**EB-2020-0150**

**ONTARIO ENERGY BOARD**

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, ("**Act**");

**AND IN THE MATTER OF** an Application by Upper Canada Transmission, Inc. operating as NextBridge Infrastructure, LP for an Order or Orders pursuant to section 78 of the Act approving rates and other charges for transmission of electricity.

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# COMPENDIUM OF THE SCHOOL ENERGY COALITION

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requested in the 2022 UTR be prorated to accommodate for the project being in service for only nine months of 2022 as reflected in Tables 1 and 2 below.

**Table 1. Summary of Revenue Requirement for Test Year ($ Millions)**

| Component | Test Year | Reference |
|---|---|---|
| OM&A | 4.9 | Exhibit F, Tab 1, Schedule 1 |
| Depreciation | 9.3 | Exhibit F, Tab 11, Schedule 1 |
| Income Taxes | 0.6 | Exhibit F, Tab 13, Schedule 1 |
| Return on Capital | 41.0 | Exhibit G |
| **Base Revenue Requirement** | **55.7** | |

**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 | 55.7 |
| 2022 | B = Monthly Cost of Service or A/12 | 4.6 |
| 2022 | C = 2022 UTR Amount or B * 9 | 41.8 |

12. To establish the annual revenue requirements for 2023 to 2031, an RCI is proposed in which the revenue requirement for 2023 is equal to the revenue requirement in the Test Year, inflated by the RCI.

The RCI is expressed as:

$$\mathrm{RCI} = \mathrm{I} - \mathrm{X}$$

Where:

- "I" is the Inflation Factor, based on the OEB's inflation factor for incentive rate setting
- "X" is the Productivity Factor, which includes a Stretch Factor.

13. NextBridge proposes to adopt the OEB's calculation of the RCI Inflation Factor ("**I**") parameter, which effective for 2020 is 2%. The proposed Inflation Factor is an external measurement of industry labour/non-labour weights with a weighted sum of:

- 70% of the annual percentage change in Canada's GDP-IPI
- 30% weight of the annual percentage change in the Average Weekly Earnings for workers in Ontario

14. NextBridge proposes a 0% Productivity Factor ("**X**") to be applied annually over the 2023 to 2031 period. NextBridge is a new entrant and has a structure unlike other transmission and distribution companies in Ontario. NextBridge's proposal reflects these circumstances and is appropriate for the following reasons:

- NextBridge's assets are new, and, therefore, minimal OM&A was included in the Test Year revenue requirement. Changes in OM&A have to be absorbed within the RCI construct.
- NextBridge's only controllable costs are OM&A where productivity is normally realized. Because of the small amount of OM&A and also in comparison to the non-controllable costs (*e.g*. cost of capital, depreciation, income tax), productivity is nearly impossible to realize.

- NextBridge has proposed capital expenditures to improve the operation and maintenance of the line, but has not included the capital increases in rate base during the IR Term. The Inflation Factor will help offset the financial impact of these capital expenditures.
- NextBridge will have no employees, while maintaining access to highly qualified resources through the service agreements with NEET, and HONI and Supercom Industries Ltd. ("**Supercom**") that are available as needed, allowing NextBridge to remain cost efficient. Supercom is a partnership of the six BLP First Nations tasked with the goal of maximizing First Nations and Métis participation in the East-West Tie project.
- A service agreement on maintenance operations will be awarded to a partnership between HONI and Supercom ("**HONI SLA**") allowing efficiencies to these companies by allowing utilization of resources already available in the region. Given the proximity of the East-West Tie line to the Hydro One's existing East-West transmission and station assets, maintenance can be optimized when work can be performed in the same area of both lines simultaneously (*i.e.,* vegetation maintenance). The gained efficiencies are passed through to ratepayers as an avoided cost to NextBridge deploying separate crews in the same area.
- The NextBridge partnership has tax efficient partners and the savings of lower income tax costs have been incorporated in the revenue requirement.

## B. Budgeting Assumptions

15. NextBridge has identified capital projects in accordance with its 10-year capital plan in its TSP following the March 31, 2022 in-service date but is not requesting these capital expenditures be included in a deferral account or added to the revenue requirement during the currently requested IR Term. Therefore, economic assumptions concerning inflation and exchange rates that could affect the cost of the capital expenditures are not included in this Application.

# OPERATING REVENUE

## Load and Revenue Forecasts

1. NextBridge follows standard regulatory practice and has calculated its revenue requirement as shown below. The revenue requirement shown in Table 1 below is for a full year's cost of service. The amount requested in the 2022 UTR will be prorated to accommodate for the project being in service for only 9 months of 2022 (April 1, 2022 to December 31, 2022), as shown in Table 2 below.

**Table 1. NextBridge Summary of Revenue Requirement ($ Millions)**

| Components | 2022 | Reference |
|---|---|---|
| OM&A | 4.9 | Exhibit F Operating Costs |
| Depreciation | 9.3 | Exhibit F Operating Costs |
| Income Taxes | 0.6 | Exhibit F Operating Costs |
| Return on Capital | 41.0 | Exhibit G Cost of Capital |
| **Base Revenue Requirement** | **55.7** | |

**Table 2. 2022 Revenue Requirement converted to UTR Amount ($ Millions)**

| 2022 Revenue Requirement | | |
|---|---|---|
| 2022 | A = Cost of Service for 12 months | 55.7 |
| 2022 | B = Monthly Cost of Service or A/12 | 4.6 |
| 2022 | C = 2022 UTR Amount or B * 9 | 41.8 |

2. The above revenue requirement is the amount required by NextBridge to achieve its business objectives, responsible stewardship of a safe and reliable system, and have a

minimal impact on rates. The proposed revenue requirement is a reflection of NextBridge's commitment to operating at the lowest practical cost. Refer to Exhibit F for cost drivers and assumptions for OM&A, depreciation and income taxes. The return on capital component is further described in Exhibit G.

3. NextBridge is proposing a RCI term for a 10-year period. Under the proposed methodology, the revenue requirement for the Test Year t+1 is equal to the revenue requirement in the Test Year t, inflated by the RCI set out below

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

| Year | Formula | Base Revenue Requirement ($ Millions) |
|---|---|---|
| 2022 | Cost of Service for 12 months (Base Rev. Req.) | 55.7 |
| 2023 | 2022 Base Revenue Requirement x 1.020 | 56.8 |
| 2024 | 2023 Base Revenue Requirement x 1.020 | 58.0 |
| 2025 | 2024 Base Revenue Requirement x 1.020 | 59.1 |
| 2026 | 2025 Base Revenue Requirement x 1.020 | 60.3 |
| 2027 | 2026 Base Revenue Requirement x 1.020 | 61.5 |
| 2028 | 2027 Base Revenue Requirement x 1.020 | 62.8 |
| 2029 | 2028 Base Revenue Requirement x 1.020 | 64.0 |
| 2030 | 2029 Base Revenue Requirement x 1.020 | 65.3 |
| 2031 | 2030 Base Revenue Requirement x 1.020 | 66.6 |

4. NextBridge's revenue requirement in the first year (2022) of the IR Term is determined by using a cost of service, forward test-year approach, consistent with the OEB's Renewed Regulatory Framework for Electricity as most recently set out in the *Handbook for Utility Rate Applications* released by the OEB in October 2016. The Test Year revenue

requirement is shown for a full year's impact, whereas only 9 months' proration of the amount will be requested in the 2022 UTR to accommodate the East-West Tie line's March 31, 2022 in-service date. The revenue requirement in the following years, 2023 to 2031, is determined by using an RCI that is calculated for each year in addition to the Test Year amount.

5. The RCI includes an industry-specific inflation factor and a productivity factor. The RCI is expressed as: RCI=I–X, with "I" representing the inflation factor and "X" representing the productivity factor.

6. NextBridge proposes to adopt the OEB's calculation of the RCI "I" parameter, which for 2020 is 2.0%. Consistent with the policy determinations set out in the OEB Report on Rate Setting Parameters and Benchmarking under the RRFE (EB-2010-0379) issued November 21, 2013 and updated December 4, 2013, the OEB has calculated the value of the inflation factor for incentive rate setting under the Price Cap IR and Annual Index plans, for rate changes effective in 2020, to be 2.0%. The derivation of this is shown in the following table.

| Inputs and Assumptions | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | Non-Labour GDP-IPI (FDD) - National | | | | | | | Labour AWE - All Employees - Ontario | | | Resultant Values - Annual Growth for the 2-factor IPI | |
| | Q1 | Q2 | Q3 | Q4 | Annual | Annual % Change | Weight | Annual | Annual % Change | Weight | Annual | Annual % Change |
| 2017 | 108 | 108.5 | 108.3 | 109 | 108.45 | | | $ 992.42 | | | 106.5 | |
| 2018 | 109.4 | 109.8 | 110.5 | 111.1 | 110.20 | **1.6%** | **70%** | $1,021.40 | **2.9%** | **30%** | **108.6** | **2.0%** |

7. NextBridge proposes a productivity factor of 0%. NextBridge does not expect to recognize OM&A efficiencies over the IR Term as it is a single new asset and most of the OM&A is contractual and essentially fixed. This fixed nature of costs allows for ratepayer protection from inflation or other variables but does not allow for NextBridge to recognize cost efficiencies over the IR Term. Notably, there are Indigenous reserve crossing permits, within OM&A that are expected to inflate annually at the City of Toronto's annual CPI. If greater than the 2.0% inflation rate mentioned above, NextBridge will bear the burden.

Additionally, NextBridge plans to continue capital investments over the IR Term beginning in the Test Year, that have not been included in the revenue requirement and will not be added to rate base during the IR Term (as further described in the capital expenditures plan in Exhibit B). NextBridge expects to have additions to gross plant in service, and therefore rate base, annually over the IR Term but has not included in the revenue requirement being submitted.

Therefore, RCI = 2.0% + 0.0%, or 2.0%

**Table 4. Calculation of Revenue Requirement for Test Year**

| Calculation of Revenue Requirement | | | |
|---|---|---|---|
| **Line No.** | **Particulars** | | **Test Year ($ Millions) (a)** |
| | **Cost of Service** | | |
| 1 | Operating, maintenance & administrative | $ | 4.9 |
| 2 | Depreciation | | 9.3 |
| 3 | Income taxes | | 0.6 |
| 4 | Cost of service excluding return on capital | $ | 14.8 |
| 5 | Return on capital | | 41.0 |
| 6 | Base revenue requirement | $ | 55.7 |

# DEFERRAL AND VARIANCE ACCOUNTS

**Disposition of Deferral and Variance Accounts**

1. NextBridge seeks Board approval to establish five new deferral/variance accounts. NextBridge does not have any existing deferral and variance accounts for which it is seeking continuation or disposition of in this Application. All requested accounts are symmetrical and could reflect in positive or negative adjustments to the requested revenue requirement.

*Taxes or Payments in Lieu of Taxes Variance Account, existing USofA account 1592*

2. This account will be used to track any revenue requirement impact of legislative or regulatory changes to tax rates or rules that are not reflected in the revenue requirement used to establish 2022 UTRs.

3. This account will 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.

4. This account will record any tax impacts resulting from, but not limited to, the timing of BLP's buy-in and any changes in tax-exemption status. To provide the best projection of tax payments for customers in the revenue requirement, this Application was calculated including the tax exempt status of BLP for the entire IR Term. This account will record any tax impacts resulting from any changes to the assumed tax-exemption status of BLP from this Application.

5. NextBridge proposes disposition of this account at the end of the IR Term through to the next rebasing application.

6. See draft accounting order in Attachment 1 of this Exhibit.

*Revenue Differential Variance Account*

7. This account will track the revenue impact should there be a difference from the currently planned in-service date. Specifically, the account will record the difference between revenue earned by NextBridge as part of its share of the 2022 UTR revenue based on the forecasted in-service date and the revenue requirement that would have been calculated had rates been established based on the actual achieved in-service date (earlier or later).

8. To facilitate the OEB's review of costs and prudence on a timely basis and to allow time to ensure all project construction cost accounting is finalized and an audit has taken place, NextBridge proposes to seek initial disposition of the balance in this account in the second annual update following in-service. This update is expected to be the filed in 2023 for inclusion in 2024 UTR rates.

9. See draft accounting order in Attachment 2 in this Exhibit.

10. Construction Cost Variance Account

- This account will track any difference in revenue requirement resulting from: difference between forecasted construction costs in this Application and the actual final project construction costs, including IDC;
- COVID-19 related capital costs incurred during construction in excess of forecasted construction costs in this Application. NextBridge has explained its preference for the treatment of these costs to the OEB as part of the current stakeholder process to inform accounting guidance for COVID-19 impacts being included in deferral accounts. This submission can be found at Exhibit H, Tab 1, Schedule 1, Attachment 5. As explained in the submission, it is appropriate to continue to track the incremental construction work in progress and interest costs related to the COVID-19 emergency in a new subaccount of Account 2055;

- 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 OBP and/or Amended EA for construction monitoring and mitigation programs that are not already accounted for in the construction costs (i.e. environmental mitigation costs of $1 million that were included in construction costs but occur post in-service date because they were known and quantifiable amounts). NextBridge expects these costs to begin after the March 31, 2022 in-service date and continue for up to the end of the IR Term, as discussed in Exhibit C. The amount of environmental mitigation to be performed during this time period is highly dependent on monitoring activities and in some cases is weather or nature dependent. As an example, the transfer strategy and timing of caribou is dependent upon the results of pre-transfer monitoring. Monitoring will indicate where the caribou will originate from and the gender ratio available to relocate (See OBP Permit and Conditions at Exhibit C. Tab 2, Schedule 4, Attachment 3). As these costs are expected to decline each year after in service and are non-recurring, NextBridge proposes that the variance account method is best for customers instead of including in O&MA costs and potentially overstating O&MA costs for the following nine years of the revenue cap index. To demonstrate this savings, NextBridge provides the following example in Table 1 below as a comparison of including the first year's cost comparing the treatment in the revenue requirement now as an O&MA cost versus including these environmental costs in the construction cost variance account. As shown below in the totals over the five-year period, O&MA could be overstated by $2.4 million if these costs were included in O&MA as part of this Application. Since the costs reduce over time and are not quantifiable at this time, the appropriate way to account for the costs is in the CCVA.

**Table 1. Example of Cost Treatment Alternatives for Post Construction Environmental Costs**

| | Dollars | | | | | |
|---|---|---|---|---|---|---|
| | **ISD[14] + 1 Year** | **ISD + 2 Years** | **ISD + 3 Years** | **ISD + 4 Years** | **ISD + 5 Years** | **Total** |
| O&MA if in Revenue Requirement | Estimate included in construction costs | $972,000 | $972,000 | $972,000 | $972,000 | **$3,888,000** |
| Variance Account (as incurred) | Estimate included in construction costs | $972,000 | $198,000 | $106,000 | $143,000 | **$1,419,000** |

- After five years post in-service date, the costs are expected to be less than $10,000 annually and are not included in this example, which is for illustrative purposes.

- To facilitate the OEB's review of costs and prudence on a timely basis and to allow time to ensure all project construction cost accounting is finalized and an audit has taken place, NextBridge proposes to seek initial disposition of the balance in this account in the second annual update following in-service. This update is expected to be the filed in 2023 for inclusion in 2024 UTR rates. NextBridge seeks to leave the CCVA open for the remainder of the IR Term to account for activities that are a direct result of construction, such as environmental costs associated with the Overall Benefits Permit and Amended EA. The final disposition will take place at the end of the IR Term and in the next rebasing application for NextBridge.

- See draft accounting order in Attachment 3 in this Exhibit.

[14] In-Service date ("**ISD**")

11. Debt Rate Variance Account (DRVA)

- 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 Application 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.

