated, case. The OEB finds that the 5-year and 9-month Custom IR term and the ESM will effectively address potential over-earnings from applying the RCI to a steadily declining rate base, and the OEB does not find it appropriate to add an additional adjustment factor for capital.

Issue 2.3: Are the proposed annual updates appropriate?

NextBridge proposed certain annual updates to be filed with the OEB. NextBridge stated its annual updates will address updates to the variance accounts applied for and approved by the OEB, including any revenue impact resulting from the clearance of these accounts. NextBridge also stated that the annual updates will allow for annual revenue adjustments applied for and approved by the OEB, such as the inflation factor. The annual update in 2023 for its 2024 revenue requirement would include the disposition of the variance accounts, as described in more detail under Issue 7.1.

OEB staff supported NextBridge's proposal to update its actual debt rates in a 2023 filing for its 2024 revenue requirement. OEB staff also supported disposition of the variance account balances at that time, subject to specific comments on the variance accounts. For other years, where there is no disposition of variance accounts, OEB staff submitted 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

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[15] Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-Setting: 2019 Benchmarking Update." Pacific Economics Groupp.9, states that the distributors within 10% of predicted cost received a stretch factor of 0.30%.
[16]EB-2018-0218 / Decision and Order / June 20, 2019

confirming the approved revenue requirement to be included in the following year's UTRs, or it could require a more formal, mechanistic application subject to OEB approval, similar to other transmitters. OEB staff also submitted that the performance measures should be reported annually.

Energy Probe submitted that after a Custom IR rate-setting plan has been approved, the annual updates would be mechanical. However, in 2023, an update and review of the prudence of the in-service capital cost and clearance of the CCVA and DRVA should occur. The format of the annual reports should be similar to the reports filed in the construction phase, as well as providing details on the actual historic and forecast operating costs and performance measures.

In its reply submission, NextBridge stated that it is amenable to the updates proposed by OEB staff to annually report on tracking of performance measures. NextBridge also noted that consistent with its position on Issue 6, it objects to Energy Probe's request to defer consideration of the recovery of forecast construction costs until a later time.

Findings

The OEB notes that NextBridge's proposal to provide annual updates regarding deferral and variance accounts is consistent with the OEB's annual Reporting and Record-Keeping Requirements (RRR) for Transmitters as outlined in Chapter 3 of the Electricity RRRs.

Annual updates to NextBridge's revenue requirement during the Custom IR term are expected to be mechanical. The annual revenue requirements for 2023 to 2027 are approved in this proceeding. The OEB approves NextBridge's proposal to update its actual debt rates in a 2023 application for its 2024 revenue requirement, including any requests to dispose of deferral or variance account balances during the Custom IR term.

The OEB addresses performance measures in Issue 4.1 of this Decision.

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

In its application, NextBridge did not propose an ESM.

A number of intervenors and OEB staff took issue with NextBridge's unwillingness to including an ESM. AMPCO, CCC, Energy Probe and SEC submitted that the RCI formula should be adjusted to reflect the potential for NextBridge to over earn during the Custom IR term but that in addition, an ESM should be a required element of the Custom IR plan. Energy Probe submitted that the revised RCI formula should include an asymmetric ESM with a dead band of 100 basis points ROE.

VECC supported the introduction of an ESM of 50-50 sharing at 100 basis points above the approved ROE, based on the assumption of a 10-year Custom IR term. Under a five-year Custom IR term, VECC supported an ESM at 300 basis points provided the adjustment factor was set toward the upper bound of 0.9%.

OEB staff submitted that NextBridge's proposed longer Custom IR term increases the need for a mechanism to prevent excessive overearnings. OEB staff submitted that NextBridge should have an ESM like those in place for other single asset transmitters in Ontario and that the ESM should record any annual overearnings exceeding 100 basis points. OEB staff stated that an ESM deferral account should be established.

In its reply argument, NextBridge stated that in response to concerns from intervenors and OEB staff, it would agree to an asymmetrical 50-50 earnings sharing of revenues greater than 100 basis points above the approved ROE.

Findings

The OEB finds it encouraging that NextBridge and the parties found common ground in proposing an ESM for inclusion in NextBridge's Custom IR framework. The OEB finds that an ESM assists with addressing the risk of overearning given NextBridge's declining asset base and enables the sharing of potential benefits with customers. The OEB approves an asymmetric ESM with a 50-50 sharing between shareholders and customers on earnings greater than or equal to 100 basis points over the OEB-approved ROE of 8.34%. The 8.34% ROE is approved for the complete Custom IR term as the point of comparison for determining if earnings sharing is triggered, and as the basis for calculating entries into the ESM deferral account.

Consistent with approving an asymmetric ESM, the OEB approves the establishment of an ESM deferral account as suggested by OEB staff. The OEB expects that the balance in the ESM deferral account will be considered for disposition as part of NextBridge's 2024 rates update application and at the end of the Custom IR Term. To implement the ESM, the OEB directs NextBridge to file a draft accounting order for an ESM Deferral Account with its draft rate order.

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

A minimum term of 5 years for a Custom IR proposal is specified in the OEB's Filing Requirements.[17] NextBridge has proposed a 10-year (9-year and 9-month) length for its Custom IR plan.

In its argument-in-chief, NextBridge submitted that its Custom IR term is appropriate as it provides rate stability and other tangible benefits to customers and is consistent with OEB policy. NextBridge argued that historical data suggests customers will receive savings for fixing the ROE for the 9-year and 9-month Custom IR term by locking in a historically low OEB-approved ROE for the full Custom IR term. A number of intervenors opposed the 9-year and 9-month Custom IR term. CCC and AMPCO submitted that the proposed Custom IR term is simply too long a period of time for utilities to avoid regulatory oversight. AMPCO stated that staying away for such an extended period of time could lead to cost pressures upon rebasing and other issues given the potential changes that can occur over a decade. VECC and CCC argued that if the regulatory model is benefiting NextBridge it will choose to "stay out" and avoid regulatory scrutiny as long as possible.

Other hearing participants did not oppose a 10-year Custom IR term so long as other substantive changes were made to the application. For example, OEB staff submitted that NextBridge's proposed Custom IR framework leads to over earnings that grow exponentially over the Custom IR term and will, absent significant OM&A overspending, lead to an OEB regulatory review due to earnings 300 basis points above the deemed ROE. OEB staff submitted, however, that with a properly calibrated inflation factor, productivity factor, ESM and off ramp, a 10-year IRM plan could be appropriate.

Similarly, SEC did not oppose the length of term if the OEB made significant changes to the annual RCI formula, as proposed in its submission. SEC stated that if the OEB gets the numbers right, then the length of the term is not especially important.

