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BY EMAIL

July 14, 2021

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

Dear Ms. Long:

**Re: Upper Canada Transmission, Inc. (NextBridge)
2022-2031 Custom Incentive Rate-setting Application
Ontario Energy Board File Number: EB-2020-0150**

In accordance with the OEB's Decision and Order in the above referenced proceeding, please find attached OEB staff's comments on NextBridge's Draft Rate Order and supporting schedules filed on July 5, 2021.

NextBridge and all registered intervenors have been copied on this filing.

Yours truly,

Michael Price
Project Advisor - Generation and Transmission

cc: all parties in EB-2020-0150



ONTARIO ENERGY BOARD

OEB STAFF SUBMISSION ON DRAFT RATE ORDER AND SUPPORTING SCHEDULES

UPPER CANADA TRANSMISSION, INC. (NEXTBRIDGE)

2022-2031 CUSTOM INCENTIVE RATE-SETTING APPLICATION

EB-2020-0150

JULY 14, 2021

INTRODUCTION

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. The application also requested the establishment of deferral and variance accounts.

The OEB Issued its Decision and Order on NextBridge's application on June 17, 2021. The OEB's Decision and Order directed NextBridge to file a draft rate order (DRO) by July 7, 2021, incorporating the OEB's findings in its 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 the Decision for inclusion in the draft rate order

NextBridge filed a DRO pursuant to the Decision and Order for this proceeding on July 5, 2021. OEB staff's comments on the DRO follow:

1. Revised 2022 Revenue Requirement

Schedule A "Revised Revenue Requirement" of the DRO reflects the OEB's Decision and Order to revise the 2022 revenue requirement and RCI formula. The 2022 revenue requirement has been reduced to reflect the OEB's disallowance of \$200,000 in Operations, Maintenance & Administration costs, and a Return on Equity of 8.34% and cost of debt aligned with the 2021 OEB-approved cost of capital parameters.

OEB staff notes that NextBridge should confirm if the row for "Less: Credits" in Table 1c. in the DRO should be entitled "Ontario Corporate Minimum Tax" and revise accordingly.

Table 1c. Corporate Income Taxes (\$ Millions)

	Test Year
Regulatory Taxable Income	(44.71)
Income Tax Rate	26.50%
Subtotal	(11.85)
Less: Credits	0.57
Total Income Taxes	0.57

OEB staff also requests that NextBridge confirm that the rate base of \$770.4 million as shown in Table 1d. includes the accrued carrying charges on the development cost and phase shift cost as per decision and order EB-2017-0182.

OEB staff submits that NextBridge’s updated 2022 base revenue requirement, including its underlying components, is consistent with the Decision and Order in this proceeding.

2. Transmission revenue requirements for each year of the Custom IR term (2023 to 2027) applying the OEB-approved RCI formula

The OEB Decision and Order approved a Revenue Cap Index formula which annually adjusts the approved 2022 revenue requirement by an inflation factor increase of 2.0%, less a stretch factor of 0.3% for the approved Custom IR term.

OEB staff submits that NextBridge’s updated base revenue requirement for each year of the Custom IR term (2023 to 2027), including its underlying components, is consistent with the Decision and Order in this proceeding.

3. 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

OEB staff submits that NextBridge’s total bill impacts to customers on average is consistent with the Decision and Order in this proceeding.

OEB staff submits that in its reply submission, NextBridge should provide detailed calculations of the \$12.27 RTSR included in a R1 Customer’s Bill (based on 2019 Interim UTR) for a typical Medium Density (HONI R1) Residential Customer 750 kWh

and detailed calculations of the estimated 2022 \$12.60 RTSR as shown in Table 5 of the DRO.

4. Transmission Accounting Orders

The OEB Decision and Order approved the establishment of the following four accounting orders:

- Foregone Transmission Revenue Deferral Account
- Earnings Sharing Mechanism Deferral Account
- Construction Cost Variance Account
- Debt Rate Variance Account

NextBridge provided new draft accounting orders for the Foregone Transmission Revenue Deferral Account and Earnings Sharing Mechanism Deferral Account, and revised draft accounting orders for the Construction Cost Variance Account and Debt Rate Variance Account. OEB staff has reviewed each draft accounting order and provides the following comments:

Foregone Transmission Revenue Deferral Account Accounting Order

OEB staff submits that the accounting order should:

- a) Specify the rate year of “next annual UTR update”.
- b) Include the effective date and end date of the account.
- c) State that “This account will accrue interest based on OEB-prescribed interest rates.”

Earnings Sharing Mechanism Deferral Account Accounting Order

OEB staff submits that the accounting order should:

- a) Include the effective date and end date of the account.
- b) Include the following statements:
 - For the purpose of earnings sharing, the regulatory net income will be calculated in the manner prescribed under the Reporting and Record Keeping Requirements (RRR) filings.
 - This account will accrue interest based on OEB-prescribed interest rates.

Construction Cost Variance Account Accounting Order

OEB staff submits that the accounting order should:

- a) Include the effective date and end date of the account.
- b) State that “This account will accrue interest based on OEB-prescribed interest rates.”
- c) Be revised in the first sentence to state “This account will track any difference in revenue requirement due to differences between forecasted construction costs in this Application”, and add “as approved by the OEB”.
- d) Specify the rate year of the “second annual update” application.

OEB staff also notes that it appears the proposed accounting entries are only the entries to be booked when the actual construction cost is greater than the forecasted construction cost. NextBridge should specify this and also include a set of proposed accounting entries when the actual construction cost is less than the forecasted construction cost.

Debt Rate Variance Account Accounting Order

OEB staff submits that the accounting order should:

- a) Include the effective date and end date of the account.
- b) State that “This account will accrue interest based on OEB-prescribed interest rates.”
- c) Describe the sub-account under Account 1508 as “revenue requirement impact on the debt rate variance”.

OEB staff also notes that the proposed accounting entries appear to address only the revenue requirement impact on the debt rate variance in the circumstance where the actual debt rate is greater than the deemed rate used. NextBridge should also propose accounting entries for the opposite circumstance, where the actual debt rate is less than the deemed rate used.

~All of which is respectfully submitted~