- To facilitate the OEB's review of costs and prudence on a timely basis and to allow time to ensure all project construction cost accounting is finalized and an audit has taken place, NextBridge proposes to seek initial disposition of the balance in this account in the second annual update following in-service. This will allow for audited balances and to align with the Construction Cost Variance Account Disposition. Alignment with disposition of the Construction Cost Variance Account allows a complete comparison of drivers associated with both accounts and ensures there is not an overlap between construction costs and potential debt rate changes.

- Draft accounting order in Attachment 4 in this Exhibit.

12. Z-Factor Treatment (Account 1572 – Extraordinary Event Costs")

- NextBridge will potentially apply for Z-factor treatment if material costs are incurred for unforeseen events for reasons beyond the company's control that occur during the IR Term. NextBridge will apply for an accounting order for use of this account should such an event occur and will notify the OEB prior to including any amounts in this account.

# DRAFT ACCOUNTING ORDER – TAXES OR PAYMENTS IN LIEU OF TAXES VARIANCE ACCOUNT

1. NextBridge will use Uniform System of Account 1592 "PILs and Tax Variance for 2006 and Subsequent Years" and will record:

   - any revenue requirement impact of legislative or regulatory changes to tax rates or rules that are not reflected in the revenue requirement used to establish 2022 UTRs.
   - 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.
   - tax impacts resulting from changes in tax-exemptions status of partners of NextBridge.

2. NextBridge proposes disposition of this account at the end of the IR Term and in connection with the next rebasing application.

3. The following are the proposed accounting entries for this variance account:

   *USofA # Account Description*

   Dr/Cr: 1592 PILS and Tax Variance for 2006 and Subsequent Years

   Cr/Dr: 4110 Transmission Services Revenue

   *- to record the revenue requirement impact of legislative or regulatory changes to tax rates or rules as compared to costs approved by the OEB.*

   *USofA # Account Description*

   Dr/Cr: 1592 PILS and Tax Variances for 2006 and Subsequent Years

Cr/Dr: 6035 Other Interest Expense

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

**DRAFT ACCOUNTING ORDER –**
**REVENUE DIFFERENTIAL EXPECTED TO BE INCURRED PRIOR TO IN SERVICE DATE OF MARCH 31, 2022 VARIANCE ACCOUNT**

1. This account will track the revenue impact should there be a difference from the currently planned in-service date. Specifically, the account will record the difference between revenue earned by NextBridge as part of its share of the 2022 UTR revenue based on the forecasted in-service date and the revenue requirement that would have been calculated had rates been established based on the actual achieved in-service date (earlier or later).

2. To ensure all accounting is finalized and an audit has taken place, NextBridge proposes the disposition of this account in the second annual update following the in-service date.

3. The following are the proposed accounting entries for this variance account:

*USofA# Account Description*

Dr/Cr: 1508 Other Regulatory Assets – Sub account "Revenue Differential Variance Account"

Cr/Dr: 4110 Transmission Services Revenue

*- to record the revenue differential*

*USofA# Account Description*

Dr/Cr: 1508 Other Regulatory Assets – Sub account "Revenue Differential Variance Account"

Cr/Dr: 6035 Other Interest Expense

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

**DRAFT ACCOUNTING ORDER –**
**CONSTRUCTION COST VARIANCE ACCOUNT**

1. This account will track any difference in revenue requirement and includes:

   - differences between forecasted construction costs in this Application and the actual final project construction costs, including IDC;
   - COVID-19 related capital costs incurred during construction in excess of forecasted construction costs in this Application;
   - 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 OBP and/or Amended EA for construction monitoring and mitigation programs that are not already accounted for in the construction costs (*i.e.*, environmental mitigation costs of $1 million that were included but occur post in-service date because they were known and quantifiable amounts).

2. 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.

3. The following are the proposed accounting entries for this variance account:

   *USofA # Account Description*

   Dr/Cr: 1508 Other Regulatory Assets – Sub-account: Construction Cost Revenue Requirement Variance

   Dr/Cr: 4110 Transmission Service Revenue

   *- to record the revenue requirement differential*

   *USofA # Account Description*

Dr/Cr: 1508 Other Regulatory Assets – Sub-account: Construction Cost Revenue Requirement Variance

Dr/Cr: 6035 Other Interest Expense

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

# 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 Application 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. 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.

3. The following are the proposed accounting entries for this variance account:

*USofA # Account Description*

Dr/Cr: 1508 Other Regulatory Assets – Sub-account: Debt Rate Variance

Dr/Cr: 4110 Transmission Service Revenue

*- to record the revenue requirement differential*

*USofA # Account Description*

Dr/Cr: 1508 Other Regulatory Assets – Sub-account: Debt Rate Variance,

Dr/Cr: 6035 Other Interest Expense

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

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

BY EMAIL and WEB POSTING

November 9, 2020

To: All Rate-regulated Electricity Distributors and Transmitters
All Rate-regulated Natural Gas Utilities
Ontario Power Generation Inc.
All Registered Intervenors in 2021 Rate Applications
All Other Interested Parties

**Re: 2021 Inflation Parameters**

This letter establishes the process for the implementation of the inflation factor for use in 2021 rate adjustment applications.[1] In light of the continued uncertainty regarding the COVID-19 pandemic, the OEB is establishing options for utilities to consider. The approach laid out in this letter provides increased flexibility with a range of options, taking into account pressures on customers and given potentially unique utility needs and circumstances.

The OEB has established sector specific inflation factors[2].The calculation of the inflation factor for each sector uses the same data from Statistics Canada and the same basic formula but differs for each sector based on the weights for labour and non-labour (i.e., materials, capital assets and equipment).

For electricity distributors, the inflation measure (the Input Price Index or IPI) is set out in the *Report of the Board on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors*[3]. For electricity transmitters, the methodology was approved in decisions for several transmitters.[4] For Ontario Power Generation (OPG), the methodology was approved in the OEB's most recent decision on OPG's Custom IR plan.[5]

[1] Price Cap Incentive Rate-setting (IR), Annual IR and Custom IR update applications
[2] Electricity distribution, electricity transmission, natural gas distribution and Ontario Power Generation's regulated hydroelectric generation facilities.
[3] EB-2010-0379 issued November 21, 2013 and updated December 4, 2013.
[4] EB-2018-0218, EB-2019-0082, EB-2018-0275 and EB-2019-0178
[5] EB-2016-0152

The OEB has calculated the 2021 inflation factor for electricity distributors to be **2.2%**, and for electricity transmitters and OPG to be **2.0%**. Tables showing the derivation of the 2021 inflation values per the approved methodologies are provided in an appendix.

In light of the continued uncertainty regarding the severity and duration of the COVID-19 emergency, and its impact on electricity utilities and customers alike, the OEB is allowing utilities the discretion of electing the calculated IPI level per the OEB-approved methodology (offset by the applicable stretch factor and other adjustments for some plans) or a lower value. Utilities also have the discretion to forego the inflationary increase entirely.

An election lower than the calculated IPI level per the OEB-approved methodology would reduce rates for 2021 than otherwise would be the case, and the OEB's expectation is that this shortfall will not be restored by a compensatory increase in any subsequent year remaining in the incentive-rate setting term.

In applications for rate adjustments for 2021 rates, utilities should document the level of IPI that they are electing, up to the calculated value for their sector. For example, for an electricity distributor with an assigned stretch factor of 0.3% that chooses an IPI for 2021 rates of 1.5% instead of the calculated value of 2.2%, its net inflation adjustment would be 1.2%. Utilities that have filed applications for January 1, 2021 rates must make their election by November 19, 2020 by filing a letter on the record of their 2021 rates proceeding. Utilities that have filed or are planning to file rate applications for May 1, 2021 rates must do the same by February 5, 2021.

All queries on the inflation parameters should be directed to the OEB's Industry Relations hotline, at 416-440-7604 or industryrelations@oeb.ca. The OEB's toll-free number is 1-888-632-6273.

Yours truly,

*Original Signed By*

Christine E. Long
Registrar

Attachment

# Appendix: 2021 Inflation Parameters by Industry Sector

## 2021 Input Price Index for Electricity Distributors

| Year | Inputs and Assumptions | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Non-Labour GDP-IPI (FDD) - National | | | | | | | Labour AWE - All Employees - Ontario | | | Resultant Values - Annual Growth for the 2-factor IPI | |
| | Q1 | Q2 | Q3 | Q4 | Annual | Annual % Change | Weight | Annual | Annual % Change | Weight | Annual | Annual % Change |
| **2018** | 109.4 | 109.9 | 110.6 | 111 | 110.225 | | | $ 1,021.38 | | | 108.6 | |
| **2019** | 111.4 | 112.2 | 112.6 | 113.3 | 112.38 | **1.9%** | **70%** | $ 1,049.51 | **2.7%** | **30%** | **111.0** | **2.2%** |

**Sources:**

- GDP-IPI (FDD): Statistics Canada, Table 36-10-0106-01 (formerly CANSIM 380-0066) - Price Indexes, gross domestic product, quarterly (2012 = 100 unless otherwise noted) - 2019 Q4, data accessed August 28, 2020
- Average Weekly Earnings (AWE): Statistics Canada, Table 14-10-0204-01 (formerly CANSIM 281-0027), Ontario, all businesses excluding unclassified, annual (current dollars), data accessed August 28, 2020

## 2021 Input Price Index for Electricity Transmission Revenue Cap Plans

| Year | Inputs and Assumptions | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Non-Labour GDP-IPI (FDD) - National | | | | | | | Labour AWE - All Employees - Ontario | | | Resultant Values - Annual Growth for the 2-factor IPI | |
| | Q1 | Q2 | Q3 | Q4 | Annual | Annual % Change | Weight | Annual | Annual % Change | Weight | Annual | Annual % Change |
| **2018** | 109.4 | 109.9 | 110.6 | 111 | 110.225 | | | $ 1,021.38 | | | 108.4 | |
| **2019** | 111.4 | 112.2 | 112.6 | 113.3 | 112.375 | **1.9%** | **86%** | $ 1,049.51 | **2.7%** | **14%** | **110.6** | **2.0%** |

**Sources:**

- GDP-IPI (FDD): Statistics Canada, Table 36-10-0106-01 (formerly CANSIM 380-0066) - Price Indexes, gross domestic product, quarterly (2012 = 100 unless otherwise noted) - 2019 Q4, data accessed August 28, 2020
- Average Weekly Earnings (AWE): Statistics Canada, Table 14-10-0204-01 (formerly CANSIM 281-0027), Ontario, all businesses excluding unclassified, annual (current dollars), data accessed August 28, 2020

## 2021 Input Price Index for OPG's Prescribed Hydroelectric Price Cap IR Plan

| Year | Inputs and Assumptions | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Non-Labour GDP-IPI (FDD) - National | | | | | | | Labour AWE - All Employees - Ontario | | | Resultant Values - Annual Growth for the 2-factor IPI | |
| | Q1 | Q2 | Q3 | Q4 | Annual | Annual % Change | Weight | Annual | Annual % Change | Weight | Annual | Annual % Change |
| **2018** | 109.4 | 109.9 | 110.6 | 111 | 110.225 | | | $ 1,021.38 | | | 108.4 | |
| **2019** | 111.4 | 112.2 | 112.6 | 113.3 | 112.38 | **1.9%** | **88%** | $ 1,049.51 | **2.7%** | **12%** | **110.6** | **2.0%** |

**Sources:**

- GDP-IPI (FDD): Statistics Canada, Table 36-10-0106-01 (formerly CANSIM 380-0066) - Price Indexes, gross domestic product, quarterly (2012 = 100 unless otherwise noted) - 2019 Q4, data accessed August 28, 2020
- Average Weekly Earnings (AWE): Statistics Canada, Table 14-10-0204-01 (formerly CANSIM 281-0027), Ontario, all businesses excluding unclassified, annual (current dollars), data accessed August 28, 2020

# COST OF CAPITAL AND CAPITAL STRUCTURE

1. This Exhibit summarizes the method and cost of capital and capital structure used in this Application. The cost of capital as described in this Exhibit has been reflected in the revenue requirement for 2022, using the most recent OEB-approved cost of capital parameters for 2020 including ROE, deemed short-term debt rate and the deemed long-term debt rate.

**Annual Review Process**

2. NextBridge will continue to complete an annual capital investment planning process (as outlined in Exhibit B, Tab 1, Schedule 6) to continually refine a plan that appropriately reflects operational needs, while minimizing rate impacts by not requesting these annual capital expenditures be added to rate base over the IR Term. This is NextBridge's proposal to mitigate any potential for significant earnings due to planned capital expenditures. This planning process ultimately forms part of the overall asset management process, which is aimed at identifying and scoping the optimal timing of capital investments and asset maintenance throughout the life cycle of assets. NextBridge's operational needs are assessed on an annual basis and are incorporated into its's investment planning process to establish a plan that addresses those operation needs while minimizing rate impacts. Ultimately, this annual review of capital expenditures will be included in NextBridge's annual update filing on an informational basis but will not impact the UTR calculation during the IR Term.

3. The cost of capital as described in this Exhibit has been reflected in the revenue requirement for the Test Year (April 1, 2022 to March 31, 2023). NextBridge's proposed 2022 cost of capital is presented in Tables 1 to 3 below:

**Table 1. Summary of Cost of Capital for Test Year 2022 ($ Millions)**

**NextBridge**
Summary of Cost of Capital
Utility Capital Structure
Calculation of Revenue Requirement
Test Year (April 1, 2022 to March 31, 2023)
($ Millions)

| Line No. | Particulars | ($ M) | % | Cost Rate (%) | Return ($ M) |
|---|---|---|---|---|---|
| | | (a) | (b) | (c) | (d) |
| I | Long-term debt | 431.4 | 56.0% | 3.2% | 13.8 |
| 2 | Short-term debt | 30.8 | 4.0% | 2.8% | 0.8 |
| 3 | Deemed long-term debt | 0.0 | 0.0% | 0.0% | 0.0 |
| 4 | Total debt | 462.3 | 60.0% | 3.2% | 14.7 |
| 5 | Common equity | 308.2 | 40.0% | 8.5% | 26.3 |
| 6 | Total rate base | 770.4 | 100.0% | 5.3% | 41.0 |

**Table 2. NextBridge Cost of Capital**

| Test Year 12 Months | | | | |
|---|---|---|---|---|
| **Amount of Deemed** | | | **Cost Rate** | **Return** |
| **Return** | **($ Millions)** | **%** | **(%)** | **($ Millions)** |
| Long-term debt | 431.4 | 56% | 3.21% | 13.8 |
| Short-term debt | 30.8 | 4% | 2.75% | 0.8 |
| Common equity | 308.2 | 40% | 8.52% | 26.3 |
| **Total** | **770.4** | **100%** | **5.32%** | **41.0** |

**Table 3. Return on Capital ($ Millions)**

| Categories | Test Year |
|---|---|
| Return on Debt | 14.7 |
| Return on Equity | 26.3 |
| **Return on Capital** | **41.0** |

SEC INTERROGATORY #8

INTERROGATORY

Question:
[A-3-1, p.17] Is the Applicant seeking to use the 2020 OEB Cost of Capital parameters for the purpose of setting the test year budget or does it plan to update the parameters for the updated now released 2021 parameters? If not, please explain why not.

RESPONSE
NextBridge's Application is based on the 2020 OEB Cost of Capital parameters and NextBridge does not plan to update to the 2021 parameters. Please refer to Staff #67 a.