In reply, NextBridge maintained that its proposed 9-year and 9-month Custom IR term was appropriate as the OEB's policy is that 5 years is the minimum term and costs of adjudicating a Custom IR application are significant.

[17] Filing Requirements for Electricity Transmission Applications / Chapter 2 Revenue Requirement Applications / p. 7.

Findings

The OEB does not approve NextBridge's proposed Custom IR term of 9-years and 9-months. In addition to the OEB's approved changes to the RCI, the OEB also finds it appropriate to reduce the Custom IR term.

The OEB is concerned with the real prospect of utility over earnings over the proposed term. The OEB is not convinced that the prospect of over earnings will be obviated even after adjustments to the RCI formula and an ESM because the RCI increases to base revenues will be applied to a steadily declining rate base. The OEB must ensure that utility interests are balanced with customer interests. For these reasons, the OEB finds that a term of 5-years and 9-months for this newly regulated utility will enable the OEB to review and adjust rates as necessary to ensure that balance persists.

The OEB will set the Custom IR term for 5-years and 9-months based on an anticipated in-service date of the East-West tie line of March 31, 2022. For clarity, the OEB expects NextBridge to file a rebasing application on a timeline consistent with setting new transmission rates for the East-West Tie line starting on January 1, 2028.

3.3 Transmission System Plan (Issue 3)

Issue 3.1: Have investment planning processes been appropriately carried out?

NextBridge's capital expenditure plan forecasts total spending of $4.28 million over the Custom IR term. NextBridge proposed that only the test year capital expenditures of $0.23 million be included in the rate base for determining the revenue requirement and base rates for 2022. The $0.23 million of test year expenditures consist of bird deterrents and right-of-way cameras which are collectively described as reliability improvement projects.

NextBridge stated that its Custom IR proposal minimizes rate impacts by not adding annual capital expenditures to rate base during the Custom IR term. At the end of the Custom IR term, NextBridge proposed to seek a review of actual capital expenditures for prudence as part of its next rebasing application.

Energy Probe did not take issue with the capital expenditure plan but submitted that NextBridge should report historic and planned additional capital expenditures as part of its annual updates.

VECC submitted that NextBridge's capital expenditure plan "is reasonable and in keeping with the newness of the assets."

OEB staff argued that the $0.23 million should not be approved as NextBridge had not provided sufficient evidence to justify the value of these expenditures or explained why these proposed expenses were not included in the $737.1 million construction cost.

In its reply submission, NextBridge reiterated its view that cameras and bird deterrents will offset future O&M expenses, while enhancing the reliability and safety of the East-West Tie line. NextBridge submitted that it had provided detailed evidence which demonstrated that placement of cameras at river and highway crossings would increase situational awareness of these remote locations and facilitate the rapid recovery, inspection, and dispatching of resources to repair and restore these crossings. NextBridge also submitted that its evidence showed that the use of bird deterrents is widely accepted throughout North America and could proactively prevent bird-related faults, outages and damage.

Findings

The OEB finds that NextBridge's capital expenditure plan and investment planning process is reasonable and reflects the nature and age of its single asset.

The OEB also finds that inclusion of the right-of-way cameras and bird deterrents in the capital plan is prudent based on the expectation that these additions will enhance the reliability and safety of the East-West Tie line and facilitate the reduction of OM&A costs.

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

NextBridge filed a transmission system plan for the Custom IR term, consisting of a strategic plan, an asset management plan, regional considerations, and a benchmarking study. The benchmarking study was prepared by Charles River Associates and covered construction costs and OM&A costs.

At the beginning of the Custom IR term, the East-West Tie line will be a newly constructed transmission asset. As a result, the asset management plan does not anticipate asset replacement during the Custom IR term. The asset management plan also described NextBridge's plan for operations and maintenance of the transmission line.

Energy Probe and OEB staff submitted that they had no issue with the transmission system plan.

Findings

The OEB finds that the transmission system plan adequately addresses the condition of NextBridge's single asset. NextBridge shall report on any changes in its planned capital expenditures as part of its annual updates.

3.4 Performance (Issue 4)

Issue 4.1: Is the proposed monitoring and reporting of performance adequate?

NextBridge proposed five performance measures and associated targets to be tracked annually and reported at the end of the Custom IR term. These measures and targets are summarized in Table 2.

Table 2 – Performance Measures[18]

Performance Measure	Target
OHSA recordable injuries per year	Zero
Return on equity	8.52% based on 2020 OEB cost of capital
Violations of NERC FAC-003-4 Vegetation compliance standard	Zero
OM&A cost per circuit kilometre	$10,977/km, based on application revenue requirement
Average system availability	99%

[18] Exhibit D / Tab 1 / Schedule 1.

NextBridge explained that in the absence of having delivery points, it is unable to calculate transmission System Average Interruption Duration Index (T-SAIDI) and transmission System Average Interruption Frequency Index (T-SAIFI) metrics. Instead, NextBridge proposed to provide additional information related to line outage duration and frequency, on a best-efforts basis using two proposed formulas.

A number of intervenors supported NextBridge’s efforts to calculate and report T-SAIDI and T-SAIFI annually, in addition to the five proposed performance measures, working with Hydro One on a best-efforts basis.

AMPCO recommended that NextBridge’s target for Average System Availability “should be closer to 100%” given that it is a new transmission line. AMPCO submitted that the OEB should approve NextBridge’s proposed performance metrics and targets, subject to updating the targets for ROE. OEB staff also submitted that the ROE target should be updated and performance measures should be reported annually.

Energy Probe stated that metrics should be reported in scorecard format and include targets for the future year.

NextBridge reiterated in its reply submission that it will track performance measures annually yet provide the results to the OEB in its next rates proceeding. NextBridge indicated that it was amenable to OEB staff’s request to annually report on the performance measures.

Findings

The OEB finds that NextBridge’s five proposed performance measures and targets are adequate with the exception that the ROE target shall be updated to 8.34% to match the ROE parameter set by the OEB for 2021 rates. NextBridge shall track these measures and report the results annually to the OEB.

The OEB also finds that targets for T-SAIDI and T-SAIFI shall be developed by NextBridge and reported annually in future years, working with Hydro One on a best efforts basis.

3.5 Operations, Maintenance, and Administration (Issue 5)

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

NextBridge proposed an OM&A budget of $4.94 million for the test year, comprised of an operations and maintenance budget of $1.27 million and an administration budget of $3.67 million.

