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July 21, 2021

BY EMAIL AND RESS

Ms. Christine E. Long
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Long:

Re: EB-2020-0150 – NextBridge Draft Rate Order for Electricity Transmission Revenue Requirements for the Period from April 1, 2022 to December 31, 2027

Please find enclosed NextBridge's Responses to Board Staff's Comments on the Draft Rate Order.

All of which is respectfully submitted.

George Vegh
Counsel

GV:mt

EB-2020-0150 – NextBridge Draft Rate Order for Electricity Transmission Revenue Requirements for the Period from April 1, 2022 to December 31, 2027

NextBridge has revised the Draft Rate Order that provides the final revenue requirement and supporting schedules reflecting the Ontario Energy Board's ("the Board" or "OEB") June 17, 2021 Decision and Order on the 2022 – 2027 revenue requirements for NextBridge, with consideration of Board Staff's July 14, 2021 comments.¹ NextBridge has adopted all the changes requested by the Board Staff. With the revisions to the attached Draft Rate Order, NextBridge submits the Order to the Board.

In the Draft Rate Order attached hereto, Schedule A "Revised Revenue Requirement" reflects the Board's direction to revise the 2022 revenue requirement and Revenue Cap Index ("RCI") formula. The 2022 revenue requirement has been reduced to reflect the Board's disallowance of \$200,000 in Operation, Maintenance, Administrative ("OM&A"), a Return on Equity of 8.34%, and cost of debt aligned with the 2021 cost of capital parameters. Additional details are provided in the following Attachments to Schedule A:

- Attachment 1: A revised annual and prorated 2022 transmission revenue requirement;
- Attachment 2: Transmission revenue requirements for each year of the Custom Incentive Ratemaking ("IR") term (2023 to 2027) applying the OEB-approved RCI formula; and
- Attachment 3: Total bill impacts to customers on average and for a typical residential customer consuming 750 kilowatts ("kW") per month in 2022 for the OEB to assess.

Schedule B "Accounting Orders" provides draft accounting orders for the new Foregone Transmission Revenue Deferral Account and Earnings Sharing Mechanism Deferral Account, along with revised draft accounting orders for the Construction Cost Variance Account and Debt Rate Variance Account. Details are provided in the following Attachments to Schedule B:

- Attachment 1: Draft Accounting Order - Foregone Transmission Revenue Deferral Account;
- Attachment 2: Draft Accounting Order - Earnings Sharing Mechanism Deferral Account;
- Attachment 3: Draft Accounting Order - Construction Cost Variance Account; and
- Attachment 4: Draft Accounting Order - Debt Rate Variance Account.

¹ The School Energy Coalition was the only Intervenor to submit comments, which indicated they agreed with Board Staff's comments.

Schedule A
Revised Revenue Requirement

Attachment 1: Revised annual and prorated 2022 transmission revenue requirement

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

Attachment 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

Attachment 1: Revised annual and prorated 2022 transmission revenue requirement

Table 1. Summary of Revenue Requirement (\$ Millions)

Component	Test Year
OM&A	4.7
Depreciation	9.3
Income Taxes	0.6
Return on Capital	38.5
Base Revenue Requirement	53.1

* The unrounded 2022 Revenue Requirement is \$53,100,835

Table 1a. NextBridge OM&A Expense (\$ Millions)

	Test Year
Operations & Maintenance	1.27
Regulatory	0.07
Compliance & Administration	1.47
Indigenous Participation	0.89
Indigenous Compliance	0.44
Property Taxes & Rights Payments	0.60
Total OM&A	4.74

Table 1b. Depreciation Expense (\$ Millions)

	Test Year
Depreciation	9.26
Total Expense	9.26

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

	Test Year
Regulatory Taxable Income	(44.71)
Income Tax Rate	26.50%
Subtotal	(11.85)
Ontario Corporate Minimum Tax	0.57
Total Income Taxes	0.57

Table 1d. NextBridge Cost of Capital

Test Year 12 Months				
Amount of Deemed Return	(\$M)	%	Cost Rate (%)	Return (\$M)
Long-term debt	431.4	56%	2.85%	12.3
Short-term debt	30.8	4%	1.75%	0.5
Common equity	308.2	40%	8.34%	25.7
Total	770.4	100%	5.00%	38.5