**Table 3. Overall Capital Plan ($ Millions)**

| Capital Plan ($ Millions) | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|---|---|---|---|---|---|---|---|---|---|---|
| General Plant - Office & Vehicles | - | 0.16 | 0.11 | 0.01 | 0.15 | - | - | 0.20 | - | - |
| Storage Yard | - | - | - | 0.30 | - | - | - | - | - | - |
| Reliability - Bird Deterrents, ROW Cameras | 0.23 | 0.43 | 0.63 | 0.33 | 0.13 | 0.20 | 0.40 | 0.60 | 0.30 | 0.10 |
| **Total** | **0.23** | **0.59** | **0.74** | **0.64** | **0.28** | **0.20** | **0.40** | **0.80** | **0.30** | **0.10** |

28. This plan provides for increased reliability by taking advantage of new technology and equipment to reduce potential outages and gain additional situational awareness of real-time conditions at various critical crossings in the line. The capital expenditures for the project to be spent over the IR Term can be divided into three areas: general plant; storage yard; and reliability. This is further explained in Exhibit B.

## E. Rate Base

29. The requested rate base for the Test Year (April 1, 2022 to March 31, 2023) is presented in Table 4 below, and further details on the rate base are presented in Exhibit C, Tab 1, Schedule 1.

**Table 4. Transmission Rate Base ($ Millions)**

| Transmission Rate Base ($ Millions) | Test Year[1] |
|---|---|
| Average Gross Plant | 775.1 |
| Average Accumulated Depreciation | 4.6 |
| **Average Net Plant** | **770.4** |
| Cash Working Capital | N/A |
| Materials and Supply Inventory | N/A |
| **Transmission Rate Base** | **770.4** |

30. As a new entrant, NextBridge has no prior rate base, and, therefore, no change in rate base is included from any prior OEB approval.

## F. Performance and Reporting

31. NextBridge is proposing to utilize a set of measures that best demonstrate its performance and address the performance standards for transmitters as set out in Chapter 4 of the *Transmission System Code*. The proposed performance measures and their associated RRFE performance outcomes are shown in Table 5 below.

**Table 5. Performance Measures**

| RRFE Outcomes | Performance Measure |
|---|---|
| Safety | 0.00 OHSA[2] Recordable Injuries Per Year |
| Financial Performance | Return on Equity |
| Public Policy Responsiveness | Applicable NERC Reliability Standards, such as FAC-003-4, Vegetation Compliance for NextBridge owned assets |

[1] Totals may not foot due to rounding
[2] Occupational Health and Safety Act, R.S.O. 1990, c.1 ("OHSA").

# GROSS ASSETS

**Property, Plant, and Equipment and Accumulated Depreciation**

1. NextBridge's gross assets are made up of costs expected to be incurred to put the East-West Tie line in service: development costs, phase shift costs, construction costs and spare strategy costs. These tables can be found at Exhibit C, Tab 4, Schedule 1. Each of the cost categories are discussed in detail in this Exhibit in Schedules 2, 3, and 4.

# DEVELOPMENT COSTS

1. A total of $31.2 million in development costs were approved in Decision and Order dated December 20, 2018 (EB-2017-0182). As these development costs were already reviewed for prudence and approved for recovery, they are included in the proposed opening rate base balance.

# PHASE SHIFT COSTS

1. A total of $5.3 million in costs (as shown in Table 1 below) were also deemed eligible for consideration as construction costs in the Decision and Order dated December 20, 2018 (EB-2017-0182). These costs were incurred during the development period and are needed to construct the East-West Tie line. They were spent during the development period because these activities take longer periods of time and by working on them as early as possible it mitigated risk to the project schedule. These costs are included in opening rate base balance.

**Table 1. Summary of Phase Shift Costs**

| Phase Shift Costs | $ Millions |
|---|---|
| EA Review Participation | $0.46 |
| Land Optioning Negotiations | $1.44 |
| Land Acquisition Negotiations | $0.02 |
| Economic Participation | $3.41 |
| **Total** | **$5.33** |

**Phase Shift: EA Review Participation**

2. These costs were required for NextBridge to participate in the EA review process that was scheduled to begin in advance of the LTC filing. A draft EA Report was prepared and submitted in December 2016, with a comment period from December 2016 to March 2017. NextBridge received approximately 1,000 comments on the draft EA Report. The comments were reviewed and responded to by NextBridge, with a response to each comment set forth in Appendix 1-III in the final EA Report. The final EA Report was updated in response to many of the comments and these changes are noted in the responses provided in Appendix 1-III and in the final EA Report change log. Project

## FORECAST CONSTRUCTION COSTS

1. A total of $737.1 million in construction costs is forecasted to complete the East-West Tie line, of which 57% have already been incurred as of October 31, 2020. The cost categories in table below follow the format and order used in NextBridge's quarterly reports to the OEB. As evidenced in Exhibit B and in the CRA report attached at Exhibit B, Tab 1, Schedule 7, Attachment 1, NextBridge's construction costs are in line when benchmarked with other constructed transmission lines. The table below shows the total construction costs per category, for the estimated completion of the line assuming an in-service date of March 31, 2022.

| | | |
|---|---|---|
| | **Engineering & Construction** | **614.3** |
| 1 | Engineering, Design and Procurement | 8.5 |
| 2 | Materials and Equipment | 66.9 |
| 8 | Site Clearing, Access | 140.6 |
| 9 | Construction | 398.2 |
| | **Environmental & Remediation Activities** | **31.6** |
| 3 | Environmental and Regulatory Approvals | 19.1 |
| 10 | Site Remediation | 12.5 |
| | **Indigenous Activities** | **23.7** |
| 5 | Indigenous Economic Participation | 9.7 |
| 6 | Indigenous Consultation | 13.9 |
| 4 | **Land Rights (excludes Aboriginal)** | **23.8** |
| 7 | **Other Consultation** | **2.5** |
| 11 | **Contingency** | n/a |
| 12 | **Regulatory** | **5.4** |
| 13 | **East-West Tie Project Management** | **4.9** |
| | **Total Project Spend** | **706.1** |
| 14 | **Interest During Construction (IDC)** | **31.0** |
| | **Total Construction Cost** | **737.1** |

# SPARE STRATEGY

1. A total of $1.2 million in spare equipment are to be procured prior to the March 31, 2022 in-service date to ensure reliability and are included in the proposed revenue requirement. Due to the long procurement times of transmission towers, a good utility practice is to have a spare strategy to procure a minimum requirement of towers and associated components to address potential events. The determination of the amount of spare equipment was based on the extensive experience of affiliates of NEET, who presently develop and operates transmission assets across North America. The statistical probability of extreme ice and wind events and ESL of the assets (*i.e.*, “like new”) were also factored into the decision of the amount of materials needed. These spares will be purchased prior to the in-service date to allow for already negotiated favorable pricing. The vendor providing the towers used in construction will already be set up to manufacture these tower designs and completing the spare towers at the same time allows for savings to the project. In addition, savings were extracted by using the previously negotiated terms with the current vendor who was competitively procured. The spare strategy includes enough tower material to replace a total of seventeen towers. The most prevalent tower designs on the project determined the number of towers procured and NextBridge has seven of the most prevalent towers on the project, two of the second most, and one each of the eight other tower types. This allows for the most efficient use of the spare inventory. The spares were sourced as part of the original tower procurement to minimize costs of the supplier beginning another and separate production cycle for this specific type of tower.

**Table 1. Summary of Spare Equipment**

| Spare Equipment | Estimated Quantity | Unit | ($ Thousands) |
|---|---|---|---|
| Towers | 17 | Each | $ 930 |
| Conductor | 17k | Meters | 147 |
| OHGW | 3k | Meters | 11 |
| OPGW | 3k | Meters | 13 |
| Insulators | 100 | Each | 74 |
| Arresters | 25 | Each | 56 |
| | | | **$ 1,231** |

# DEPRECIATION, AMORTIZATION AND DEPLETION

1. The purpose of this section is to summarize the method and amount of NextBridge's depreciation and amortization expense for the Test Year (April 1, 2022 to March 31, 2023). As a new transmitter with a new asset, NextBridge applied the principles for useful life from the Foster Associates Inc. study used in support of HONI's 2020 to 2022 rate application (EB-2019-0082). The study forms the basis of supporting NextBridge's depreciation rates and expenses in this Application, as there is no need to maintain unique NextBridge depreciation rates as the Foster Associates Inc. study is representative; and, therefore, another depreciation study is not needed. Also, the use of the Foster Associates study, which allows NextBridge to not have to incur the costs of another depreciation study, provides direct savings to ratepayers. NextBridge proposes that utilizing a separate asset specific depreciation study would be useful after the asset has been in-service for an extended period, thus allowing increased measurement of unique conditions on the East-West Tie that could impact its useful life.

## Depreciation Expense

2. Using the Foster Associates Inc. study, including their respective methodologies and useful life assumptions, NextBridge used the depreciation rates for specified assets in the calculation of depreciation expense for 2022. A depreciation schedule is included in Table 1.

**Table 1. NextBridge Depreciation and Amortization Expenses ($ Millions)**

| Categories | 2022 |
|---|---|
| Depreciation | 9.26 |
| Total Expense | 9.26 |

**NextBridge**

Depreciation and Amortization Expenses
Test Year 12 Months
($ Millions)

| Line No. | Particulars | Deprn Rate | Provision |
|---|---|---|---|
| | Depreciation Expenses | | |
| 1 | Major Fixed Assets | | |
| 2 | Land-Rights | 1.00% | 0.35 |
| 3 | Towers and Fixtures | 1.11% | 6.42 |
| 4 | Overhead Conductors and Devices | 1.54% | 2.49 |
| 5 | | | |
| 6 | | | |
| 7 | Depreciation on Fixed Assets | | 9.26 |
| 8 | | | |
| 9 | Less Capitalized Depreciation | | |
| 10 | Asset Removal Costs | | |
| 11 | Total Depreciation Expenses | | 9.26 |
| 12 | | | |
| | Amortization Expenses | | |
| 13 | Other Amortization | | |
| 14 | Total Amortization Expenses | | - |
| 15 | Total Depreciation & Amortization Expenses | | 9.26 |
| 16 | Depreciation & Amortization for recovery | | 9.26 |

# TAXES OR PAYMENTS IN LIEU OF TAXES (PILS)

1. This section explains how NextBridge calculates its income tax expenses for the purposes of rate recovery. Attachment 1 to this Exhibit contains detailed calculations of income tax for the Test Year, including supporting schedules and reconciliations, as needed. Attachment 2 to this Exhibit includes a copy of the partnership's most recent tax return.

2. Over the Test Year, NextBridge is expected to incur general income tax expenses in the form of Ontario corporate minimum tax ("**OCMT**") as the allowable CCA deduction is expected to exceed the taxable income**.**

3. NextBridge is not a corporation exempt from tax under Section 149(1) of the Income Tax Act (Canada) and the Taxation Act, 2007 (Ontario), and is therefore not subject to payment in lieu of corporate income taxes ("PILs") under the Electricity Act, 1998.

# TAXES OR PAYMENTS IN LIEU OF TAXES (PILS)

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3. NextBridge is not a corporation exempt from tax under Section 149(1) of the Income Tax Act (Canada) and the Taxation Act, 2007 (Ontario), and is therefore not subject to payment in lieu of corporate income taxes ("PILs") under the Electricity Act, 1998.

**DETAILED CALCULATIONS OF INCOME TAX FOR THE TEST YEAR**

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EB-2020-0150
Exhibit F
Tab 12
Schedule 1
Attachment 1
Page 2 of 6

NextBridge
Calculation of Utility Income Taxes
Test Year 12 Months
($ Millions)

**SUMMARY OF TAX EXPENSE**

| | 2022 |
|---|---|
| NEE | 0.29 |
| ENB | 0.14 |
| OMERS | 0.14 |
| BLP | 0.00 |
| **Total** | **0.58** |

**NBI LP**

| Line No. | Particulars | | 2022 (b) | |
|---|---|---|---|---|
| | Determination of Taxable Income | | | |
| 1 | Regulatory Net Income (before tax) | | 26.84 | |
| 2 | Book to Tax Adjustments: | | | |
| 3 | Depreciation and amortization | | 9.26 | |
| 4 | Capital Cost Allowance | | -91.41 | |
| 5 | Other | | 0.00 | |
| 6 | Total Adjustments | | -82.15 | |
| 7 | **Regulatory Taxable Income/(Loss) before Loss Carry Forward** | **$** | **-55.32** | **$** |
| | Allocation of Taxable Income | | | |
| 8 | NEE | | -22.13 | |
| 9 | ENB | | -11.06 | |
| 10 | OMERS | | -11.06 | |
| 11 | BLP | | -11.06 | |
| 12 | Total | $ | -55.32 | $ |
| | Tax Rates | | | |
| 13 | Federal Tax | % | 15.00 | % |
| 14 | Provincial Tax | % | 11.50 | % |
| 15 | Total Tax Rate | % | 26.50 | % |

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NextBridge
Calculation of Utility Income Taxes
Test Year 12 Months
($ Millions)

**NEE**

| Line No. | Particulars | | 2022 | |
|---|---|---|---|---|
| | | | (a) | |
| | Determination of Income Taxes | | | |
| 1 | Allocation of Taxable Income from NextBridge | | -22.13 | |
| 2 | Loss Carryforward | | 22.13 | |
| 3 | Taxable Income after loss carryforward | | 0.00 | |
| 4 | Tax Rate | % | 26.50 | % |
| 5 | **Income Tax Expense** | **$** | **0.00** | **$** |
| | Loss Continuity Schedule | | | |
| 6 | Opening Losses Carryforward | | 0.00 | |
| 7 | Losses (Incurred)/Utilized during the year | | -22.13 | |
| 8 | Closing Losses Carryforward | | -22.13 | |
| | Determination of Corporate Minimum Tax | | | |
| 9 | Allocation of Accounting Income from NextBridge | | 10.73 | |
| 10 | Corporate Minimum Tax Rate | % | 2.70 | % |
| 11 | Corporate Minimum Tax Potentially Applicable | | 0.29 | |
| 12 | Ontario Income Tax | | 0.00 | |
| 13 | **Corporate Minimum Tax Payable (Utilized)** | **$** | **0.29** | **$** |
| 14 | Opening CMT Credit Carryforward | | 0.00 | |
| 15 | CMT Credit Incurred/(utilized) | | 0.29 | |
| 16 | Closing CMT Credit Carryforward | | 0.29 | |
| 17 | **Total Taxes Expense for NEE** | **$** | **0.29** | **$** |

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NextBridge
Calculation of Utility Income Taxes
Test Year 12 Months
($ Millions)

**ENB**

| Line No. | Particulars | | 2020 | |
|---|---|---|---|---|
| | | | (a) | |
| | Determination of Income Taxes | | | |
| 1 | Allocation of Taxable Income from NextBridge | | -11.06 | |
| 2 | Loss Carryforward | | 11.06 | |
| 3 | Taxable Income after loss carryforward | | 0.00 | |
| 4 | Tax Rate | % | 26.50 | % |
| 5 | Sub Total | | 0.00 | |
| 6 | Additional Taxes due to Negative ACB | | 0.00 | |
| 7 | **Income Tax Expense** | **$** | **0.00** | |
| | Loss Continuity Schedule | | | |
| 8 | Opening Losses Carryforward | | 0.00 | |
| 9 | Losses (Incurred)/Utilized during the year | | -11.06 | |
| 10 | Closing Losses Carryforward | | -11.06 | |
| | Determination of Corporate Minimum Tax | | | |
| 11 | Allocation of Accounting Income from NextBridge | | 5.37 | |
| 12 | Corporate Minimum Tax Rate | % | 2.70 | % |
| 13 | Corporate Minimum Tax Potentially Applicable | | 0.14 | |
| 14 | Ontario Income Tax | | 0.00 | |
| 15 | **Corporate Minimum Tax Payable (Utilized)** | **$** | **0.14** | **$** |
| 16 | Opening CMT Credit Carryforward | | 0.00 | |
| 17 | CMT Credit Incurred/(utilized) | | 0.14 | |
| 18 | Closing CMT Credit Carryforward | | 0.14 | |
| 19 | **Total Taxes Expense for ENB** | **$** | **0.14** | **$** |