AMPCO and CCC submitted that the OEB should accept NextBridge's OM&A costs. MFN's submission specifically addressed NextBridge's expenses for Indigenous Participation, Indigenous Compliance and Property Taxes and Rights Payments and supported the budget as being just and reasonable.

Energy Probe questioned whether vegetation management had been adequately provided for within the operations and maintenance costs.

Energy Probe, OEB staff, SEC and VECC took the view that the test year administration budget of $3.67 million was unreasonably high, focusing particularly on the project director's office costs of $627,000 and the corporate services costs of $558,000. Energy Probe, VECC and OEB staff proposed reductions ranging from $166,500 to $783,333. Energy Probe submitted that the Compliance and Administration costs were "out of line" with the two peer comparator utilities and therefore a 10% or $166,500 reduction was appropriate. VECC proposed a reduction of $200,000 as administration, corporate and regulatory costs were "simply too high" based on the kilometres of line compared to other single asset transmitters in Ontario. VECC also noted that some costs appeared to be repetitive.

OEB staff proposed a reduction of $783,333 to OM&A based on the ratio of operation and maintenance costs to total OM&A of NextBridge compared with the ratios of other single asset transmitters in Ontario.

SEC did not recommend a reduction for test year OM&A costs, yet focused on the inflation of OM&A costs over the Custom IR term. SEC noted that the benchmarking study "raises flags regarding the reasonableness of the compliance and administration portion of the OM&A budget."

Hydro One did not make a specific submission on the appropriateness of the proposed spending levels. Hydro One submitted that "the benchmarking study should not be relied on by the OEB as justification for the reasonableness or prudence of either NextBridge's capital or OM&A cost forecast."

In its reply submission, NextBridge reiterated that its test year budget was prudent, and submitted that there was no factual basis to compare its project director office's budget with the budgets for other single asset transmitters in Ontario. NextBridge submitted that the OEB should disregard recommended reductions to its OM&A budget if there was no supporting factual foundation. NextBridge argued that the reduction suggested by OEB staff would lead to understaffing, leaving it unable to complete fundamental administrative and compliances functions.

Findings

The OEB finds that the total proposed OM&A spending levels are excessive and shall be reduced. The key area of concern is Administration and Compliance which does not appear to be adequately supported both in terms of the absolute magnitude (number of hours) and relativity to other single asset transmitters in Ontario (e.g., NRLP, B2M). The OEB does not agree with NextBridge's premise that the Administration and Compliance cost of a transmission line is necessarily a direct function of the length of the line when compared to other transmission lines. These OM&A cost elements include fixed components which are independent of the length of the transmission line.

The specific components within the Administration and Compliance category which were pointed out by the various parties to be out of line with comparator utilities are Project Director's Office ($0.63 million) and Corporate Services ($0.56 million). The OEB agrees and finds that a reduction of approximately 20% of these components (a rounded amount of $0.2 million) in NextBridge's proposed test year OM&A budget is reasonable and would bring the Administration and Compliance component more in line with comparator utilities. The OEB finds that NextBridge's proposed test year OM&A budget shall be reduced by $0.2 million to $4.74 million.

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

NextBridge proposed a $0.58 million income tax expense in its test year revenue requirement. NextBridge stated that the $0.58 million represents the Ontario Corporate Minimum Tax attributable to its partners: NextEra Energy Inc. for $0.29 million; Enbridge Inc. for $0.14 million; Borealis NB Holdings, Inc. for $0.14 million and Bamkushwada LP of $0.00 million. NextBridge explained that the tax savings associated with Bamkushwada LP's tax-exempt status had been factored into the revenue requirement calculation.

VECC and OEB staff took no issue with the $0.58 million tax expense proposed by NextBridge. OEB staff noted that another single asset transmitter in the province, NRLP, has an approved $0.6 million tax expense based on the Ontario Corporate Minimum Tax.

Findings

The OEB finds that the proposed income tax expense for the test year of $0.58 million is appropriate.

Issue 5.3: Is the proposed depreciation expense appropriate?

NextBridge proposed an annual depreciation expense of $9.26 million for inclusion in the test year revenue requirement. NextBridge utilized a study that Foster Associates Inc. prepared for Hydro One in support of Hydro One's 2020 to 2022 rate application. NextBridge submitted that this methodology is consistent with the methodologies approved for B2M, another single asset transmitter in the province, and Hydro One.

SEC, VECC and OEB staff took no issue with NextBridge's depreciation policy and proposed annual depreciation expense. VECC also noted that there would need to be an adjustment to the depreciation expense in the test year if the OEB adjusts the proposed capital asset budget.

Findings

The OEB finds that NextBridge's proposed annual depreciation expense is reasonable.

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

NextBridge plans to enter into two agreements for operations, maintenance, and administration services: one with Hydro One/Supercom, and the other with NextEra Energy Transmission, LLC (NEET), an affiliate of the NextBridge partner, NextEra. NextBridge forecasts the test year costs of these agreements to be $0.4 million for the Hydro One/Supercom agreement, and $1.7 million for the NEET agreement.

Energy Probe, SEC and OEB Staff agreed that NEET is not an affiliate of NextBridge under the OEB's Affiliate Relationship Code. However, these parties took issue with the prudence of the costs of the NEET agreement because the agreement did not result from a competitive procurement process which may have resulted in lower costs.

OEB staff and SEC also argued that NextBridge has agreed to a 3% annual inflation rate for the NEET costs for the length of the Custom IR term, which is higher than the OEB's approved inflation rate in 2021.

In its reply argument, NextBridge argued that it carried out an analysis that demonstrated that NEET was the most cost-effective provider of certain services when combined with the contract for certain services from Hydro One/Supercom. NextBridge also suggested that the NEET costs are reasonable given that NextBridge is currently using partner resources to work on the construction of the East-West Tie line. NextBridge clarified that there is no agreement on 3% inflation, and even if there were, NextBridge has committed to not seek recovery of increases above test year OM&A budget during the Custom IR term, aside from Z-factor events.

Findings

The OEB finds that the services provided to NextBridge and their associated costs are appropriate. The OEB finds that NextBridge took appropriate measures to assess various alternatives for obtaining these services including an analysis of three different procurement scenarios. The combination of the work contracted to NEET and Hydro One/Supercom appeared to provide the most cost-effective alternative for the provision of these services.

3.6 Rate Base and Cost of Capital (Issue 6)

Issue 6.1: Are the $737.1 M construction costs and $5.3M Phase Shift costs prudent for recovery?