*Rate base of \$770.4 million includes development costs and phase shift costs, along with accrued carrying charges as per decision and order EB-2017-0182

Table 1e. NextBridge Gross Plant Summary (\$ millions)

Development	31.2
Phase Shift Costs	5.3
Forecast Construction	737.1
Spare Strategy	1.2
Total Opening Gross Plant 4/1/22	774.9
Test Year In Service Additions	0.2
Total Closing Gross Plant 3/31/23	775.2
Average Gross Plant Test Year	775.1

Table 1f. NextBridge Transmission Rate Base (\$ millions)

Rate Components	Test Year
Average Gross Plant	775.1
Average Accumulated Depreciation	4.6
Average Net Plant	770.4
Cash Working Capital	0.0
Materials and Supply Inventory	0.0
Transmission Rate Base	770.4

Table 2. 2022 Revenue Requirement Converted to UTR Amount (\$ Millions)

2022 Revenue Requirement converted to UTR Amount (\$ Millions)		
2022	A = Cost of Service for 12 months	53.1
2022	B = Monthly Cost of Service or A/12	4.4
2022	C = 2022 UTR Amount or B * 9	39.8

*The unrounded 2022 revenue requirement converted to UTR amount is 39,825,626

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

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

Year	Formula	Base Revenue Requirement
2022	Cost of Service for 12 months (Base Rev. Req.)	53.1
2023	2022 Base Revenue Requirement x 1.017	54.0
2024	2023 Base Revenue Requirement x 1.017	54.9
2025	2024 Base Revenue Requirement x 1.017	55.9
2026	2025 Base Revenue Requirement x 1.017	56.8
2027	2026 Base Revenue Requirement x 1.017	57.8

*1.017 = 1.020 Inflation minus 0.003 Stretch

Attachment 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

Table 4. Average Bill Impacts on Transmission and Distribution-Connected Customers (Test Year)

Category	2022
Rates Revenue Requirement (\$Millions)	\$ 53.1
% Increase in Rates Revenue Requirement over prior year	N/A
% Impact of load forecast change	N/A
NB Rates Revenue Requirement as a % of all transmitters	3.15%
Net Impact on Average Transmission Rates	3.15%
Transmission as a % of Tx-connected customer's Total Bill	7.6%
Estimated Average Bill impact	0.24%
Transmission as a % of Dx-connected customer's Total Bill	6.2%

Table 5. Typical Customer Monthly Bill Impacts

Typical Medium Density (R1) Residential Customer Bill Impacts	Typical Medium Density (HONI R1) Residential Customer 750 kWh	Typical General Service Energy less than 50 kW (HONI GSe < 50kW) Customer 2,000 kWh
Total Bill as of May 13, 2020	\$108.85	\$338.82
RTSR included in R1 Customer's Bill (based on 2019 Interim UTR)	\$12.27	\$25.87
<i>Estimated 2022 Monthly RTSR</i>	\$12.60	\$26.58
2022 increase in Monthly Bill	\$0.33	\$0.71
<i>2022 increase as a % of total bill</i>	<i>0.31%</i>	<i>0.21%</i>

Table 5a. RTSR included in R1 Customer's Bill

	2021	2022
NextBridge Revenue Requirement (From Table 1)		53,100,835
Network Pool Revenue Requirement including sufficiency / (deficiency)	1,029,438,386	1,082,539,221 ¹
Network MW	239,504	239,504
Network Pool Rate (\$/kW/month)	4.30	4.52
Increase/(Decrease) in Network Pool Rate (\$/kW/month)		0.22
	YOY increase	5.16%
R1 Rates: RTSR – Network (\$/month)	6.46	6.79
R1 Rates: RTST - Line and Transformation Connection (\$/month)	5.81	5.81
RTSR included in R1 Customer's Bill (\$/month)	12.27	12.60

¹Sum of 2021 Network Pool for existing Transmitters, plus NextBridge 2022 Revenue Requirement