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Tab 12
Schedule 1
Attachment 1
Page 5 of 6

NextBridge
Calculation of Utility Income Taxes
Test Year 12 Months
($ Millions)

**OMERS**

| Line No. | Particulars | | 2020 (a) | |
|---|---|---|---|---|
| | Determination of Income Taxes | | | |
| 1 | Allocation of Taxable Income from NextBridge | | -11.06 | |
| 2 | Loss Carryforward | | 11.06 | |
| 3 | Taxable Income after loss carryforward | | 0.00 | |
| 4 | Tax Rate | % | 26.50 | % |
| 5 | Sub Total | | 0.00 | |
| 6 | Additional Taxes due to Negative ACB | | 0.00 | |
| 7 | **Income Tax Expense** | **$** | **0.00** | |
| | Loss Continuity Schedule | | | |
| 8 | Opening Losses Carryforward | | 0.00 | |
| 9 | Losses (Incurred)/Utilized during the year | | -11.06 | |
| 10 | Closing Losses Carryforward | | -11.06 | |
| | Determination of Corporate Minimum Tax | | | |
| 11 | Allocation of Accounting Income from NextBridge | | 5.37 | |
| 12 | Corporate Minimum Tax Rate | % | 2.70 | % |
| 13 | Corporate Minimum Tax Potentially Applicable | | 0.14 | |
| 14 | Ontario Income Tax | | 0.00 | |
| 15 | **Corporate Minimum Tax Payable (Utilized)** | **$** | **0.14** | **$** |
| 16 | Opening CMT Credit Carryforward | | 0.00 | |
| 17 | CMT Credit Incurred/(utilized) | | 0.14 | |
| 18 | Closing CMT Credit Carryforward | | 0.14 | |
| 19 | **Total Taxes Expense for OMERS** | **$** | **0.14** | **$** |

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Tab 12
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Attachment 1
Page 6 of 6

NextBridge
Calculation of Utility Income Taxes
Test Year 12 Months
($ Millions)

**BLP**

| Line No. | Particulars | | 2020 (a) | |
|---|---|---|---|---|
| | Determination of Income Taxes | | | |
| 1 | Allocation of Taxable Income from NextBridge | | -11.06 | |
| 2 | Tax Rate | % | 0.00 | % |
| 3 | **Income Tax Expense** | **$** | **0.00** | **$** |
| | Determination of Corporate Minimum Tax | | | |
| 4 | Allocation of Accounting Income from NextBridge | | 5.37 | |
| 5 | Corporate Minimum Tax Rate | % | 0.00 | % |
| 6 | **Corporate Minimum Tax Payable** | **$** | **0.00** | **$** |
| 7 | **Total Taxes Expense for BLP** | **$** | **0.00** | **$** |

# SEC INTERROGATORY #12

## INTERROGATORY

Question:

[F-12-1] Does the Applicant (directly or through its limited partners) expect to pay any income tax during the term of the rate plan other than the Ontario Corporate Minimum Tax? If so, please explain when and on what basis.

## RESPONSE

Yes, NextBridge expects to annually pay Ontario Corporate Minimum Tax as its only form of income tax through the IR Term. For additional information on NextBridge's taxable income please see Exhibit F, Tab 13, Schedule 1, Page 4 of 4 of the Application and the Excel Attachment to the Application Exhibit F-12-01-01.

to seek prudency for these expenditures as part of its next rebasing that will occur at the end of the IR Term. During the IR Term, the expenditures will be depreciated, and that depreciation expense is not being sought for recovery in the current application. This provides a benefit to ratepayers since the amount requested in the next rebasing will include a lower net plant balance for these capital expenditures due to depreciation, which will reduce the overall amount requested in the next rebasing after the IR Term expires.

**Table 1. Overall Plan ($ Millions)**

| Capital Plan ($ Millions) | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|---|---|---|---|---|---|---|---|---|---|---|
| General Plant - Office & Vehicles | - | 0.16 | 0.11 | 0.01 | 0.15 | - | - | 0.20 | - | - |
| Storage Yard | - | - | - | 0.30 | - | - | - | - | - | - |
| Reliability - Bird Deterrents, ROW Cameras | 0.23 | 0.43 | 0.63 | 0.33 | 0.13 | 0.20 | 0.40 | 0.60 | 0.30 | 0.10 |
| **Total** | **0.23** | **0.59** | **0.74** | **0.64** | **0.28** | **0.20** | **0.40** | **0.80** | **0.30** | **0.10** |

5. This plan offsets future OM&A costs with base capital expenditures, and provides for increased reliability by taking advantage of new technology and equipment to gain additional situational awareness of real-time conditions at various critical crossings in the line. The capital expenditures for the East-West Tie line to be spent over the IR Term can be divided into three areas: general plant; storage yard; and reliability. The general plant portion of this plan will include those items associated with offices, vehicles, tools, and equipment needed to perform the operations, maintenance, and oversight of the East-

STAFF INTERROGATORY #34

INTERROGATORY

**Reference:** (1) Exhibit A / Tab 3 / Schedule 1 / p. 12 / Table 3
(2) Exhibit B / Tab 1 / Schedule 6 / pp. 1-2

**Preamble:**
NextBridge's proposed overall capital expenditure plan for 2022 to 2031 is $4.28 million as shown in Table 3. NextBridge states it will continue to complete an annual capital investment planning process to continually refine a plan that appropriately reflects operational needs, while minimizing rate impacts by not requesting these annual capital expenditures be added to rate base over the IR Term.

NextBridge's proposal to mitigate the potential for overearning is to not include in the revenue requirement during the currently requested IR Term and not record in a deferral account:

i. any additional OM&A costs above the rates set in this Application; nor
ii. any increased financing costs as a result of maturing and reissuing debt throughout the IR Term.

During the IR Term, the capital expenditures will be depreciated, and that depreciation expense is not being sought for recovery in the current application.

Next Bridge also states:

> This provides a benefit to ratepayers since the amount requested in the next rebasing will include a lower net plant balance for these capital expenditures due to depreciation, which will reduce the overall amount requested in the next rebasing after the IR Term expires.

**Question(s):**
a) Please explain how NextBridge determined what capital expenditures were necessary and satisfied itself that these costs were an appropriate level for a nine year and nine-month IRM term.
b) Please clarify if the Capital Expenditures of $4.28 million less depreciation during the IR term will be included for rebasing in 2032. If yes, please provided the net capital expenditure to be included in 2032.
c) Please detail anticipated OM&A costs above the rates set in the application.
d) Please detail OM&A efficiencies during the term of the application.

RESPONSE

a) NextBridge's capital expenditures planning process ultimately forms part of its overall asset management process, which is aimed at identifying and scoping the optimal timing of capital investments and asset maintenance throughout the life cycle of assets. NextBridge has used the extensive experience of affiliates of NEET to determine when it would be necessary and customary to incur a capital investment in the life cycle of the East-West Tie line.

b) Capital expenditures, net of accumulated depreciation, incurred over the IR term would be added to rate base at the expected rebasing in 2032. The expected gross book value from 2023 to 2031 is $4.05 million. $4.28 million in the applications capital expenditure table includes test year spend in 2022, which is included in the test year and part of the test year closing rate base.

The expected net book value in 2031 is shown below, based upon estimated depreciation expense. The capital expenditures that cost $4.05 million will be included in rate base at a discount of $0.28 million for a total of $3.77 million. (Note: totals may not foot due to rounding)

| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|---|---|---|---|---|---|---|---|---|---|
| Gross Book Value | 0.59 | 1.33 | 1.97 | 2.25 | 2.45 | 2.85 | 3.65 | 3.95 | 4.05 |
| Accumulated Depreciation | 0.01 | 0.02 | 0.05 | 0.07 | 0.10 | 0.14 | 0.18 | 0.23 | 0.28 |
| Net Book Value | 0.58 | 1.30 | 1.92 | 2.17 | 2.34 | 2.71 | 3.47 | 3.72 | 3.77 |

c) There are no additional known OM&A costs above the test year OM&A used to set rates in the Application.

d) NextBridge expects that OM&A costs will increase over the IR term of 9 years and 9 months, and will work to control the increases without seeking recovery of the increased OM&A. For example, OM&A costs will likely increase due to the annual inflation mechanism included in the Federal Section 28.2 permits. Therefore, any OM&A efficiencies achieved during the IR term will not reduce OM&A costs below the test year OM&A costs.

# 6. Rate-Setting Options

The OEB's approach to rate regulation has evolved over time to create better incentives to drive utilities to improve their efficiency in a way that benefits both customers and shareholders. Performance-based regulation under the RRF is the framework for rate-setting. This is consistent with broader trends amongst regulators around the world to shift rate regulation from a process of simply recovering costs to one of driving improved utility performance through incentives.

The OEB has developed a set of rate-setting options[15] to ensure that utilities have sufficient flexibility to adopt a method that best meets their needs. Each of the methods also includes incentives and benefits for customers related to continuous improvement and productivity.

### Electricity Distributors

To support the move to an outcomes based approach, the OEB recognized the need to provide flexibility in rate setting options to give utilities the necessary tools to develop business plans that meet their needs. The RRFE established three incentive rate-setting (IR) methodologies for electricity distributors: Price Cap IR (previously known as 4th Generation IR), Custom IR, and the Annual IR Index.

- Price Cap IR: Under this methodology, base rates are set through a cost of service process for the first year and the rates for the following four years are adjusted using a formula specific to each year. For electricity distributors, the formula includes an industry-specific inflation factor and two factors for productivity. One productivity factor is a fixed amount for industry-wide productivity and the other is a stretch factor, which is set each year based on the level of productivity the electricity distributor has achieved.

[15] There are rate setting options under the RRF that take into consideration actual or forecast costs, including both cost of service and custom incentive rate-setting; also called rebasing applications. Other rate-setting options, such as revenue cap and price cap incentive rate-setting, decouple the rates from costs.

- Custom IR: Under this methodology, rates are set for five years considering a five-year forecast of the utility's costs and sales volumes. This method is intended to be customized to fit the specific utility's circumstances, but expected productivity gains will be explicitly included in the rate adjustment mechanism. Utilities adopting this approach will need to demonstrate a high level of competence related to planning and operations. Additional guidance on Custom IR applications is set out below.

- Annual IR Index: Under this methodology, rates are subject to the same annual adjustment formula as those under Price Cap IR. Utilities under the Annual IR Index are not required to periodically set base rates using a cost of service process, but they are required to apply the highest stretch factor. This approach is the most mechanistic of all rate applications. These utilities are required to provide five-year distribution system plans as a reporting requirement every five years, and like all other distributors will continue to report their performance using the OEB's Performance Scorecard. This will allow the OEB to determine whether the planning process and level of investment is adequate and whether service levels remain appropriate.

Electricity distributors may choose from any of these three methodologies. There are no eligibility requirements for any of these methods, but the rate application must meet the requirements of the rate-setting option. Those requirements are set out in the OEB's RRFE Report, in the filing requirements and in this Handbook.

### Electricity Transmitters

Electricity transmitters may choose either Custom IR or a Revenue Cap IR. The Revenue Cap IR methodology is similar to the Price Cap IR option discussed previously for distributors. Individual rates are not set for each transmitter. The revenue requirement for each transmitter is approved by the OEB and this is used to set uniform transmission rates that apply throughout the province. Therefore, instead of a Price Cap IR option, a transmitter can propose an incentive mechanism for adjusting its revenue requirement in a similar manner.[16]

[16] As set out in Chapter 2 of the *Filing Requirements for Electricity Transmitter Applications*, electricity transmitters will be permitted a final cost of service proceeding as a transition mechanism, and that proceeding will incorporate certain elements and principles of the RRF (including customer engagement, benchmarking, and a transmission system plan).

### Natural Gas Utilities

Natural gas utilities may choose either Custom IR or Price Cap IR. Under either approach, the term must be a minimum of 5 years. For Price Cap IR it would include a cost of service year and at least four years using an incentive adjustment mechanism.

### Ontario Power Generation

The OEB established expectations that payments for OPG will be based on Price Cap IR for the hydroelectric business and Custom IR, based on the RRFE principles, for the nuclear business. The OEB may set out its expectations for future applications in its next decision and order for OPG.

### Specific Considerations for Custom Incentive Rate setting

The OEB has now received and decided a number of Custom IR applications and is in a position to provide further guidance on the minimum standards for Custom IR applications to ensure that the performance-focused and outcomes-based approach is achieved as intended. A Custom IR application is by its very nature custom, and therefore no specific filing requirements have been established. However, any utility filing a Custom IR application should be informed by the cost of service filing requirements and this Handbook. The sections that follow set out the OEB's minimum standards for certain key elements of Custom IR applications.

There is no threshold test or eligibility requirement for a Custom IR application. The test for the adequacy of the application is the extent to which its features contribute to the achievement of the OEB's RRF goals and whether it meets the following standards:

- Term: A Custom IR must have a minimum term of five years. The OEB has determined that this term supports a longer term approach to planning to smooth expenditures and pace rate increases, strengthens efficiency incentives and supports innovation. Longer terms can be proposed with appropriate mechanisms for consumer protection as discussed below.

- Index for the Annual Rate Adjustment: The annual rate adjustment must be based on a custom index supported by empirical evidence (using third party and/or internal resources) that can be tested. Custom IR is not a multi-year cost of service; explicit financial incentives for continuous improvement and cost control targets must be included in the application. These incentive elements, including a productivity factor, must be incorporated through a custom index or an explicit revenue reduction over the term of the plan (not built into the cost forecast).

The index must be informed by an analysis of the trade-offs between capital and operating costs, which may be presented through a five-year forecast of operating and capital costs and volumes. If a five-year forecast is provided, it is to be used to inform the derivation of the custom index, not solely to set rates on the basis of multi-year cost of service. An application containing a proposed custom index which lacks the required supporting empirical information may be considered to be incomplete and not processed until that information is provided.

It is insufficient to simply adopt the stretch factor that the OEB has established for electricity distribution IRM applications. Given a utility's ability to customize the approach to rate-setting to meet its specific circumstances, the OEB would generally expect the custom index to be higher, and certainly no lower, than the OEB-approved X factor for Price Cap IR (productivity and stretch factors) that is used for electricity distributors.

- Benchmarking: Benchmarking is a fundamental requirement of a Custom IR application, both internal benchmarking to demonstrate continuous improvement and external benchmarking as identified in Section 5. A Custom IR application without benchmarking will be considered incomplete.

- Performance Metrics: The OEB has established a scorecard for electricity distributors, however, additional performance metrics should also be proposed so that expected outcomes can be monitored. All other utilities must propose a comprehensive scorecard that is informed by the scorecard for electricity distributors, but specifically includes other performance metrics aligned to the outcomes identified in the application. This is required for both Custom IR and cost of service rate applications.

- Updates: After the rates are set as part of the Custom IR application, the OEB expects there to be no further rate applications for annual updates within the five-year term, unless there are exceptional circumstances, with the exception of the clearance of established deferral and variance accounts. For example, the OEB does not expect to address annual rate applications for updates for cost of capital, working capital allowance or sales volumes. In addition, the establishment of new deferral or variance accounts should be minimized as part of the Custom IR application.

  The adjudication of an application under the Custom IR method requires the expenditure of significant resources by both the OEB and the utility. The OEB therefore expects that a utility that applies under Custom IR will be committed to

that method for the duration of the approved term and will not seek early termination or in-term updates except under exceptional circumstances and with compelling rationale.

A Custom IR application can include a five year forecast of all costs with proposed rates for each year that consider both these costs and the proposed productivity improvements reflected in the custom index. A utility that cannot forecast its needs within the five year term, or does not believe it can operate with this level of uncertainty, should consider whether the Custom IR option is appropriate for its circumstances.