In its decision granting NextBridge leave to construct the East-West Tie line, the OEB indicated that NextBridge would have to demonstrate the prudence of its construction costs, forecast at $737.1 million, when seeking to recover those costs in the future.[19] NextBridge is now seeking approval to recover the $737.1 million of forecast construction costs in addition to $5.3 million of pre-July 31, 2017 "phase shift" costs identified in the December 20, 2018 Decision and Order[20] as eligible construction costs.

[19] EB-2017-0182 / Decision and Order / February 11, 2019 / p. 7.
[20] EB-2017-0182.

NextBridge argued that its construction costs are prudent and appropriate for recovery. Additionally, NextBridge stated that its cost management and procurement practices resulted in securing nearly 90% of its forecasted $737.1 million construction costs under contract, which reduced volatility in pricing and ensured resource availability.

AMPCO, CCC, Energy Probe, SEC and MFN did not take issue with the prudence of these construction costs.

Energy Probe accepted the phase shift costs and construction costs as reasonable, yet submitted that NextBridge should update the construction costs in Q3 2021. Further, Energy Probe recommended that the prudence review should be deferred until 2023 when NextBridge seeks clearance of the CCVA and other accounts.

Hydro One submitted that the OEB's decision should consider that only 60% of the project scope has been completed and that there is no remaining contingency in the cost forecast. Hydro One argued that the assessment of prudence should not be based on the benchmarking study.

OEB staff submitted that the construction costs should be reduced by $23.4 million based on the cost of NRLP that was included in the Charles River Associates benchmarking study.

In its reply argument, NextBridge clarified that the Charles River Associates benchmarking study was intended to show that NextBridge's costs were within a reasonable range; the benchmarking study was not intended to be used to determine construction or OM&A costs. NextBridge also submitted that the vast majority of its contracts and procurements were competitively bid which demonstrates prudence.

In response to Energy Probe's submission that the OEB's prudence review should be deferred, NextBridge submitted that a delay would harm its partner Bamkushwada LP, which needs to secure debt financing in advance of the in-service date.

Findings

The OEB finds that the construction budget cost of $737.1 million and phase shift cost of $5.3 million are prudent for recovery. The evidence supporting NextBridge's construction budget of $737.1 million and the $5.3 million was tested through interrogatories and cross examination in the leave to construct proceeding[21] and as part of this rates proceeding.

The $5.3 million in phase shift costs relate to in-service date extensions, land acquisitions and $3.4 million for Indigenous economic participation. The OEB acknowledges MFN's submissions, which provided a first-hand account of NextBridge's Indigenous-focused activities and supported recovery of the $5.3 million.

The OEB has assessed the reasonableness of costs incurred to date and the remaining cost yet to be incurred. The OEB finds that the associated construction contracts and procurements were competitively bid and appropriately managed by NextBridge. Further, NextBridge confirmed during the oral hearing that 90% of the construction work had been contracted and a significant portion of that was contracted on a fixed price basis. As a result, NextBridge considered the level of certainty of the construction cost estimate to be very high.

The OEB has applied a test of prudence. The test of prudence must be based on the facts that were known at the time NextBridge was making decisions to incur costs. The OEB will not reduce the proposed construction costs as recommended by OEB staff, based on the other transmission lines in the Charles River Associates benchmarking study. OEB staff's recommended reduction of $23.4 million relied on certain cost comparisons from the benchmarking study, despite the distinct, unique aspects of each transmission line and location compared to the East-West Tie line. Further, the OEB agrees with NextBridge that the objective of the benchmarking study was not to assess prudence of actual and forecast construction costs for the East-West Tie line. To that end, the OEB did not rely on the Charles River Associates benchmarking study for the purpose of assessing prudence.

Issue 6.2: Are the amounts proposed for rate base appropriate?

NextBridge sought approval for a transmission rate base of $770.4 million for the test year. The proposed rate base is comprised of incurred and forecasted capital construction costs, which includes development costs, phase shift and spare strategy costs, less accumulated depreciation as summarized in Table 3.

[21] EB-2017-0182 Application.

NextBridge's annual depreciation expense is addressed in the Operations, Maintenance and Administration section of this Decision. NextBridge is not requesting a cash working capital allowance to be part of rate base. NextBridge is not requesting that capital expenditures set forth in its transmission system plan beyond the test year be included in rate base. Capital expenditures during the Custom IR period after the test year would be tracked in the CCVA for assessment at rebasing proceeding after the Custom IR term.

Table 3: Transmission Rate Base Components[22]

Component	Amount ($ millions)
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**
Average Accumulated Depreciation	4.6
Transmission Rate Base	**770.4**

NextBridge submitted that its proposed rate base is appropriate, comprised of prudently incurred and forecasted capital costs.

AMPCO and CCC did not oppose the proposed test year rate base.

SEC did not take issue with the reasonableness of the proposed construction costs of $737.1 million or the proposed rate base.

OEB staff submitted that the proposed rate base should be reduced by $23.4 million based on the benchmarking study (see Issue 6.1) and by $0.23 million as NextBridge had not provided sufficient evidence to justify the value of the capital expenditures in 2022 (see Issue 3.1).

[22] Exhibit C / Tab 1 / Schedule 1 / p. 2.

VECC submitted that there should be a reduction of approximately $5 million in the proposed in-service gross plant in the test year. In VECC's view, this would be consistent with the OEB's indication that any incremental development costs should have been included in the "not-to-exceed" project cost contemplated in the leave to construct application. VECC explained that at the time of the leave to construct, the spare equipment was planned to be included in the construction cost estimate of $737.1 million.

Energy Probe submitted that, contrary to NextBridge's claims, the construction cost budget of $737.1 million is not "firm" as a placeholder to set test year rates. Energy Probe submitted that given the uncertainty around the construction cost not yet incurred, NextBridge should update its construction cost in Q3 2021 to update the test year revenue requirement and UTRs.

In response to VECC's argument that the rate base should be reduced by $5.0 million, NextBridge submitted that the OEB's decision to request a not-to-exceed price in the leave to construct proceeding does not provide a foundation for disallowing costs in this proceeding.

Findings

The OEB approves the proposed test year rate base of $770.4 million which includes $1.2 million in spare equipment costs. The OEB assessed the prudence of the $31.2 million in development cost in the leave to construct proceeding.[23] The OEB assessed the prudence of the $737.1 million in construction and $5.3 million in phase shift costs in this Decision. It is appropriate for these prudent asset costs be added to rate base in the test year.

The OEB has considered VECC's submission that $5.0 million should be included in the $737.1 million construction budget. The $737.1 million was never approved as a "do not exceed" price; therefore, this is not a justification for denying recovery of incurred expenses. To be clear, the OEB sought a not-to-exceed price from NextBridge in the leave to construct proceeding, subject to a list of OEB-defined conditions, but it was never filed by NextBridge.