Table 5b. Network Revenue Requirement and Annual Charge Determinants

Transmitter	Revenue Requirement (\$)			
	Network	Line Connection	Transformation Connection	Total
NextBridge	\$ -	\$ -	\$ -	\$ -
FNEI	4,790,719	914,623	2,282,750	7,988,092
CNPI	2,787,078	532,096	1,328,027	4,647,201
H1N SSM	24,480,432	4,673,695	11,664,787	40,818,914
H1N	951,027,050	181,565,841	453,159,011	1,585,751,902
B2MLP	33,192,514	-	-	33,192,514
NRLP	13,160,593	-	-	13,160,593
All Transmitters	\$1,029,438,386	\$ 187,686,255	\$ 468,434,575	\$1,685,559,216

Transmitter	Total Annual Charge Determinants (MW)		
	Network	Line Connection	Transformation Connection
NextBridge	-	-	-
FNEI	(230)	(249)	(73)
CNPI	(523)	(549)	(549)
H1N SSM	(3,498)	(2,735)	(635)
H1N	(235,253)	(228,853)	(195,027)
B2MLP	-	-	-
NRLP	-	-	-
All Transmitters	(239,504)	(232,386)	(196,285)

*Source: 2020 Interim Uniform Transmission Rates and Revenue Disbursement Allocators - Updated for Jan 1, 2021 effective date

Table 5c. January 1, 2020 Tariff of Rates and Charges

	Volume (kWh) ¹	Rate (\$/kWh) ²	Charge (\$/mo.) (c)= (a) x (b)
	(a)	(b)	
Retail Transmission – Network Service	807	.0080	6.46
Retail Transmission – Line and Connection Service	807	.0072	5.81
Total Retail Transmission Service Charge			12.27

¹ Based on 750 kWh consumption and Loss Factor of 1.076, (750 kWh x 1.076 = 807 kWh)

² Based on 2020 OEB approved rates for Hydro One Networks Inc., Year-Round Medium Density R1 Customers (EB-2019-0043).

Schedule B
Accounting Orders

Attachment 1: Draft Accounting Order - Foregone Transmission Revenue Deferral Account

Attachment 2: Draft Accounting Order - Earnings Sharing Mechanism Deferral Account

Attachment 3: Draft Accounting Order - Construction Cost Variance Account

Attachment 4: Draft Accounting Order - Debt Rate Variance Account

Attachment 1

**DRAFT ACCOUNTING ORDER –
Foregone Transmission Revenue Deferral Account**

1. This account is established to track the foregone revenue in the period, if any, between the project in-service date and the date that the UTR is revised to reflect the NextBridge revenue requirement.
2. The balance in the account will be disposed as part of the annual UTR update for the 2024 rate year.
3. The effective date of this account is the project in-service date, and the end date is the effective disposition date of the account which is expected to be December 31, 2023.
4. This account will accrue interest based on OEB-prescribed interest rates. Simple interest will be calculated based on the opening monthly balance of the account.
5. The following are the proposed accounting entries for this variance account:

<i>USofA#</i>	<i>Account Description</i>
Dr: 1508	Other Regulatory Assets – Sub account: Foregone Transmission Revenue Deferral Account
Cr: 4110	Transmission Services Revenue
	<i>- to record foregone revenue prior to UTR revision</i>

<i>USofA#</i>	<i>Account Description</i>
Dr: 1508	Other Regulatory Assets – Sub account: Foregone Transmission Revenue Deferral Account
Cr: 6035	Other Interest Expense
	<i>-to record interest on the principal balance of the variance account.</i>

Attachment 2

**DRAFT ACCOUNTING ORDER –
Earnings Sharing Mechanism (ESM) Deferral Account**

1. This account will track the 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.
2. The effective date of this account is the project in-service date and the end date is December 31, 2027 (the end of the Custom IR term).
3. The balance in the account will be disposed in 2024 and at the end of the Custom IR Term.
4. 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.
5. This account will accrue interest based on OEB-prescribed rates. Simple interest will be calculated based on the opening monthly balance of the account.
6. The following are the proposed accounting entries for this deferral account:

<i>USofA#</i>	<i>Account Description</i>
Dr: 4395	Rate-Payer Benefit Including Interest – Subaccount: ESM
Cr: 2435	Accrued Rate-Payer Benefit – Subaccount: ESM
	<i>- to record any cumulative over-earnings in the Custom IR Term</i>