The ICM and ACM mechanisms for funding capital for electricity distributors, or any similar mechanism approved for transmitters, natural gas distributors or OPG, are not available for utilities setting rates under Custom IR.

An acceptable adjustment during a Custom IR term is a Z factor mechanism for cost recovery of unforeseen events. The OEB has a policy for Z factors for electricity distributors and transmitters that applies for any rate-setting option chosen by a utility. The OEB has established a materiality threshold for electricity distributors for eligibility to claim for a Z factor event. Electricity transmitters are expected to propose a materiality threshold in their applications. The OEB has approved Z factor mechanisms for natural gas distributors in previous proceedings, and they may propose mechanisms in their future rate applications.

Given the custom nature of a Custom IR application, utilities may propose alternative mechanisms for unforeseen events to coordinate better with other aspects of their custom proposals. In doing so they should consider the OEB's expectations for protecting customers from excess earnings, as discussed in the next section.

- Protecting Customers: A key objective of incentive regulation is to drive productivity improvements within the utilities. The OEB has determined that with the Custom IR rate setting option, customers will benefit from the expected productivity improvements during the term through the custom index.

  Utilities that achieve productivity improvements above what is expected are allowed to keep certain earnings above the approved ROE. However, the OEB expects utilities filing a Custom IR application to propose one or more mechanisms to protect customers from utility earnings that become excessive. Proposals would typically include mechanisms such as off ramps (discussed

below) and earnings sharing but could include other approaches specific to a utility's circumstances.

For electricity distributors, the OEB has established an off-ramp that involves a threshold above the distributor's approved return on equity at which a regulatory review may be triggered.[17] An electricity distributor can propose an alternative threshold that provides greater protection for customers. Other utilities may propose an off-ramp that takes into consideration the OEB's objective of protecting customers from excess earnings.

The OEB does not require a Custom IR to include an earnings sharing mechanism, except in the context of deferred rebasing periods as part of electricity distributor consolidation[18]. While an earnings sharing mechanism protects customers from excess earnings, it can diminish the incentives for a utility to improve their productivity, and any benefits to customers are deferred. The requirement for a custom index ensures that benefits are shared immediately with customers through productivity commitments.

If a utility proposes an earnings sharing mechanism as its mechanism to protect customers against excess earnings, it should be based on overall earnings at the end of the term, not an assessment of earnings in each year of the term, consistent with the approach to limiting mid-term updates.

If a Custom IR application does not meet all of these requirements, the OEB may impose a reduced term, reject the application or determine that an application is incomplete and will not be processed until the requirements are met.

[17] This policy was reaffirmed in the RRFE Report.

[18] *Report of the Board: Rate-Making Associated with Distributor Consolidation*, March 26, 2015

# SEC INTERROGATORY #7

## INTERROGATORY

Question:
[Ex. A-3-1] SEC seeks to understand the implications of the Applicant's Revenue Cap Index proposal. Using an assumed 2% inflation factor, please provide a table that shows for each year of the 2022-2031 rate plan term:

a. The amount of revenue expected to be collected based on the Applicant's Revenue Cap Index proposal.
b. The amount of revenue expected to be collected if the Applicant was using a cost of service methodology. For the purposes of this calculation, assume OM&A increases annually at the assumed rate of inflation.

In your response, please detail all assumptions and provide the underlying calculations (including any live spreadsheets used for the purposes of responding to this interrogatory).

## RESPONSE

a) Please see Exhibit E, Tab 1, Schedule 1 Page 2 of the Application for the revenue requirement by year for the IR term.

b) NextBridge is unable to forecast the future OEB cost of capital parameters needed to answer this question.

| | SEC Analysis (Cost of Service vs. NB RCI Proposal) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **2031** | **TOTAL** |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| **Capital Related RR** | | | | | | | | | | | |
| Rate Base ($M) | 770.4 | 763.9 | 755.3 | 746.7 | 737.9 | 728.8 | 719.8 | 711.1 | 702.4 | 693.3 | |
| | | | | | | | | | | | |
| Cost of LT Debt ($M) (1) | 13.85 | 13.73 | 13.58 | 13.42 | 13.26 | 13.10 | 12.94 | 12.78 | 12.63 | 12.46 | |
| Cost of ST Debt ($M) (1) | 0.85 | 0.84 | 0.83 | 0.82 | 0.81 | 0.80 | 0.79 | 0.78 | 0.77 | 0.76 | |
| Return on Equity ($M) (1) | 26.26 | 26.03 | 25.74 | 25.45 | 25.15 | 24.84 | 24.53 | 24.24 | 23.94 | 23.63 | |
| | | | | | | | | | | | |
| *Total Cost of Capital* ($M) | 41.0 | 40.6 | 40.1 | 39.7 | 39.2 | 38.7 | 38.3 | 37.8 | 37.3 | 36.9 | |
| | | | | | | | | | | | |
| Depreciation ($M) | 9.3 | 9.3 | 9.3 | 9.3 | 9.3 | 9.3 | 9.3 | 9.3 | 9.3 | 9.3 | |
| Income Taxes ($M) | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | |
| | | | | | | | | | | | |
| **Total Capital RR ($M)** | 50.8 | 50.4 | 50.0 | 49.5 | 49.0 | 48.6 | 48.1 | 47.6 | 47.2 | 46.7 | |
| | | | | | | | | | | | |
| **OM&A** | | | | | | | | | | | |
| OM&A ($M) (2) | 4.9 | 5.0 | 5.1 | 5.2 | 5.3 | 5.5 | 5.6 | 5.7 | 5.8 | 5.9 | |
| | | | | | | | | | | | |
| ***Total Annualized RR ($M)*** | 55.7 | 55.5 | 55.1 | 54.8 | 54.4 | 54.0 | 53.7 | 53.3 | 53.0 | 52.6 | **542.0** |
| | | | | | | | | | | | |
| ***April 1, 2022 Effective Date RR ($M) (3)*** | 41.8 | 55.5 | 55.1 | 54.8 | 54.4 | 54.0 | 53.7 | 53.3 | 53.0 | 52.6 | **528.1** |
| | | | | | | | | | | | |
| ***NB Proposal Annualized RR ($M)*** | 55.7 | 56.8 | 58.0 | 59.1 | 60.3 | 61.5 | 62.8 | 64.0 | 65.3 | 66.6 | **610.1** |
| | | | | | | | | | | | |
| ***NB Proposal April 1, 2022 Effective Date ($M) (3*** | 41.8 | 56.8 | 58.0 | 59.1 | 60.3 | 61.5 | 62.8 | 64.0 | 65.3 | 66.6 | **596.2** |
| | | | | | | | | | | | |
| (1) Cost of capital parameters fixed for term. Numbers from application. | | | | | | | | | | | |
| (2) Assumed annual OM&A increase of 2% to match NB inflation number | | | | | | | | | | | |
| (3) Assumed April 1, 2022 effective date as proposed by NB, 2022 RR included at 9/12th of year | | | | | | | | | | | v.2 |

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | Notes |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| **Rate Base** | | | | | | | | | | | |
| ***Base 2022 Rate Base*** | | | | | | | | | | | |
| Opening Gross Book Value | 774.94 | 775.17 | 775.17 | 775.17 | 775.17 | 775.17 | 775.17 | 775.17 | 775.17 | 775.17 | 2022 data from Appendix 2-BA (C-4-1, Attach 3, p.2) |
| Additions Gross Book Value | 0.23 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | |
| Closing Gross Book Value | 775.17 | 775.17 | 775.17 | 775.17 | 775.17 | 775.17 | 775.17 | 775.17 | 775.17 | 775.17 | |
| Opening Acc Dep | 0.00 | 6.95 | 16.21 | 25.47 | 34.73 | 43.99 | 53.25 | 62.51 | 71.77 | 81.03 | Adjusted 2023 for prorated year of service in 2022 (NB Correction) |
| Additions to Acc Dep | 9.26 | 9.26 | 9.26 | 9.26 | 9.26 | 9.26 | 9.26 | 9.26 | 9.26 | 9.26 | |
| Closing Acc Dep | 9.26 | 16.21 | 25.47 | 34.73 | 43.99 | 53.25 | 62.51 | 71.77 | 81.03 | 90.29 | |
| Avg NBV | 770.43 | 763.60 | 754.34 | 745.08 | 735.82 | 726.56 | 717.30 | 708.04 | 698.78 | 689.52 | |
| ***Additional TSP Expenditures*** | | | | | | | | | | | |
| Closing Gross Book Value | 0 | 0.59 | 1.33 | 1.97 | 2.25 | 2.45 | 2.86 | 3.65 | 3.95 | 4.05 | 2023-2031 data from IR Staff.34(b) |
| Closing Acc Dep | 0 | 0.01 | 0.02 | 0.05 | 0.07 | 0.1 | 0.14 | 0.18 | 0.23 | 0.28 | |
| Closing NBV | 0 | 0.58 | 1.31 | 1.92 | 2.18 | 2.35 | 2.72 | 3.47 | 3.72 | 3.77 | |
| Avg NBV | 0 | 0.29 | 0.95 | 1.62 | 2.05 | 2.27 | 2.54 | 3.10 | 3.60 | 3.75 | |
| Total Avg NBV | 770.43 | 763.89 | 755.28 | 746.69 | 737.87 | 728.82 | 719.83 | 711.13 | 702.37 | 693.26 | Row 12+18 |
| ***Cost of Capital*** | | | | | | | | | | | |
| LTD (1) | 13.85 | 13.73 | 13.58 | 13.42 | 13.26 | 13.10 | 12.94 | 12.78 | 12.63 | 12.46 | Cost of capital paramaters G1-1-1, p.3 |
| STD (1) | 0.85 | 0.84 | 0.83 | 0.82 | 0.81 | 0.80 | 0.79 | 0.78 | 0.77 | 0.76 | |
| ROE (1) | 26.26 | 26.03 | 25.74 | 25.45 | 25.15 | 24.84 | 24.53 | 24.24 | 23.94 | 23.63 | |
| Total Cost of Capial | 40.95 | 40.61 | 40.15 | 39.69 | 39.22 | 38.74 | 38.26 | 37.80 | 37.34 | 36.85 | Row 23+24+25 |
| **OM&A & Depreciation** | | | | | | | | | | | |
| ***Depreciation*** | 9.26 | 9.27 | 9.27 | 9.29 | 9.28 | 9.29 | 9.30 | 9.30 | 9.31 | 9.31 | F-11-1, p.2 + Difference in y/y Acc Dep (Row 16) |
| ***OM&A (2)*** | 4.94 | 5.04 | 5.14 | 5.24 | 5.35 | 5.45 | 5.56 | 5.67 | 5.79 | 5.90 | F-4-1, p.2 (2022) |
| **Income Taxes** | | | | | | | | | | | |
| Reg Net Income/Return of Equity | 26.26 | 26.03 | 25.74 | 25.45 | 25.15 | 24.84 | 24.53 | 24.24 | 23.94 | 23.63 | |
| Add back depreciation | 9.26 | 9.27 | 9.27 | 9.29 | 9.28 | 9.29 | 9.30 | 9.30 | 9.31 | 9.31 | |
| CCA | -30.5 | -30.5 | -30.5 | -30.5 | -30.5 | -30.5 | -30.5 | -30.5 | -30.5 | -30.5 | CCA for 2022 base assets only. Have not included CCA for 2023-2031 additions which are not known. |
| CCA (AII) | -60.9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| *Taxable Income* | -55.9 | 4.8 | 4.5 | 4.2 | 3.9 | 3.6 | 3.3 | 3.0 | 2.7 | 2.4 | |
| Loss Carryforward | 0 | -55.9 | -51.1 | -46.6 | -42.3 | -38.4 | -34.8 | -31.4 | -28.4 | -25.7 | |
| *Revised Taxable Income* | -55.9 | -51.1 | -46.6 | -42.3 | -38.4 | -34.8 | -31.4 | -28.4 | -25.7 | -23.2 | |
| Tax Rate | 26.5% | 26.5% | 26.5% | 26.5% | 26.5% | 26.5% | 26.5% | 26.5% | 26.5% | 26.5% | |
| Tax/PILs | -14.81 | -13.54 | -12.34 | -11.22 | -10.18 | -9.22 | -8.33 | -7.53 | -6.80 | -6.16 | |
| *Grossed Up Income Taxes* | -20.15 | -18.42 | -16.79 | -15.26 | -13.85 | -12.54 | -11.34 | -10.24 | -9.25 | -8.37 | |
| Accounting Income | 21.03 | 20.85 | 20.62 | 20.38 | 20.14 | 19.90 | 19.65 | 19.41 | 19.17 | 18.92 | Row 35 * (1-0.199) |
| OCMT Rate | 2.70% | 2.70% | 2.70% | 2.70% | 2.70% | 2.70% | 2.70% | 2.70% | 2.70% | 2.70% | |
| *OCMT* | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | Row 47 * 2.7% |
| ***Total Income Taxes Payable*** | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | OCMT applied if no taxable income |
| **Total Annualized RR** | **55.72** | **55.48** | **55.11** | **54.77** | **54.39** | **54.02** | **53.66** | **53.30** | **52.95** | **52.58** | Row 27+30+30+32+51 |

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2022-2026 (3) | 2027-2031 | 2022-2031 (3) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Forecast RR** | 55.72 | 55.48 | 55.11 | 54.77 | 54.39 | 54.02 | 53.66 | 53.30 | 52.95 | 52.58 | 261.55 | 266.51 | 528.05 |
| **Nextbridge Proposal (4)** | 55.72 | 56.83 | 57.97 | 59.13 | 60.31 | 61.52 | 62.75 | 64.01 | 65.29 | 66.59 | 276.04 | 320.15 | 596.19 |
| **Forecast ROE** | 8.52% | 8.52% | 8.52% | 8.52% | 8.52% | 8.52% | 8.52% | 8.52% | 8.52% | 8.52% | 8.52% | 8.52% | 8.52% |
| **Nextbridge Proposal ROE** | 8.52% | 8.96% | 9.47% | 9.98% | 10.53% | 11.09% | 11.68% | 12.28% | 12.91% | 13.57% | 9.49% | 12.31% | 10.90% |

(1) Cost of capital parameters fixed for term. Numbers from application.

(2) Assumed annual OM&A increase of 2% to match NB inflation number.

(3) Assumed April 1, 2022 effective date as proposed by NB, 2022 RR included at 9/12th of year

(4) Exhibit E1-1-1, p.2

STAFF INTERROGATORY #4

INTERROGATORY

**Reference:** (1) Exhibit A / Tab 3 / Schedule 1 / pp. 5-7

**Preamble:**
At the above reference, NextBridge provides an overview of its proposed RCI mechanism.

NextBridge's proposal for the revenue cap would apply the I – 0% adjustment to the whole revenue cap, even though it is only actually OM&A expenses, mostly incurred per the service agreement, which are subject to inflation during the period. Further, with limited capital expenditures, the rate base decreases each year, and the capital-related revenue requirement would also decrease. The actual increase on the capital-related revenue requirement, relative to what it would be under cost of service, is greater than inflation.

**Question(s):**

a) Please provide NextBridge's views on why its revenue cap proposal is reasonable considering its circumstances of limited projected capital expenditure during the nine-year nine-month period and given that OM&A is a smaller proportion of its overall revenue requirement.
b) Please explain whether, given a declining rate base, limited capital expenditures, and operating expenses being a small percentage of the total revenue requirement, a rate freeze (or declining revenue requirement) for the plan period of 2022-2031 would be sufficient to allow NextBridge to recover its allowed costs, including having an opportunity to earn its allowed return on capital, and to recover costs from Hydro One and SuperCom and NEET for operating services under the service agreements.