[23] EB-2017-0182 / Decision and Order / December 20, 2018.

Issue 6.3: 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?

Cost of Capital

NextBridge's proposed capital structure for rate-making purposes is 60% debt and 40% common equity, where the 60% debt component is comprised of 4% deemed short-term debt and 56% long-term debt. The proposed capital structure is consistent with the OEB's Report on the Cost of Capital for Ontario's Regulated Utilities.[24] NextBridge proposed to utilize the OEB-approved 2020 cost of capital parameters to determine the return on equity, deemed short-term debt, and deemed long-term debt.

The OEB issued the 2021 cost of capital parameters letter [25] on November 9, 2020, for all rate-regulated electricity distributors and transmitters. In its response to interrogatories, NextBridge did not agree to update its application based on the 2021 or 2022 OEB cost of capital parameters.

OEB staff submitted that NextBridge's proposal to utilize 2020 cost of capital parameters is not consistent with the OEB cost of capital parameters letter. OEB staff also submitted that 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.

AMPCO, CCC, Energy Probe, Hydro One, SEC and VECC submitted that in line with OEB policy, NextBridge's 2022 revenue requirement should be based on the OEB's 2022 cost of capital parameters once the data becomes available in late 2021.

In its reply argument, Next Bridge submitted that it is amendable to updating its cost of capital and revenue requirements with the OEB's 2022 cost parameters that will be issued in the fourth quarter of 2021.

Long-Term and Short-Term Debt

NextBridge proposed to use the long-term debt rate from the 2020 OEB-approved cost of capital parameters of 3.21% to set the test year revenue requirement. NextBridge does not have existing debt at third-party market rates. NextBridge expects to issue

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[24] Review of the Existing Methodology of the Cost of Capital for Ontario's Regulated Utilities / January 14, 2016.
[25] OEB 2021 Cost of Capital Parameters Letter / November 9, 2020.

third-party debt to finance the East-West Tie line in late 2021 or early 2022. To reflect the actual cost of long-term debt in the revenue requirement, NextBridge proposed a one-time update in 2023 to incorporate its actual cost of long-term debt, which will be 12 months after the expected in-service date. This update will reflect the actual market rate for project debt financing. NextBridge also proposed a DRVA with disposition at the end of 2023, to track any revenue requirement variance between the 3.21% and actual cost from the financing of the debt.

To reflect the actual cost of short-term debt in the revenue requirement, NextBridge also proposed 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.

CCC and OEB staff supported the proposed updates to the long-term and short-term debt rates once the debt is secured and the establishment of the DRVA.

VECC submitted that if NextBridge's proposal is accepted by the OEB, the actual terms of long-term debt will not be understood until after the OEB approves a revenue requirement. VECC suggested that disposition of the DRVA will be a contentious and a somewhat complex proceeding. In VECC's view this is one more reason for the OEB to limit the initial term of the plan to no more than 5 years.

In its reply argument NextBridge noted that no parties disagreed with its proposal to update the cost of long-term and short-term debt in 2023. NextBridge's submitted that its proposed cost of capital, to be updated with the OEB's 2022 cost parameters, should be approved.

Findings

The OEB finds it appropriate to set NextBridge's capital structure for rate-making purposes using a 60% debt and 40% common equity structure. This structure is consistent with the OEB's Report of the Board on Cost of Capital for Ontario's Regulated Utilities, issued December 11, 2009 (2009 Report). The 60% debt component is comprised of 4% deemed short-term debt and 56% long-term debt.

The OEB also finds it appropriate to set NextBridge's base revenue requirement pursuant to the OEB's cost of capital parameters released on November 9, 2020 for 2021 rates. As OEB staff has noted, the OEB's general guidelines for cost of capital in rate regulation are currently provided in the 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". Because the Decision into NextBridge's base rates will be issued well before the release of 2022 cost of capital parameters, the 2021 cost of capital parameters remain appropriate.

The debt cost components of the cost of capital parameters will be used to set base debt costs for the DRVA. NextBridge has proposed to true-up the debt costs recorded in the DRVA when NextBridge files its one-time update to match its actual costs of long-term issuances and short-term debt costs for its liquidity lines. The OEB also notes that setting NextBridge's base revenue requirement with cost of capital parameters used for 2021 rates coupled with the DRVA will provide NextBridge and its lenders regulatory certainty to arrange financing in a timely manner given its expected April 1, 2022 in-service date.

Currently, NextBridge does not have existing debt at third-party market rates. NextBridge has stated that it is in the process of obtaining a credit rating and 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. NextBridge stated that it was relying on the expertise of the experienced Treasury Department of NextEra to place its long-term debt issue. Further, NextBridge noted that its debt would likely be privately placed with multiple lenders, and that its debt would be issued in tranches reflecting different terms to maturity. Given the unique aspects of NextBridge's single asset transmission facility, which aspects include a generally declining rate base and the long-lived nature of its assets, the OEB expects NextBridge to issue its long-term debt in a manner that reflects these unique aspects, and in a manner that minimizes issuance costs as these costs will ultimately be borne by customers.

NextBridge has proposed 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 long-term project debt financing. To undertake this one-time update, NextBridge has proposed that the OEB approve a DRVA and has proposed to dispose this account at the end of 2023, incorporating any changes resulting from the financing of the debt into its revenue requirement for 2024. Similarly, to reflect the actual cost of short-term debt in its revenue requirement, NextBridge has proposed 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. OEB staff and intervenors generally agreed with NextBridge's proposal to update the actual cost of long-term debt in 2023 after it is issued in 2022, as well as NextBridge's proposed update to its actual cost of short-term debt, and to dispose of the DRVA incorporating any changes into its revenue requirement for 2024.

The OEB finds it appropriate for NextBridge to record the actual cost of long-term and short-term debt in the DRVA, and to dispose of this account in 2023 concurrently with setting its revenue requirement for 2024. In the interim, utilizing the OEB's 2021 deemed rates to derive the revenue requirement is appropriate as the deemed rates for long-term and short-term debt provide a cost ceiling.

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

NextBridge's Response to COVID-19

The COVID-19 pandemic affected 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 fully resumed construction activities when it filed the application. NextBridge stated that the six-week suspension and related slowdowns in the spring of 2020 required a five-month delay in the in-service date for the East-West Tie line to avoid incurring additional construction costs.

OEB staff submitted that there is insufficient evidence on the record to assess NextBridge's COVID-10 response. OEB staff, however, took 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.