<i>USofA#</i>	<i>Account Description</i>
Dr: 4395	Rate-Payer Benefit Including Interest – Subaccount: ESM
Cr: 2435	Accrued Rate-Payer Benefit – Subaccount: ESM
	<i>- to record interest improvement on the principal balance of the ESM deferral account</i>

Attachment 3

**REVISED DRAFT ACCOUNTING ORDER –
Construction Cost Variance Account**

1. This account will track any difference in revenue requirement due to differences between forecasted construction costs in this Application as approved by the OEB and the actual final project construction costs, including IDC.
2. The effective date of this account is the project in-service date, and the end date is December 31, 2024.
3. The account will accrue interest at the OEB-prescribed interest rate. Simple interest will be calculated based on the opening monthly balance of the account.
4. To ensure all accounting is finalized, an audit has taken place and alignment with the disposition of the Debt Cost Variance Account, NextBridge proposes the disposition of this account in the second annual update following the in-service date, rate year 2025.
5. The following are the proposed accounting entries for this variance account:

If actual construction cost is greater than forecasted:

<i>USofA #</i>	<i>Account Description</i>
Dr: 1508	Other Regulatory Assets – Sub-account: Construction Cost Revenue Requirement Variance
Cr: 4110	Transmission Service Revenue

- to record the revenue requirement differential

<i>USofA #</i>	<i>Account Description</i>
Dr: 1508	Other Regulatory Assets – Sub-account: Construction Cost Revenue Requirement Variance
Cr: 6035	Other Interest Expense

-to record interest on the principal balance of the variance account.

If actual construction cost is less than forecasted:

<i>USofA #</i>	<i>Account Description</i>
Dr: 4110	Transmission Service Revenue
Cr: 1508	Other Regulatory Assets – Sub-account: Construction Cost Revenue Requirement Variance

- to record the revenue requirement differential

<i>USofA #</i>	<i>Account Description</i>
Dr: 6035	Other Interest Expense
Cr: 1508	Other Regulatory Assets – Sub-account: Construction Cost Revenue Requirement Variance

-to record interest on the principal balance of the variance account.

Attachment 4

**REVISED DRAFT ACCOUNTING ORDER –
Debt Rate Variance Account**

1. This account will track the difference in the long-term and short-term debt rate used in the calculation of NextBridge’s revenue requirement in this Order and the actual long-term and short-term debt rate secured by NextBridge to finance the project. NextBridge’s actual cost of debt is not known and will not be known until closer to in-service date. Once the actual debt rate is known, this account will record the revenue requirement differential from in-service date up until the point where the actual cost of debt is reflected in NextBridge’s revenue requirement that is included in the UTR.
2. The effective date of this account is the project in-service date and the end date is December 31, 2024.
3. This account will accrue interest based on OEB-prescribed interest rates. Simple interest will be calculated based on the opening monthly balance of the account.
4. To ensure all accounting is finalized, an audit has taken place and alignment with the disposition of the Construction Cost Variance Account, NextBridge proposes the disposition of this account in the second annual update following the in-service date. The account will be discontinued after the disposition.
5. The following are the proposed accounting entries for this variance account:

If actual debt rate is greater than deemed rate:

<i>USofA #</i>	<i>Account Description</i>
Dr: 1508	Other Regulatory Assets – Sub-account: Debt Rate Variance
Cr: 4110	Transmission Service Revenue

- to record the revenue requirement impact on the debt rate variance

<i>USofA #</i>	<i>Account Description</i>
Dr: 1508	Other Regulatory Assets – Sub-account: Debt Rate Variance,
Cr: 6035	Other Interest Expense

-to record interest on the principal balance of the variance account.

If actual debt rate is less than deemed rate:

<i>USofA #</i>	<i>Account Description</i>
Dr: 4110	Transmission Service Revenue
Cr: 1508	Other Regulatory Assets – Sub-account: Debt Rate Variance

- to record the revenue requirement impact on the debt rate variance

<i>USofA #</i>	<i>Account Description</i>
Dr: 6035	Other Interest Expense
Cr: 1508	Other Regulatory Assets – Sub-account: Debt Rate Variance,

-to record interest on the principal balance of the variance account.