RESPONSE

a) The revenue cap proposal is reasonable for NextBridge, because it is consistent with the OEB revenue cap proposal framework. Under the framework, the utility manages its costs within the approved funding envelope. NextBridge expects to still face cost pressures as detailed in part (b) below that could overcome the benefit of a declining rate base. Additionally, NextBridge expects that locking in the ROE for the extended IR term of nine years and nine months to provide large amounts of customer savings as described in Staff #70. Historical analysis shows that savings could be $80 million over the IR term.
b) No, freezing the rates revenue requirement will not allow NextBridge to recover its costs and earn its allowed return on capital. NextBridge forecasts that the incremental cost pressures offset the lower capital costs due to a falling rate base over the rate period. Additionally, the HONI SLA and NEET services are not fixed price contracts;

rather, they are a budgeted estimate of services based off the currently understood required maintenance. The HONI SLA is an activity-based contract, as additional maintenance is needed NextBridge will pay additional fees. The HONI SLA also requires renegotiation and renewal after three years (or five years if the two-year extension is exercised), which is during the IR Term and could reset the rates that HONI/Supercom will charge. As mentioned in Exhibit A, Tab 3, Schedule 1, Page 2 of the Application, and reproduced below, NextBridge will face a number of internal and external challenges over the IR Term including:

- Rising income tax expense as NextBridge's capital cost allowance declines;
- Managing NextBridge's right-of-way vegetation maintenance program, taking into consideration the six-year vegetation cycle and expected increase in forestry expenses during certain test years with greater work volumes;
- Potential maintenance and labour cost increases;
- Bird nest removal and bird excrement-associated damages;
- Localized extreme weather event(s) (e.g., icing, lightning and fire related damage) and associated remediation;
- Fixed Consumer Price Index for First Nations Federal Section 28.2 reserve crossing permits may not align with inflation;
- New First Nations Reserve Land that could be added to the land base of the East-West Tie line requiring new Federal agreements and payments;
- Unexpected damage from right-of-way users or wildlife (e.g., vandalism, bears eating plastic guy-wire markers or snowmobilers accidentally damaging a tower or guywire); and
- Potential compliance changes through the North American Electric Reliability Corporation which will flow through the Northeast Power Coordinating Council and IESO.

STAFF INTERROGATORY #59

INTERROGATORY

**Reference:** Exhibit D / Tab 1 / Schedule 1 / p. 1

**Preamble:**
At the above noted reference, NextBridge states the following:

> Given the nature of the East-West Tie line, it does not lend itself to applying the typical performance measures that might be used to evaluate the performance of other transmitters. The East-West Tie line does not include any terminal breakers or other operable assets, as the demarcation point on each of the circuits is a structure outside of the HONI stations, as noted in Exhibit B, Tab 1, Schedule 2. Also, NextBridge does not have any customer delivery points (or meter assets), which are the basis of interruption-based reliability performance measures like SAIDI and SAIFI. In addition to these operating characteristics, the life-cycle portfolio also detracts from meaningful comparisons. The East-West Tie line is new whereas most other transmitters own a portfolio of assets that traverse the various stages of asset life. Therefore, NextBridge's performance measures do not readily provide meaningful comparisons to those of other transmitters.

**Question(s):**

a) Please confirm that NextBridge is proposing the tracking and annual reporting of the following performance measures. If there are any measures not included in the listing below, but that should be added, please provide the necessary update(s) to the listing.
   - 0.00 OHSA Recordable Injuries per Year
   - Return on Equity
   - NERC Vegetation Compliance
   - OM&A Cost per Circuit Kilometer
   - Average System Availability

b) For each performance measure provided in response to (a), please indicate how in future proceedings, NextBridge will be able to demonstrate achievement against each measure target. For example, will a single metric to demonstrate performance against the Average System Availability measure be established? For NERC Vegetation Compliance, will NextBridge only provide a single statement indicating its compliance with FAC-003-004, or will NextBridge detail the vegetation prevention-related actions it has undertaken?

c) Please provide the targets for each performance measure provided in response to (a) for the years 2022 to 2031.

RESPONSE

a) Confirmed.

b) A single value will be used to demonstrate performance against each measure.

OHSA Injuries per Year: Listing of number of injuries each year. Injury defined by OHSA which is further explained in Staff Interrogatory #60.

Return on Equity (ROE): NextBridge will utilize audited financial statements to calculate ROE. ROE is calculated by dividing the Net Income (less extraordinary non-operating items such as startup cost reimbursement) by the Partner's equity. NextBridge has proposed an ROE of 8.52% in the application, based on the 2020 OEB Cost of Capital parameters and would therefore use 8.52% as the target to measure against annually.

NERC Vegetation Compliance: NextBridge will report the number of violations as determined by FAC-003-004.

OM&A Cost per Circuit Kilometer: NextBridge's target is to keep its cost of OM&A per kilometer at the number filed in its Application ($4.94 million (total cost of OM&A in the Application) / 450km = 10,977

Average System Availability: NextBridge will report a single number for this number for this metric which should be greater than the target listed below

c) Targets below:

| YEAR | OHSA Recordable Injuries | ROE | NERC Veg Compliance Violations | OM&A $/km | Ave. System Availability |
|---|---|---|---|---|---|
| 2022 | 0 | 8.52% | 0 | $10,977 | 99% |
| 2023 | 0 | 8.52% | 0 | $10,977 | 99% |
| 2024 | 0 | 8.52% | 0 | $10,977 | 99% |
| 2025 | 0 | 8.52% | 0 | $10,977 | 99% |
| 2026 | 0 | 8.52% | 0 | $10,977 | 99% |
| 2027 | 0 | 8.52% | 0 | $10,977 | 99% |
| 2028 | 0 | 8.52% | 0 | $10,977 | 99% |
| 2029 | 0 | 8.52% | 0 | $10,977 | 99% |
| 2030 | 0 | 8.52% | 0 | $10,977 | 99% |
| 2031 | 0 | 8.52% | 0 | $10,977 | 99% |

STAFF INTERROGATORY #70

INTERROGATORY

**Reference:** (1) Exhibit A / Tab 3 / Schedule 1 / p. 17
(2) OEB's webpage for Cost of Capital Parameters Update
(3) Exhibit G / Tab 2 / Schedule 4

**Preamble:**

NextBridge's application Return on Equity (ROE) of 8.52% is based on the cost of capital parameters released by the OEB on October 31, 2019 for 2020 applications. NextBridge requests that the ROE be fixed at 8.52% for the 10-year IR Term to allow for rate certainty for customers. NextBridge states that fixing an 8.52% ROE for the entire IR Term will eliminate exposing ratepayers to increases in rates due to increasing ROEs prior to the end of the IR Term.

The 2021 Cost of Capital Parameters released by the OEB on November 9, 2020 for rates effective January 1, 2021 is 8.34% for return on equity.

**Question(s):**

a) Could you please quantify the premium that customers are incurring for rate certainty by fixing the ROE?
b) Please update NextBridge's application to reflect the 2021 OEB Cost of Capital Parameters for ROE.
c) Is there any reason, in NextBridge's view, that it would not be appropriate to adjust the proposed fixed ROE to 8.34% based on the updated Cost of Capital parameters? Please explain.
d) How will NextBridge ensure ratepayers are not adversely impacted if the OEB-approved ROE decreases?
e) If the fixed ROE is greater than the annual OEB-approved transmitter ROE levels after the first 5 years of the IR Term, is NextBridge willing to have an off-ramp so that rates can be adjusted?
f) If the fixed ROE is greater than the annual OEB-approved transmitter ROE levels after the first 5 years of the IR Term, is NextBridge willing to track any incremental revenue in a variance account?

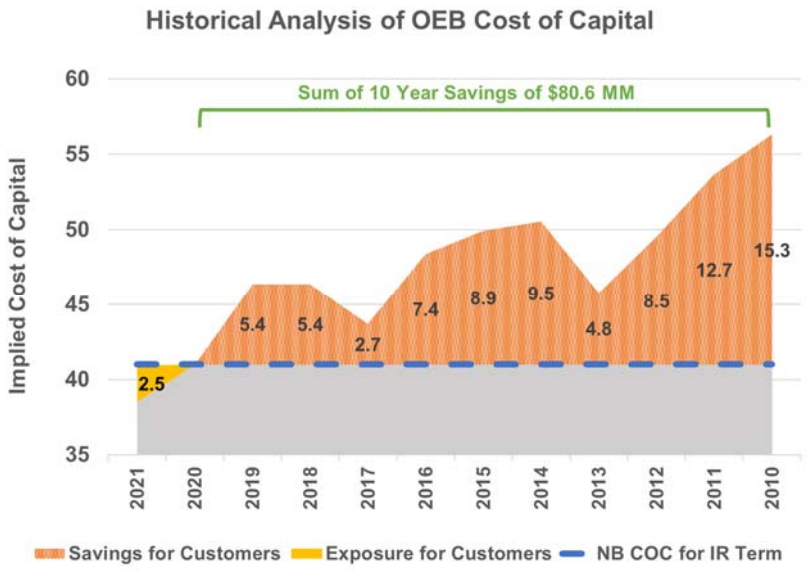
RESPONSE

a) NextBridge disagrees with the inference that customers are expected to pay a premium for a fixed ROE. To the contrary, historical data suggests customers will receive a savings for fixing the ROE for the 9 year and 9 month IR term. NextBridge's application uses an ROE of 8.52% ROE which is lower than the prior 10 years of ROEs determined by the OEB due to interest rates being driven to historical lows.

Customers are more likely to benefit from securing a low ROE for the proposed IR term.

To quantify this savings for customers, the figure below is a historical analysis of the cost of capital impacts for the past 10 years. The analysis uses NextBridge's $770.4 million project cost applied to historical OEB cost of capital parameters. It is then compared to the proposed cost of capital in NextBridge's application of $41.0 million. For example, if the 2010 cost of capital parameters were in effect for a year, customers would pay $56.3 million or $15.3 million more in that year than the NextBridge's fixed cost of capital of $41.0 million.

If the past 10 years of historical cost of capital were repeated in the future, the savings to customers for locking in the current cost of capital for almost 10 years would be $80.6 million. Furthermore, interest rates are at all-time lows, so the probability that rates will increase in the future is far more likely than rates declining. In order to be considered a premium to customers, interest rates would need to stay at historic lows for 10 consecutive years.




For purposes of clarity, the following calculation demonstrates how the analysis was performed using 2010 data. When there were two deemed weighted average cost of capital for a single year, the average was used.

$$NextBridge's\ Cost\ of\ Capital\ for\ IR\ Term = \$770.4\ M * 5.32\% = \$41.0\ M$$
$$2010\ Implied\ Cost\ of\ Capital = \$770.4 * 7.31\% = \$56.3\ M$$
$$Potential\ 1\ Year\ Savings\ for\ Customers = \$56.3\ M - \$41.0\ M = \$15.3\ M$$

SEC INTERROGATORY #3

INTERROGATORY

Question:
[A-3-1, p.6;] The Applicant notes that one of the reasons it is not proposing a productivity factor is that its “only controllable costs are OM&A where productivity is normally realized”. If the Board were to determine that a specific productivity factor should be applied to only the OM&A portion of the test year revenue requirement, what productivity factor would the Applicant believe would be appropriate and on what basis?

RESPONSE
NextBridge would not propose a productivity factor on the OM&A portion of the test year revenue requirement, as most of the OM&A is contractual and essentially fixed – not allowing for productivity gains. This is further described in Exhibit E, Tab 1, Schedule 1, Page 3 of the Application.

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

| Cost Category | 2022 |
|---|---|
| Operations & Maintenance | 1.27 |
| Regulatory | 0.07 |
| Compliance & Administration | 1.67 |
| Indigenous Participation | 0.89 |
| Indigenous Compliance | 0.44 |
| Property Taxes & Rights Payments | 0.60 |
| **Total OM&A** | **4.94** |

More details on the future spending on each of these components are included below.

# SEC INTERROGATORY #6

## INTERROGATORY

Question:
[A-3-1, p.16] The Applicant notes that it will have a Service Level Agreement with its affiliate NextEra Energy Transmission, LLC ("NEET"):

a. Has the Applicant entered into any preliminary agreement, memorandum of understanding, or any other agreements (binding or otherwise) that outlines the relationship between the Applicant and NEET? If so, please provide a copy.
b. When does the Applicant expect to enter into a Service Level Agreement with NEET?
c. Does the Applicant expect to receive any services from any other affiliates? If so, please provide details and what type of agreement will govern those relationships?
d. What will the basis of the pricing be between the Applicant and any of its affiliates, including NEET?
e. Since the Applicant has not entered into an SLA with NEET? How has the Applicant forecasted the costs for services it will receive from them?

## RESPONSE

a) The Applicant has not entered into preliminary agreement, memorandum of understanding, or any other agreements (binding or otherwise) that outlines the relationship between the Applicant and NEET.

b) The Service Level Agreement will be finalized by the end of Q1 2021.

c) While the Applicant will have access to affiliates of NEET if the need arises, the Applicant only expects to receive services from NEET directly.

d) The Applicant will be using the same pricing that it currently uses as part of its partnership agreements for the construction of the East-West Tie line.

e) The costs have been set as part of a competitive procurement and just the commercial terms of the agreement are being finalized. Please see the response to Staff #16 and Staff #29.

STAFF INTERROGATORY #16

INTERROGATORY

**Reference:** (1) Exhibit B / Tab 1 / Schedule 4 / p. 9
(2) Exhibit F / Tab 2 / Schedule 1 / p. 2

**Preamble:**
Reference 1 states that "NextBridge will competitively award certain OM&A aspects of the East-West Tie line for routine operation and maintenance to a partnership between HONI and Supercom to be provided under a the [sic] HONI SLA."

Reference 2 states that "NextBridge has competitively sourced HONI who will conduct the operations and maintenance services on the East-West Tie line pursuant to the HONI SLA […]"

**Question(s):**

a) Please explain what was meant by "will competitively award"?
b) Has a competitive procurement process for routine operations and maintenance been completed?
c) If the answer to part b) is yes, please provide the scope documentation from the procurement.
d) If the answer to part b) is yes, how many bids were received?
e) If the answer to part b) is yes, was the lowest cost option selected? If not, why not?
f) If the answer to part b) is yes, what firm was successful?

RESPONSE

a) A competitive procurement process was undertaken to award a maintenance services agreement to a qualified, cost-competitive service provider, HONI/Supercom, to supply maintenance, operations, and emergency services on the East-West Tie line. As the Application explains, a partnership between HONI and Supercom was selected to provide these services. A finalized contract with HONI/Supercom is expected to be executed by the end of Q1 2021. Also, please see response to Staff #15 d.

b) The competitive procurement process for routine operations and maintenance is complete with the understanding that the contract for services with HONI/Supercom remains to be executed as explained in part a.

c) The scope documentation is provided as an attachment to this response.

d) NextBridge sent the RFP to five entities and ultimately three bids were received.

e) See response to Staff #15 d.

f) The successful bidder was a partnership of HONI and Supercom; however, as explained in part a) above the contract is being finalized and will be executed by the end of Q1 2021.

# STAFF INTERROGATORY #42

## INTERROGATORY

**Reference:** (1) Exhibit B / Tab 1 / Schedule 1 / p. 4

**Preamble:**

NextBridge states:

> Now that construction has started again in mid-May 2020 with the support of the surrounding Indigenous and non-Indigenous communities, NextBridge believes, barring other unforeseen circumstances, that it can achieve the March 31, 2022 in-service date. NextBridge will continue to keep the Board informed of developments in this regard, as it has done previously in the quarterly report submitted October 22, 2020.

**Question(s):**

a) Please identify if there any circumstances, other than those directly associated with COVID-19, that have delayed the in-service date to March 31, 2022. If so, please specify those circumstances and the impact that they have had on the schedule.
b) Please confirm that NextBridge will achieve the March 31, 2022 in-service date.

