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

BY E-MAIL

August 6, 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

This letter is filed in response to NextBridge's Revised Draft Rate Order (revised DRO) that was filed on July 21, 2021. As part of the revised DRO, NextBridge filed revised-draft accounting orders for the following accounts:

- Construction Cost Variance Account
- Debt Rate Variance Account

OEB staff has reviewed each of the revised draft accounting orders and provides the following comments:

Construction Cost Variance Account Accounting Order

In its original DRO, NextBridge referred to a second annual update application. To address OEB staff's comments on the DRO, whereby NextBridge was asked to "specify the rate year of the second annual update application", NextBridge stated that:

> 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.[1]

OEB staff notes that NextBridge proposed annual updates in its application and requested the disposition of the deferral and variance accounts in the second annual update application following the in-service date. Based on NextBridge's proposal, the second annual update application therefore would have been in 2023 for its 2024 revenue requirement.

In its Decision and Order, the OEB approved NextBridge's annual revenue requirements for 2022 to 2027 and approved 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.[2] The OEB also approved one of the three components in the Construction Cost Variance Account (CCVA) requested by NextBridge with the same disposition timing as the Debt Rate Variance Account.

The OEB's findings in the Decision and Order also noted the following:

> 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.[3]

As discussed earlier in the Decision and Order, in its reply argument, NextBridge accepted the fact that annual updates could be as simple as a letter being filed each year to confirm the revenue requirement that the OEB will use in setting the Uniform Transmission Rates, depending on the nature of the rate framework that the OEB ultimately approves. While not specified in the Decision and Order, based on the OEB's findings on the nature of the rate framework approved, there is no longer a need for NextBridge to file substantive annual update applications for the purposes of amending its revenue requirement. The OEB has already set out the mechanics of how the revenue requirement will change each year and in OEB staff's view, nothing more than a letter from NextBridge confirming their revised revenue requirement will be required. Therefore, from a substantive application perspective, OEB staff understands that the only update application for the entire 2022-2027 Custom IR term will be the one filed in 2023 for NextBridge's 2024 revenue requirement (the 2024 rate year application).

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[1] NextBridge's Revised Draft Rate Order filed on July 21, 2021, Attachment 3.
[2] NextBridge's Decision and Order, June 17, 2021, Page 16.
[3] NextBridge's Decision and Order, June 17, 2021, Page 16.

OEB staff believes that the disposition timing on the revised accounting order for the CCVA should be changed to the 2024 rate year application, rather than 2025. Accordingly, the end date of the account should be changed to December 31, 2023. In OEB staff's view, this disposition timing (disposing as part of 2024 rates) would be in accordance with the OEB's Decision and Order[4], as well as NextBridge's originally proposed disposition timing, as outlined in its application and evidence.[5]

Moreover, OEB staff notes that the OEB has ruled that the CCVA is not to be used to record "costs associated with construction that extend past the in-service date".[6] As a result, there is no need to keep the account open to record post in-service date costs.

Given an expected in-service date of March 31, 2022, it is not clear to OEB staff why the remaining nine months of the 2022 calendar year would provide insufficient time to complete the accounting for the purpose of the variances that are recorded in the account in the December 31, 2022 general leger, which will ultimately be audited as part of the 2022 year-end financials. OEB staff does not see any cogent reason to extend the life of the account by an additional full calendar year nor to defer disposition of the account.

Debt Rate Variance Account Accounting Order

OEB staff notes that the revised draft accounting order for the Debt Rate Variance Account stated that the disposition timing for the account is the second annual update application. OEB staff suggests that NextBridge should (after considering OEB staff's comments above on the CCVA) confirm that there will be only one annual application, and that this will be for 2024 rates, consistent with the disposition timing for CCVA.

OEB staff notes that the 2024 rate year application provides sufficient time for NextBridge to finalize any material transactions in both accounts, while including those impacts as part of the 2022 closing balances.

Yours truly,

Michael Price Digitally signed by Michael Price Date: 2021.08.06 12:46:42 -04'00'

Michael Price
Project Advisor - Generation and Transmission

cc: all parties in EB-2020-0150

[4] NextBridge's Decision and Order, June 17, 2021, Page 41.
[5] Exhibit H, Tab 1, Schedule 1, Page 4.
[6] NextBridge's Decision and Order, June 17, 2021, Page 42.