SEC submitted that it was surprised and concerned that NextBridge had not had any discussions with its contractor regarding the magnitude of the cost, at least for the purposes of mitigating them.

In its reply, NextBridge submitted that there is sufficient evidence to conclude that its response to COVID-19 was appropriate. NextBridge stated that it worked with the IESO and determined that delaying the in-service date to March 31, 2022, would not harm reliability in the region or impose additional system costs.

Accounting treatment of 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.[26] 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.

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[27] specifically addressing the accounting treatment of the COVID-19 costs for OPG and "greenfield" utilities.[28] 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.

NextBridge submitted that all its COVID-19 costs are capital costs directly related to construction. NextBridge proposed to separately track the COVID-19 costs in a new sub-account under the CWIP Account 2055 and the associated revenue requirement in its proposed CCVA. NextBridge indicated that it is not using Account 1509 as all costs incurred until the in-service date are capital construction costs. NextBridge claimed that Account 1509 is for transmitters with existing rates, in order to track differences in earnings.

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[26] Accounting Order for the Establishment of Deferral Accounts to Record Impacts Arising from COVID-19 Emergency / March 25, 2020.
[27] OEB's Letter "Consultation on the Deferral Account – Impacts Arising from the COVID-19 Emergency (EB-2020-0133)" / April 13, 2020.
[28] The "greenfield" utilities include Wataynikaneyap Power LP (Wataynikaneyap), NextBridge Infrastructure LP (NextBridge), and EPCOR Natural Gas LP (EPCOR) in respect of its Southern Bruce operations.

OEB staff had no concerns with NextBridge's proposal to record the COVID-19 costs in a new sub-account under the CWIP Account as the costs could be separately identified, yet submitted that it was more appropriate to use Account 1509 to record the associated revenue requirement of the COVID-19 related costs.

OEB staff submitted that the regulatory treatment of the COVID-19 costs, 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 did not support the use of the CCVA to record COVID-19 costs because in OEB staff's view, it is not appropriate to combine the revenue requirement impacts of COVID-19 costs with construction cost and environmental cost variances in the CCVA. OEB staff submitted that there were substantial differences in the nature of these costs.

OEB staff also disagreed with combining these three components to effectively lower the materiality threshold for each, including the COVID-19 component. The revenue requirement impact, whether OM&A or capital, should be recorded when the OEB is satisfied with prudence of the COVID-19 costs.

AMPCO took no issue with establishing the CCVA to track COVID-19 related capital costs. CCC submitted that it supports deferral account treatment for the COVID-19 costs, which will not be known until after the construction phase and after the pandemic is resolved.

Energy Probe submitted that NextBridge should follow the same framework for COVID-19 costs as other transmitters. SEC and VECC submitted that the COVID-19 costs should be recorded in Account 1509 and should segregate out COVID-19 costs from other potential entries. Hydro One submitted that it is premature to consider establishment of the COVID-19 account as NextBridge has not provided an estimated amount for the COVID-19 costs in this application. In addition, Hydro One stated that if the OEB grants NextBridge deferral account treatment, a separate variance account should be established for COVID-19 costs only subject to a materiality threshold on a stand-alone basis.

In reply submission, NextBridge submitted that it is amenable to track the revenue requirement associated with COVID-19 costs in Account 1509, with the understanding that since NextBridge's COVID-19 costs are directly related to the construction of the East-West Tie line, they are properly accounted for as capital costs, which also means the application of interest during construction.

Findings

No party took issue with the manner in which NextBridge responded to the COVID-19 crisis. Nevertheless, because NextBridge did not provide evidence on the quantum, materiality and type of COVID-19-related costs, the regulatory treatment (i.e., whether these costs should be capitalized or expensed) of these costs cannot be determined in this proceeding.

Accordingly, the OEB finds it appropriate to defer its decision into the prudence and the regulatory treatment of COVID-19-related costs to when NextBridge brings forward an application to dispose of these costs. At that time, the OEB expects that the amount and type of COVID-19-related costs incurred by NextBridge will be known with greater certainty, and the OEB can make a determination as to whether or not the costs brought forward for review should be treated as capital costs or expensed as part of operating expenses.

The OEB does not approve NextBridge's proposal to include its COVID-19 cost in the CCVA with other expenses and to calculate a materiality threshold based on a combination of costs. The OEB directs NextBridge to record its COVID-19 costs separately from the CCVA, using Account 1509 consistent with the OEB's directive to other Ontario-regulated entities. The utilization of Account 1509 will add clarity, enabling the OEB to compare and assess COVID-19 costs across regulated entities.

3.7 Deferral and Variance Accounts (Issue 7)

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

NextBridge proposed four new deferral and variance accounts (DVAs):

- Taxes or Payments in Lieu of Taxes Variance Account, Account 1592
- Revenue Deferral Variance Account (RDVA)
- Construction Cost Variance Account (CCVA)
- Debt Rate Variance Account (DRVA)

NextBridge provided the draft accounting orders for the new DVAs, each with a materiality threshold of $278,500, or 0.5% of the proposed revenue requirement of $55.7 million.

Taxes or Payments in Lieu of Taxes Variance Account, Account 1592

NextBridge proposed the establishment of this variance account to record:

- Differences that result from a change in, or a disclosure of, a new assessment or administrative policy that is published in the public tax administration or interpretation bulletins by relevant federal or provincial tax authorities
- Any tax impacts resulting from any changes to the assumed tax-exempt status of Bamkushwada LP

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

OEB staff submitted that the account was not required as Account 1592 is for the purposes of the first component. OEB staff did not support the recording of the second component in a variance account as Bamkushwada LP's tax-exempt status change caused by a change in or a disclosure of a new assessment or administrative policy or interpretation bulletins is captured in the scope of Account 1592. Further, any cost impacts arising from Bamkushwada LP's tax-exempt status change, caused by Bamkushwada LP's own actions, should not be borne by customers and would not be material.

A number of parties raised issues with respect to the second component of the account. Hydro One submitted that tax impacts resulting from a change in tax-exempt status of the partners of NextBridge that are caused by their own actions should not be at the expense of customers. Energy Probe submitted that customers should not pay additional taxes if a change in tax status of NextBridge partners occurs. VECC submitted that a change in partnership structure fails to meet the DVA standard of being outside of the control of utility management or its owners.

Energy Probe, SEC and VECC suggested a 50-50 sharing between shareholder and customers for balances recorded in Account 1592.

In its reply, NextBridge submitted that it should be allowed to request the disposition of the account balance as proposed because there could be a change in the tax status of a partner that is also connected to other tax changes through new legislation or administrative policy. NextBridge argued that the OEB need not opine on the 50-50 sharing policy in this proceeding as NextBridge has not brought forth a balance to dispose.