## RESPONSE

a) To date, there were no other circumstances known to NextBridge, other than those directly associated with COVID-19, that have delayed the March 31, 2022 in-service date. After receiving the necessary initial permits, NextBridge began construction of the East-West Tie line in the fall of 2019. During the winter of 2019/2020, there were additional delays in receiving other government permits that required NextBridge to accelerate construction during the winter of 2019/2020 in order to meet the in-service date. Unfortunately, NextBridge was unable to fully implement the accelerated construction plans and had to halt construction activities all together in April 2020 at the height of winter construction due to the COVID-19 pandemic. NextBridge would have remained on track to make the original in-service date despite these permitting delays if it had been able to continue construction uninterrupted due to COVID-19.

b) Confirmed, based on the information known as of the date of this response.

STAFF INTERROGATORY #22

INTERROGATORY

**Reference:** (1) Exhibit B / Tab 1 / Schedule 4 / p.11
(2) Exhibit B / Tab 1 / Schedule 4 / p. 12 / Table 4

**Preamble:**
Reference 1 states that "In Northwestern Ontario, vegetation maintenance is performed on clearing cycles of six years."

The description of line clearing in Table 4 states that "NextBridge believes this to be a sound practice to perform all vegetation maintenance on an as needed basis, rather than on a prescriptive cycle."

**Question(s):**

a) Please state the total number of square kilometres that must be cleared and maintained as part of the right of way for the project.
b) What is the source of the statement that "in Northwestern Ontario, vegetation maintenance is performed on clearing cycles of six years"?
c) Will NextBridge be using a six-year cycle for vegetation maintenance? If yes, please provide a more detailed explanation of the six-year cycle, including what work is carried out in each of the six years. If no, what alternative cycle or plan will NextBridge be using and why is it more appropriate?
d) If the answer to c) is yes, what year will be the first year of the six-year cycle?
e) If the answer to c) is yes, how does the six-year cycle correspond to the annual line clearing, brush control, condition patrol, and vegetation control activities described in Reference 2, Table 4?
f) What year will annual vegetation management activities, such as those described in Reference 2, Table 4, be initiated?
g) What year(s) was the ROW cleared prior to construction?

RESPONSE

a) The total number of square kilometres that must be cleared and maintained as part of the right of way for the East-West Tie line is approximately 26.50 square kilometers.

b) NextBridge's source is Bruce to Milton's expectation for a six-year cycle for vegetation management which is common in transmission line vegetation maintenance. A reference to this six-year cycle can be found in the Bruce to Milton interrogatories, VECC Interrogatory #5 (EB-2019-0178, Exhibit I, Tab 2, Schedule 5, Page 1), quoted below:

> "Managing B2M LP's Right-of-Way vegetation maintenance program, taking into consideration the six-year vegetation cycle and the expected increase in forestry expenses during certain test years with greater work volumes, similar to the historical trend."

c) No, NextBridge will be using annual inspections to determine remediation requirements on an as-needed basis on the right of way versus a prescriptive 6-year cycle. As areas are identified which require vegetation management, remediation activities will be strategically planned to ensure cost-effectiveness when determining the applicable remediation approach. Remediation activities will be triggered by review of aerial inspection data, physical site visits, and stakeholder reporting. These activities can vary from line clearing through trimming and removal of required trees along the edge of the right of way in order to maintain standing and falling clearances to the energized conductor and equipment, to manual and mechanical brush control to manage vegetation growth and ensure adequate standing clearance to overhead conductors. This approach will ensure an accessible right of way corridor for maintenance and restoration activities without incurring additional costs associated with prescriptive cycle approach as it ensures only required works are undertaken, versus works on a larger, pre-determined area where many areas may not require them.

d) The answer to part c. was no, therefore d is not applicable.

e) The answer to part c. was no, therefore e is not applicable.

f) NextBridge will begin annual vegetation management activities in 2022.

g) The right of way is cleared prior to construction at different intervals. Since the clearing work is seasonal, some of the 450 kilometer line was cleared in the winter of 2019/2020 when the ground was frozen, and some will be cleared in the winter of

2020/2021. For more detail on when clearing commenced in each work front please see the following table.

| Work Front | Clearing Commenced | Clearing Completed |
|---|---|---|
| 1 | September 2019 | November 2020 |
| 2 | January 2020 | September 2020 |
| 3 | March 2020 | November 2020 |
| 4 | September 2020 | November 2020 |
| 5 | March 2020 | December 2020 |
| 6 | January 2020 | Scheduled for Completion in February 2021 |
| 7 | January 2020 | Scheduled for Completion in January 2021 |
| 8 | January 2020 | Scheduled for Completion in January 2021 |
| 9 | February 2020 | December 2020 |
| 10 | October 2020 | Scheduled for Completion in March 2021 |
| 11 | September 2020 | Scheduled for Completion in March 2021 |

Concerns with reliability and quality of electricity service as a result of delays in the in-service date were also raised by Anwaatin in its submission. Specifically, Anwaatin highlighted a number of poor reliability impacts on Indigenous communities:

- Loss of refrigerated foods
- Loss of significant quantities of frozen meat, fish, and game birds, representing months of protected hunting and harvested food upon which [First Nations and Métis] families depend for their livelihoods
- Lost hunting and harvesting as a result of the necessity of dealing with reliability impacts such as outages, and the need to find ways to replace lost meat, fish, and game birds with new protein sources through additional hunting and harvesting
- Loss of significant quantities of frozen blueberries used for sustenance as well as for cash sales to supplement family incomes
- Loss of refrigerated insulin needed for diabetes treatment for many Indigenous people

NextBridge has argued that the NextBridge-EWT Project meets the criterion of reliability as it has targeted to achieve an in-service date of December 2020[101] and therefore avoids the reliability risks identified by the IESO.[102]

Hydro One's proposed in-service date is the end of 2021.[103] Hydro One submitted that the delay to the in-service for Wawa TS, Marathon TS and Lakehead TS is due to the MECP requiring a Class EA for Wawa TS and the inability to issue permits and approvals until after to stations' EAs are complete. As a result, the earliest in-service date for station work is October 2021, making the earliest in-service date for the transmission line October 2021.[104]

The EA approvals, with the exception of the segment of the Hydro One-LSL Project passing through Pukaskwa National Park, fall within the authority of the MECP under the Ontario *Environmental Assessment Act*. The MECP provided evidence on the environmental requirements, timing and inter-dependencies of approvals for the NextBridge-EWT Project EA, the Hydro One-LSL Project EA and the Hydro One-Station Upgrades Project EA. A decision on the NextBridge-EWT Project EA is expected by

[101] NextBridge stated that meeting the December 2020 in-service date would be contingent upon NextBridge being granted leave to construct by the end of 2018.
[102] EB-2017-0182/EB-2017-0194/EB-2017-0364, NextBridge Reply Submission, November 9, 2018, p. 3.
[103] EB-2017-0182/EB-2017-0194/EB-2017-0364, Hydro One Reply Submission, November 9, 2018, p. 22.
[104] EB-2017-0182/EB-2017-0194/EB-2017-0364, Hydro One Reply Submission, November 9, 2018, p. 19.

February or March 2019. Hydro One expects that the Hydro One-LSL Project Provincial Individual EA[105] will be approved by December 2019.[106]

The EA approvals and related permits for Wawa TS and Marathon TS have been identified as critical paths in the schedule for in-service dates of the proposed lines.[107] Due to the new timelines for EA approvals for Wawa TS and Marathon TS as described in Section 2.3 of Chapter E, and given that the new transmission line between Wawa and Thunder Bay cannot be used and useful without the associated stations being upgraded and in service, the in-service dates for both the NextBridge-EWT Project and the Hydro One-LSL Project are linked to the completion of the station work. Further, due to delays in the in-service dates, there may be associated implications with respect to reliability and quality of electricity service.

Several parities identified the associated impact on reliability and quality of electricity service with an in-service date beyond 2020. Parties also indicated that the in-service date for the transmission line may be determined by the in-service date of the stations upgrade, which would affect both applications equally.

OEB staff submitted that the expected EA approval date for the stations upgrades makes a 2020 in-service date no longer realistic.

In its submission, CCC highlighted that the 2021 in-service date may not be achievable for Hydro One due to the outstanding Indigenous consultation required to be completed and its reliance on NextBridge's EA. Further, CCC questioned whether the possibility that the Hydro One-LSL Project will not be in service in time to meet the IESO deadline of 2022 is a risk that the OEB should consider on behalf of ratepayers when contemplating approving the Hydro One-LSL Application.

VECC submitted that NextBridge remains the applicant most likely to complete the new transmission line between Wawa and Thunder Bay in a timely manner, or in the least amount of time.

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[105] In addition to the Provincial Individual EA approval, the Hydro One-LSL Project is also subject to Parks Canada EA requirements and a Federal Detailed Impact Assessment for the route segment through Pukaskwa National Park.
[106] Further discussion of the timelines for EA approval of the NextBridge-EWT Project and the Hydro One-LSL Project can be found in Section 5.4 Potential Additional Costs and In-Service Delays Associated with the EA Approvals.
[107] Lakehead TS upgrade does not require an EA approval. Further discussion of the timelines for EA approval of Wawa TS upgrade and Marathon TS upgrade can be found in Chapter E.

## 4.2 Potential Reliability Implications of Line Design and Operation

As described above, the IESO completed SIAs for both the NextBridge-EWT Application and the Hydro One-LSL Application. After conducting the assessments for each application, the IESO determined that "neither the [NextBridge-EWT Application] nor the [Hydro One-LSL Application] have a material adverse impact on the reliability of the integrated power system provided they comply with the requirements set out in their SIAs".[108] OEB staff submitted that it did not take issue with the IESO's SIA reports for both the NextBridge-EWT Application and the Hydro One-LSL Application.

Throughout the evidence, both NextBridge and Hydro One attested to the design of their proposed transmission lines. NextBridge stated that the "engineering design has been completed to a level of greater than 90%"[109] and that NextBridge's proposed design meets all of the OEB's minimum technical requirements.[110] The design is "based on a family of ten towers that are fully designed, independently verified, load tested and ready for fabrication".[111] Hydro One states that its proposed transmission line is "a reliable and technically sound one, complying with all applicable regulatory standards".[112]

Parties raised the issue of whether the NextBridge-EWT Project overall was inherently more reliable than the Hydro One-LSL Project. NextBridge's design includes two separate lines, as opposed to Hydro One's design, which has four circuits on one tower through Pukaskwa National Park. Reliability was a concern if Hydro One's single line were to fail due to weather-related events. NextBridge also questioned Hydro One's technical design and ability to meet the minimum standards for galloping.[113]

In addition to the design of the proposed transmission lines, several parties submitted that while it was clear that Hydro One could maintain the transmission line given its established operations in the province, NextBridge would rely on two full-time

[108] EB-2017-0182/EB-2017-0194/EB-2017-0364, IESO Submission, October 31, 2018, p. 5.
[109] EB-2017-0182/EB-2017-0194/EB-2017-0364, NextBridge Argument-in-Chief, October 22, 2018, p. 2, para. 4.
[110] *OEB Minimum Technical Requirements for the Reference Option of the E-W Tie Line*, dated November 9, 2011.
[111] EB-2017-0182/EB-2017-0194/EB-2017-0364, NextBridge Argument-in-Chief, October 22, 2018, p. 3.
[112] EB-2017-0182/EB-2017-0194/EB-2017-0364, Hydro One Argument-in-Chief, October 22, 2018, p. 18.
[113] Galloping is the high-amplitude, low-frequency oscillation of overhead power lines due to wind and/or freezing rain.

employees and contracting services to maintain its line which may be less than optimal from a reliability perspective.

The OEB's findings are in Section 7 of this Chapter.

# 5 INTERESTS OF CONSUMERS WITH RESPECT TO PRICES – TRANSMISSION LINE APPLICATIONS

In adjudicating Section 92 applications, the OEB examines costs in order to consider the interests of consumers with respect to prices. Generally, OEB approved construction costs are recovered through rates charged to customers – the prices charged to customers.

## 5.1 Construction Costs for the Line

### 5.1.1 NextBridge's Construction Costs

NextBridge indicated that its forecast construction costs are $737 M plus or minus 10% (i.e. $810.7 M at the upper end and $663.3 M at the lower end of the cost range). The $737 M does not include NextBridge's development costs of $40.2 M for which NextBridge sought full recovery, as discussed in Chapter D. NextBridge has signed an Engineering, Procurement and Construction (EPC) contract with Valard Construction LP (Valard).

When asked through interrogatories and cross-examination, NextBridge declined to provide a NTE price. In its Argument-in-Chief, NextBridge stated that its construction cost estimate is "a mature AACE International (formerly the Association for the Advancement of Cost Engineering) Class 2 estimate within a narrow accuracy band of plus or minus 10%" and that "NextBridge's estimate is on the cusp of becoming an AACE Class 1 estimate, which will occur upon approval of NextBridge's EA".[114]

NextBridge indicated that by September 2018, $34.4 M of its $737 M budget had been spent, including $5.4 M on environmental and regulatory approvals with an additional $4.5 M to be spent by the end of December 2018.[115] NextBridge also indicated that it

[114] EB-2017-0182/EB-2017-0194/EB-2017-0364, NextBridge Argument-in-Chief, October 22, 2018, pp. 2-3.
[115] EB-2017-0182/EB-2017-0194/EB-2017-0364, NextBridge Chart Exhibit K7.1, October 12, 2018.

will seek recovery of this combined $38.9 M amount, should it not receive leave to construct the new transmission line between Wawa and Thunder Bay.[116]

### 5.1.2 Hydro One's Construction Costs

Hydro One's construction cost estimate is $625 M. Hydro One described its EPC contract with SNC-Lavalin Group Inc. (SNC-Lavalin) as "ready-to-execute fixed price and schedule bound"[117] and stated that the EPC contract is executable contingent only upon the OEB granting leave to construct to Hydro One. Hydro One stated that if it is selected to build the line, it will also seek to recover $17 M of development costs incurred prior to an OEB leave to construct decision, resulting in a total cost of $642M.[118]

Hydro One submitted that its construction costs of $642 M, has an upper bound of 6%, which would result in a maximum expected cost of $681 M.[119]

In its reply submission, Hydro One indicated that its Board of Directors approved a NTE price of $683 M as a maximum cap for the purpose of constructing the line proposed in the Hydro One-LSL Application, subject to the following conditions:[120]

(i) The OEB orders that all NextBridge EA documentation be transferred to Hydro One, subject to any documentation that may be confidential, such as Traditional Environmental Knowledge studies

(ii) The NTE price excludes coverage for a genuine *force majeure* event, such as an earthquake

(iii) Significant costs associated with unforeseeable government intervention or direction would be subject to a prudence review for potential recovery of additional costs

[116] EB-2017-0182/EB-2017-0194/EB-2017-0364, Oral Hearing Transcript Volume 6, October 11, 2018, pp. 194-195.
[117] EB-2017-0182/EB-2017-0194/EB-2017-0364, Hydro One Argument-in-Chief, October 22, 2018, p. 9, para. 35.
[118] Based on updated information provided in response to OEB staff Interrogatory No. 11 at Exhibit I, Schedule 11, p. 6, September 24, 2018.
[119] EB-2017-0182/EB-2017-0194/EB-2017-0362, Hydro One Argument-in-Chief, October 22, 2018, p. 11, para. 40.
[120] EB-2017-0182/EB-2017-0194/EB-2017-0364, Hydro One Reply Submission, November 9, 2018, pp. 10-11, para. 47.

