

August 10, 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

This letter is filed in response to OEB Staff's letter of August 6, 2021 requesting NextBridge Infrastructure, LP ("NextBridge") provide clarification regarding the timing of the disposition of its Construction Cost Variance Account (CCVA) and Debt Rate Variance Account (DRVA).

NextBridge has reviewed the letter and will revise the date for the disposition of the Construction Cost Variance Account and the Debt Rate Variance Account. The current plan is for NextBridge to file audited balances for these accounts as part of the 2023 update for implementation in the 2024 rate year. The Revised Draft Accounting Orders for these accounts are attached.

- Attachment 1: Draft Accounting Order – Construction Cost Variance Account; and
- Attachment 2: Draft Accounting Order – Debt Rate Variance Account.

Having so agreed, the OEB's Decision and Order with respect to this issue stated: "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.**"¹

As indicated throughout the proceeding, and as the Board recognized, NextBridge expects the line to come into service in March 2022. However, NextBridge has been clear that there is a possibility of an extension to this timeline for reasons outside of its control. It is therefore possible that total, actual in-service construction costs will not be known in time for its 2023 update application. In that case, NextBridge will not be able to file complete information for the Board's consideration for recovery until total, actual in-service costs are known and audited.

In addition, there is an issue with respect to how long it will take to practically complete its audit of costs incurred after commercial operation date and file for disposition. It could take up to one year to account for and finalize costs incurred post commercial operation date (but which are still costs included in the approved construction budget cost of \$737.1 million) and to secure debt financing with a known rate with an allowance for any potential delays. Examples of these

¹ EB-2020-0150, Decision and Order, p. 41 (Emphasis Added).

costs would be remediation and mitigation costs that were referenced in NextBridge's application as taking up to one year after the commercial operation date to complete.²

The current end dates for the CCVA and DRVA accounts only give NextBridge 9 months to incur construction related costs (e.g., site remediation work), obtain debt financing, and complete a financial audit. In the event that NextBridge is unable to complete a financial audit and/or secure financing by December 31, 2022, NextBridge will advise the OEB why the disposition of the CCVA and/or the DRVA could not be made in accordance with the schedule contemplated in the Board's Decision. If NextBridge does so advise, NextBridge will also request an extension and provide the expected date of disposition so that the CCVA and DRVA will be updated in accordance with the Decision, *i.e.*, "when total, actual in-service construction costs are known."³

All of which is respectfully submitted.

X



Digitally signed by
Jennifer Tidmarsh
Date: 2021.08.10
09:37:45 -04'00'

Jennifer Tidmarsh
Project Director, NextBridge

² EB-2020-0150, Exhibit C, Tab 2, Schedule 4, pp 21, line 70

³ EB-2020-0150, Decision and Order, p. 41 (Emphasis Added).

Attachment 1

**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, 2023.
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 2024.
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 2

**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, 2023.
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, rate year 2024. 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.