Findings

The OEB does not find it necessary to approve the establishment of a Taxes or Payments in Lieu of Taxes Variance Account as proposed.

The OEB finds that Account 1592 is part of the OEB's uniform system of accounts in the OEB's Accounting Procedures Handbook and can be utilized, if necessary, if there is an unanticipated legislated tax change during the Custom IR term. The OEB finds no need to establish a separate account for NextBridge for this purpose. The uniform system of accounts articulates the purpose of the account and the types of entries allowed.

In this Decision, the OEB approved the $0.58 million forecast tax expense as proposed by NextBridge (see Issue 5.2). To the extent the actual tax expense varies from forecast during the Custom IR term, the OEB finds no justification to establish a variance account to augment the purpose of Account 1592 to address an expense risk that is unique to NextBridge.

<u>Revenue Differential Variance Account (RDVA)</u>

NextBridge proposed the establishment of the RDVA to record the difference between the revenue requirement based on the expected and actual in-service dates. NextBridge expected to apply for disposition of the RDVA in its 2023 annual update application for inclusion in 2024 UTRs.

OEB staff proposed that the OEB should conduct an interim UTRs update and did not support the establishment of the RDVA.

In reply submission, NextBridge stated that if the OEB conducts an off-cycle UTRs update at the in-service date of the East-West Tie line, it would be amenable to that instead of using a RDVA, subject to certain conditions.

Findings

The OEB does not find it necessary to establish the RDVA as proposed by NextBridge. In this Decision, the OEB indicated that it will endeavor to update the UTRs for NextBridge's revenue requirement within 60 days of receipt of in-service confirmation. Instead of the proposed RDVA, the OEB approves the establishment of a Foregone

Transmission Revenue Deferral Account, in accordance with the OEB's uniform system of accounts (see Issue 1.3).

Construction Cost Variance Account (CCVA)

NextBridge proposed the establishment of 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 proposed the CCVA balance be considered twice for disposition; namely as part of its 2023 annual update application and as part of its next rebasing application after its Custom IR term.

OEB staff did not support the establishment of the CCVA as NextBridge expressed a high level of certainty with respect to the forecast construction costs of $737.1 million and the post in-service environment costs are not necessary to bring the transmission line in service. OEB staff questioned whether environmental costs aligned with the capitalization requirements under US GAAP and if these costs should be managed under the proposed OM&A envelope.

Hydro One and AMPCO rejected the establishment of the CCVA to track the variance between the forecasted and actual construction costs, as the project design is essentially complete and the project costs are on track to the $737.1 million forecast.

CCC, Energy Probe, SEC, and VECC submitted that the CCVA, if approved by the OEB, should be an asymmetric account to protect customers, consistent with other approved Custom IR frameworks.

CCC, Hydro One and SEC did not oppose the need for the CCVA to record post in-service environmental costs. CCC submitted that since the Overall Benefits Permit and amended environmental costs are unknown, subject to Ministry permits, and beyond the control of NextBridge, deferral account treatment is justified. SEC stated that the OEB is not in a position to determine if any balances should be treated as capital or OM&A. Hydro One submitted that if the OEB does permit this component of the variance account to be established, and the costs to be capitalized, this account should be limited to environmental permitting compliance costs directly related to construction and this account should be for items that were imposed by the regulator and/or permitting agency, and not for commitments made by NextBridge as part of consultation activities.

VECC opposed the post in-service environmental cost component of the CCVA and stated that this account is contrary to the principles of multi-year rate plans as previously approved by the OEB. VECC argued that the costs can be forecast if they are known with some certainty. Otherwise, the applicant must choose between absorbing that risk or modifying its plan.

In reply submission, NextBridge argued that its proposed CCVA ensures that prudently incurred capital costs related to forward test year investments are included in rate base and are recoverable by shareholders. NextBridge stated that the inclusion of prudently incurred costs in the rate base of a cost of service rate application follows the jurisprudence of the Supreme Court of Canada and is an inherent component of the fair return standard. NextBridge claimed that it is a conventional practice to use a variance account to record costs that can be reviewed for prudence.

NextBridge stated the consequence of not approving the variance account would result in a *de facto* under-earning if additional construction costs were prudently incurred, and, also result in financial institutions charging a higher cost of debt to NextBridge, which would ultimately be borne by customers to be disposed of through the DRVA.

With respect to the post in-service environmental costs, NextBridge submitted that the environmental compliance costs that are currently unknown are directly related to the construction of the East-West Tie line.

Findings

The OEB approves the establishment of a CCVA, yet only for the purpose of proposed component #1 which was to record differences between forecasted construction costs in this application and the actual final project construction costs. The OEB accepts NextBridge’s proposal to consider the CCVA balance for prudence and rate recovery as part of NextBridge’s 2023 update application when total, actual in-service construction costs are known.

The OEB does not approve the CCVA for the purposes of NextBridge's proposed component #2 and #3 namely:

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

Regarding proposed component #2, the OEB does not approve of the proposed CCVA, to track costs associated with construction that extend past the in-service date. NextBridge's capital expenditure plan forecasts total spending of $4.28 million over the Custom IR term, yet NextBridge proposed that only $0.23 million be included for determining base rates in 2022. Given a capital budget proposal of $0.0 after 2022, the OEB does not find it appropriate to establish a variance account that could only benefit NextBridge, with no potential benefit to customers. The purpose of a Custom IR is not to incorporate the safeguards of an annual cost of service through DVAs. The objective is to balance the risk and opportunities between shareholders and customers, such that the regulated utility is incented to improve processes and achieve efficiencies, within its approved cost envelope.

The OEB disagrees with NextBridge's assertion that denying the CCVA as proposed would result in a *de facto* under-earning of prudently incurred costs. NextBridge can apply for cost to be included in rate base at the end of its Custom IR term. During the term, NextBridge is expected to finance capital expenditures with depreciation on existing assets. As a regulated entity of the OEB, NextBridge has the option to apply for one of two incentive ratemaking options based on its needs as a regulated utility. The two ratemaking options, including the concept and purpose of a Custom IR, are explained in the OEB's RRFE.

Regarding proposed component #3, the OEB directs NextBridge's to include its COVID-19 cost in Account 1509 (see Issue 6.4 of this Decision).

Debt Rate Variance Account (DRVA)

NextBridge proposed a DRVA to track the difference between the long-term and short-term debt rates used in the calculation of its revenue requirement and the actual costs.

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

1) NextBridge clarify whether 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.

CCC supported the establishment of the account to allow NextBridge to update the long-term and short-term debt rates to reflect its actual debt rates once that debt is secured. Energy Probe submitted the OEB's cost of capital parameters for 2021 should be the basis for the opening of the account rather than the 2020 cost of capital parameters. SEC submitted that NextBridge should update its cost of capital parameters to either the available 2021 or, the 2022 parameters to avoid intergenerational equity concerns.

In its reply submission, NextBridge clarified that its draft accounting order specifies that disposition of the DRVA will be a one-time update to the actual cost of long- and short-term debt.

Findings

The OEB approves the DRVA for the purpose of recording variances between the cost of long-term and short-term debt embedded in the test year revenue requirement and the actual cost of debt incurred. The OEB finds it appropriate to maintain the DRVA until the balance is disposed, which is expected to be part of NextBridge's 2023 rate application. NextBridge indicated that its 2023 application would have the same effect as a one-time update to the revenue requirements for the remaining Custom IR term.[29]

[29] Transcript Vol. 3 / p. 131.

The OEB does not approve of the continuation for the DRVA for the duration of the Custom IR term. Once debt financing is secured after the East-West Tie line is in service, the OEB does not find it appropriate to maintain the account to track all variances between forecast and actual debt costs. The OEB's common practice is to review debt costs concurrent with rebasing applications, and debt costs incurred by NextBridge after its initial round of financing clearly fall into this review category.

NextBridge shall file a revised accounting order for the DRVA based on this Decision as part of its draft rate order.

<u>Z-Factor Treatment Account 1572</u>

NextBridge indicated that it "will potentially apply" for Z-factor treatment during the Custom IR term.

OEB staff submitted that Account 1572 is a part of the Accounting Procedures Handbook and available for use whenever circumstances permit.

VECC submitted that it did not think the establishment of the account is necessary at this time. Energy Probe and Hydro One did not oppose NextBridge's request for a Z-factor yet reiterated the OEB's policy criteria.

Findings

The OEB approves a Z-factor option as part of NextBridge's approved Custom IR framework. The OEB agrees with OEB staff that it is not necessary to establish a new DVA as part of this Decision. Account 1572 is available to OEB-regulated utilities as needed, as part of the OEB's uniform system of accounts.

3.8 Cost Allocation (Issue 8)

Issue 8.1: Is the proposed cost allocation appropriate?

NextBridge's East-West Tie line is a single transmission line. NextBridge proposed that its assets will be included in the Network pool consistent with the cost allocation methodology approved by the OEB.

No parties raised any concerns with respect to the proposed cost allocation.

Findings

The OEB approves NextBridge's cost allocation proposal to classify all assets as the Network assets, as the function of this asset is consistent with section 3.0.14 of the Transmission System Code.[30] All parties agreed with the proposed cost allocation of NextBridge's assets.

Further, the OEB finds it appropriate to allocate NextBridge's approved annual revenue requirement to the Network pool for the purposes of deriving UTRs for the province.[31]

[30] Ontario Energy Board Transmission System Code / December 18, 2018.
[31] Exhibit I / Tab 1 / Schedule 1 / p.1.

4 IMPLEMENTATION

In this Decision, the OEB made a number of changes to NextBridge's proposed Custom IR framework, that will affect the test year revenue requirement and prorated revenue requirement for 2022.

To determine the revised revenue requirements for the Custom IR term, NextBridge shall file a draft rate order incorporating the OEB's findings in this Decision complete with detailed calculations and supporting material, including:

- Revised annual and prorated 2022 transmission revenue requirement
- Transmission revenue requirements for each year of the Custom IR term (2023 to 2027) applying the OEB-approved RCI formula
- Total bill impacts to customers on average and for a typical residential customer consuming 750 kW per month in 2022 for the OEB to assess
- Draft accounting orders for the Foregone Transmission Revenue Deferral Account and the Earnings Sharing Mechanism Deferral Account
- Revised draft accounting orders for the Construction Cost Variance Account and the Debt Rate Variance Account
- All other requirements specified by the OEB in this Decision for inclusion in the draft rate order
- Any other documentation that would assist intervenors, OEB staff and the OEB in their consideration of the proposed draft rate order, including bill impacts

The OEB will make provision for intervenors and OEB staff to file submissions regarding the draft rate order, and for NextBridge to reply.

5 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. NextBridge shall file with the OEB, and forward to all intervenors a draft rate order that includes all items listed in the Implementation Section no later than **July 7, 2021**.

2. Intervenors and OEB staff may submit comments on NextBridge's draft rate order no later than **July 14, 2021**.

3. NextBridge shall file with the OEB, and forward to all intervenors responses to any comments on the draft rate order no later than **July 21, 2021**.

4. NextBridge shall file confirmation that the design of the East-West Tie line meets the minimum technical standards set out in the designation proceeding by the OEB before, or in conjunction with, the filing of documentation to demonstrate the asset is ready to be placed in service.

5. NextBridge shall file documentation with the OEB to demonstrate when the East-West Tie line is ready to be placed in service including a third-party independent engineering study to delineate the end of commissioning, and to initiate the process of updating the UTRs.

6. NextBridge shall continue to comply with the OEB's requirements and file the following information:

   i. Quarterly Construction Updates
   ii. Final Hydro One/Supercom Service Level Agreement
   iii. Customer Connection Cost Recovery Agreement
   iv. NextEra Energy Transmission LLC Service Level Agreement
   v. Connection Facilities Agreement between NextBridge and Hydro One

How to File Materials

Parties are responsible for ensuring that any documents they file with the OEB, such as applicant and intervenor evidence, interrogatories and responses to interrogatories or any other type of document, **do not include personal information** (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's Rules of Practice and Procedure.

Please quote file number, **EB-2020-0150** for all materials filed and submit them in searchable/unrestricted PDF format with a digital signature through the OEB's online filing portal.

- Filings should clearly state the sender's name, postal address, telephone number and e-mail address
- Parties should use the document naming conventions and document submission standards outlined in the Regulatory Electronic Submission System (RESS) Document Guidelines found at the Filing Systems page on the OEB's website
- Parties are encouraged to use RESS. Those who have not yet set up an account, or require assistance using the online filing portal can contact registrar@oeb.ca for assistance

All communications should be directed to the attention of the Registrar at the address below and be received by end of business, 4:45 p.m., on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Michael Price, at Michael.Price@oeb.ca and OEB Counsel, Lawren Murray, at Lawren.Murray@oeb.ca.

DATED at Toronto June 17, 2021

ONTARIO ENERGY BOARD

Original Signed By

Christine E. Long
Registrar