(iv) The EA approvals (both the Provincial Individual EA and Parks Canada EA for the 35 km segment through Pukaskwa National Park) are received by August 15, 2019. Hydro One further stated that in the event EA approval is not received by August 15, 2019, Hydro One would expect to be allowed to recover up to an additional $14.761 M above its $683 M NTE price.

### 5.1.3 Submissions of Parties on Construction Costs

Anwaatin submitted that the IESO's analysis did not factor in all costs, including the disproportionate impact of a delay on Indigenous communities. Anwaatin suggested the OEB impose time-related milestones and conditions to ensure the transmission line is promptly completed.

OEB staff proposed Standard Conditions of Approval that it believes should be placed on the entity granted leave to construct the new transmission line between Wawa and Thunder Bay. In addition, OEB staff proposed specific conditions for NextBridge and Hydro One.

CCC submitted that the OEB can only approve the NextBridge-EWT Application on the condition that NextBridge accept a cap on the recoverable costs, a condition NextBridge could reject, thereby nullifying the leave to construct. CCC also stated that if the OEB were to extend leave to construct approval to Hydro One on the basis of a NTE price, the OEB should specify that the NTE price would be enforced on a category by category basis.

SEC submitted that a fundamental issue the OEB will need to consider is the difference in costs between the two projects and that these cost differences can be categorized into three broad categories:

- Project Costs, i.e. costs to build the NextBridge-EWT Project and the Hydro One-LSL Project, as well as on-going costs such as annual OM&A expenses
- System Costs, i.e. costs identified by the IESO that it will incur to manage the capacity shortfall if the in-service date is beyond 2020
- NextBridge's Sunk and Wind-up Costs, i.e. sunk costs incurred since the filing of its leave to construct application, and any wind-up costs recoverable from ratepayers if Hydro One is granted leave to construct

In its submission, SEC argued that NextBridge had no assurance in writing from Valard and no internal document referencing the assurance that cost would not change with a

revised project schedule. Further, SEC noted that there was no Valard witness and no witness was able to verify this assurance.

SEC submitted that for comparison purposes, the OEB should use a worst-case scenario approach, and assume that $38.9 M of NextBridge's sunk and wind-up costs are recoverable from ratepayers, even if NextBridge is not granted leave to construct. SEC submitted that an in-service delay of one year had almost no impact on Hydro One's discounted cash flow analysis of the first 25 years of the asset life. SEC suggested the OEB cap the recovery of project costs as a condition of approval to ensure customers are protected.

The PWU submitted that NextBridge did not provide any assurances in writing that a significant change in schedule would not impact milestones and costs, which defies both "ordinary corporate norms and common sense". In contrast, the PWU submitted that the Hydro One-LSL Project costs are approximately 15% lower than the NextBridge-EWT Project costs and 85% of the Hydro One-LSL Project costs are tied to a ready-to-execute fixed-price contract with SNC-Lavalin.

VECC was concerned that ratepayers may be burdened with $40.2 M of development costs and all other "wind up" costs if NextBridge is not granted leave to construct. VECC submitted that the OEB should award NextBridge a conditional leave to construct on a NTE budget of $750 M. If NextBridge chooses not to proceed after a period of consideration (e.g. 15 to 30 days), then Hydro One should be granted leave to construct on the expectation of its current cost estimates of $625 M (through Pukaskwa National Park) and/or $666 M (around Pukaskwa National Park). VECC also submitted that the OEB should impose cost consequences associated with an in-service delay.

MFN submitted that Hydro One has not factored in the $1.34 M per km cost of by-passing the 28.5 hectares of "new land" that Hydro One will require on MFN's Reserve for the construction of the Hydro One-LSL Project. MFN further submitted that the by-pass has never been studied and the resultant costs and delays are not known.

BFN submitted that it defers to the OEB as to which estimate is more reliable, which includes more or less certainty and which will bring the new transmission facility online sooner at reasonable cost. BFN further submitted that Indigenous consultation and accommodation are essential factors in price.

## 5.2 Operations, Maintenance and Administration (OM&A) Costs

NextBridge forecast its OM&A costs to be $3.92 M per year.[121] Hydro One forecast its OM&A costs at $1.5 M per year.

Hydro One took the position that the OM&A cost estimates presented by each party are something that should be taken into account. NextBridge questioned if the OEB must consider OM&A costs in a leave to construct under Sections 92 and 96 of the Act. NextBridge stated that these costs would be in scope in the subsequent revenue requirement proceeding for the successful transmitter.

VECC argued that the OM&A cost differential between NextBridge and Hydro One's forecasts would have a modest impact on ratepayers when considered in the context of transmission rates.

OEB staff submitted that the lack of certainty around OM&A costs is evident from the designation proceeding as current OM&A forecasts are more than double those estimated by NextBridge and EWT LP[122] at that time. OEB staff further submitted that the OM&A costs will be subject to a detailed prudence review in the subsequent rates proceeding, if applicable.

SEC further submitted that measuring the impact of the OM&A differential over the life of the new transmission line between Wawa and Thunder Bay is very hard as the costs will undoubtedly change over decades. However, SEC stated Hydro One has a cost advantage that the OEB should consider.

## 5.3 Additional System Costs Associated with In-Service Delays

In the addendum to its Updated Needs Assessment, the IESO maintained that the new transmission line between Wawa and Thunder Bay is a long-term solution to ensure a reliable and cost-effective supply of electricity to Northwest Ontario. Also, the IESO quantified the additional costs associated with a delay to the 2020 in-service date, as per Table 4 below. The IESO submitted that the annual costs associated with a delay to the 2020 in-service date ranges from $7 M to $55 M, depending on the interim measure(s) implemented.

[121] NextBridge's initial evidence had stated that OM&A costs were forecast to be $7.4 M, and later $4.7 M, before proposing an OM&A cost of $3.92 M per year.
[122] A partnership of Hydro One, Great Lakes Power Transmission EWT LP, and BLP at the time of designation.

# SEC INTERROGATORY #10

## INTERROGATORY

Question:

[C-2-4] With respect to construction costs:

a. Please complete the following table:

| **Category** | **EB-2017-0182 Forecast (1)** | **Costs For Purposes of 2022 Rates (2)** | **Final Cost Forecast (3)** |
|---|---|---|---|
| Construction | 356,548 | | |
| Site Clearing Costs | 107,463 | | |
| Site Remediation Costs | 13,899 | | |
| Materials & Equipment | 89,408 | | |
| Project Management | 4,901 | | |
| Construction Management, Engineering, Design & Procurement | 19,342 | | |
| Real Estate & Property Acquisition costs | 23,831 | | |
| First Nations & Métis Consultations | 13,211 | | |
| First Nations & Métis Participation | 7,000 | | |
| Other Consultations | 2,530 | | |
| Environmental Approval | 13,031 | | |
| Regulatory Costs | 5,405 | | |
| Contingency | 49,399 | | |
| Interest During Construction("IDC") | 31,003 | | |
| **Total Construction Cost** | ***736,971*** | | |
| | | | |
| (1) EB-2017-0182, Exhibit I.NextBridgeVECC.2 | | | |
| (2) Costs that the Applicant is seeking to include in opening 2022 rate base | | | |
| (3) Most recent forecast of final forecast costs including impacts of COVID-19 and any other costs that it would otherwise include in Construction Cost Variance Account. | | | |

b. Please explain all material variances by category between, a) the cost forecast included in EB-2017-0182, and b) the forecast costs sought for approval for rate purposes in this application.
c. Please explain all material variances by category between, a) the cost forecast included in this application, and b) its final cost forecast which includes all costs including those caused by COVID-19 and that would be included in the proposed Construction Cost Variance Account.

## RESPONSE

Please see Exhibit C, Tab 2, Schedule 4, page 1 of the Application for the forecast construction costs used for rate base. NextBridge has provided OEB with quarterly reports

that describe variances to LTC budget during the construction process. Those reports with detailed variance explanations were provided in Q2 2019 and Q4 2019, and are attached as Exhibit C, Tab 1, Schedule 1, Attachment 1 and 2 to the Application. Also, to bookend the reports as of the date of this filing, the Q4 2020 report was filed with the Board on January 22, 2021. The forecasted construction is consistent with that report. Additionally, at the request of OEB staff, NextBridge also filed a response to detailed questions associated with costs reported in its January 22, 2020 quarterly report (attached as Exhibit C, Tab 1, Schedule 1, Attachment 4 to the Application).

## 3. Construction Cost Update

### A. Project Cost Update Summary

Construction costs for the EWT Project are forecasted to be on budget when compared to the LTC application budget. While increases have been identified in certain budget areas, the use of the previously-budgeted value for contingency allows for sufficient allocation of funds to address areas where budget increases were identified. However, at this point in time the costs related to the COVID-19 Global Pandemic are unknown.

### B. Project Cost Update Table

| Cost Categories for NextBridge's Construction Costs Reporting | | Actuals Spent | | Budget | | | Forecast Budget Variance | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | A<br>Spent This Reporting Period<br>$ | B<br>Total Spent To Date<br>$ | C<br>Budget Per LTC Application<br>$ | D=C-B<br>Budget Remaining | E=D/C*100<br>Budget Remaining<br>% | F<br>Forecast Budget Change<br>$ | G<br>Forecast Budget Change<br>% | H<br>Revised Total Budget | Reasons For Change |
| **Engineering & Construction** | | **95,084,019** | **305,996,709** | **572,761,388** | **266,764,679** | **47%** | **41,505,901** | **7%** | **614,267,289** | **Revised based on in-service date** |
| 1 | Engineering, Design and Procurement | 843,824 | 6,718,158 | 19,342,245 | 12,624,087 | 65% | (10,808,892) | -56% | 8,533,353 | |
| 2 | Materials and Equipment | 8,756,688 | 42,361,934 | 89,408,231 | 47,046,297 | 53% | (22,538,717) | -25% | 66,869,514 | |
| 8 | Site Clearing, Access | 28,339,917 | 83,664,617 | 107,463,339 | 23,798,722 | 22% | 33,169,524 | 31% | 140,632,863 | |
| 9 | Construction | 57,143,589 | 173,252,000 | 356,547,573 | 183,295,573 | 51% | 41,683,986 | 12% | 398,231,559 | |
| **Environmental & Remediation Activities** | | **1,884,778** | **16,318,987** | **26,929,260** | **10,610,273** | **39%** | **4,620,902** | **17%** | **31,550,162** | **Revised based on in-service date** |
| 3 | Environmental and Regulatory Approvals | 1,302,033 | 15,702,526 | 13,030,561 | (2,671,965) | -21% | 6,066,463 | 47% | 19,097,024 | |
| 10 | Site Remediation | 582,745 | 616,461 | 13,898,699 | 13,282,238 | 96% | (1,445,561) | -10% | 12,453,138 | |
| **Indigenous Activities** | | **2,350,239** | **15,606,953** | **20,211,000** | **4,604,047** | **23%** | **3,442,555** | **17%** | **23,653,555** | **Revised based on in-service date** |
| 5 | Indigenous Economic Participation | 935,148 | 6,667,201 | 7,000,000 | 332,799 | 5% | 2,730,452 | 39% | 9,730,452 | |
| 6 | Indigenous Consultation | 1,415,091 | 8,939,752 | 13,211,000 | 4,271,248 | 32% | 712,103 | 5% | 13,923,103 | |
| **4** | **Land Rights (excludes Aboriginal)** | **1,128,845** | **16,778,207** | **23,830,512** | **7,052,305** | **30%** | **0** | **0%** | **23,830,512** | |
| **7** | **Other Consultation** | **114,639** | **1,136,677** | **2,530,194** | **1,393,517** | **55%** | **0** | **0%** | **2,530,194** | |
| **11** | **Contingency** | - | - | **49,399,445** | **49,399,445** | **100%** | **(49,399,445)** | **-100%** | - | **Allocation of Contingency** |
| **12** | **Regulatory** | **262,697** | **3,875,667** | **5,405,078** | **1,529,411** | **28%** | **(0)** | **0%** | **5,405,078** | |
| **13** | **EWT Management** | **248,836** | **4,081,786** | **4,900,644** | **818,858** | **17%** | **(0)** | **0%** | **4,900,644** | |
| **Total Project Spend** | | **101,074,053** | **363,794,985** | **705,967,521** | **342,172,536** | **48%** | **169,913** | **0%** | **706,137,434** | |
| **14** | **Interest During Construction (IDC)[1]** | **2,062,290** | **10,832,030** | **31,003,000** | **20,170,970** | **65%** | - | **0%** | **31,003,000** | |
| **Total Construction Costs [2 3 4]** | | **103,136,344** | **374,627,015** | **736,970,521** | **362,343,506** | **49%** | **169,913** | **0%** | **737,140,434** | |

1 IDC has not been reforecasted as interest rates will vary based on the OEB prescribed rates
2 On the record (EB-2017-0182)
3 Development Costs eligible for consideration as construction costs of $5.3 MM not reflected in column B. (OEB Decision, December 20, 2018)
4 Construction related costs due to COVID-19 are not included in the table above; as of Q3 2020, less than $100 CAD have been incurred

## 3. Construction Cost Update

### A. Project Cost Update Summary

Construction costs for the EWT Project are forecasted to be on budget when compared to the LTC application budget. While increases have been identified in certain budget areas, the use of the previously-budgeted value for contingency allows for sufficient allocation of funds to address areas where budget increases were identified. However, at this point in time the total costs related to the COVID-19 Global Pandemic are unknown.

### B. Project Cost Update Table

| Cost Categories for NextBridge's Construction Costs Reporting | | Actuals Spent | | Budget | | | Forecast Budget Variance | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | A<br>Spent This Reporting Period<br>$ | B<br>Total Spent To Date<br>$ | C<br>Budget Per LTC Application<br>$ | D=C-B<br>Budget Remaining | E=D/C*100<br>Budget Remaining<br>% | F<br>Forecast Budget Change<br>$ | G<br>Forecast Budget Change<br>% | H<br>Revised Total Budget | Reasons For Change |
| **Engineering & Construction** | | **89,396,704** | **395,393,413** | **572,761,388** | **177,367,975** | **31%** | **41,505,901** | **7%** | **614,267,289** | **Revised based on in-service date** |
| 1 | Engineering, Design and Procurement | 566,597 | 7,284,755 | 19,342,245 | 12,057,490 | 62% | (10,808,892) | -56% | 8,533,353 | |
| 2 | Materials and Equipment | 15,610,865 | 57,972,799 | 89,408,231 | 31,435,432 | 35% | (22,538,717) | -25% | 66,869,514 | |
| 8 | Site Clearing, Access | 32,542,786 | 116,207,404 | 107,463,339 | (8,744,065) | -8% | 33,169,524 | 31% | 140,632,863 | |
| 9 | Construction | 40,676,455 | 213,928,455 | 356,547,573 | 142,619,118 | 40% | 41,683,986 | 12% | 398,231,559 | |
| **Environmental & Remediation Activities** | | **887,757** | **17,206,744** | **26,929,260** | **9,722,516** | **36%** | **4,620,902** | **17%** | **31,550,162** | **Revised based on in-service date** |
| 3 | Environmental and Regulatory Approvals | 849,566 | 16,552,092 | 13,030,561 | (3,521,531) | -27% | 6,066,463 | 47% | 19,097,024 | |
| 10 | Site Remediation | 38,191 | 654,652 | 13,898,699 | 13,244,047 | 95% | (1,445,561) | -10% | 12,453,138 | |
| **Indigenous Activities** | | **1,942,368** | **17,549,321** | **20,211,000** | **2,661,679** | **13%** | **3,442,555** | **17%** | **23,653,555** | **Revised based on in-service date** |
| 5 | Indigenous Economic Participation | 961,902 | 7,629,102 | 7,000,000 | (629,102) | -9% | 2,730,452 | 39% | 9,730,452 | |
| 6 | Indigenous Consultation | 980,466 | 9,920,218 | 13,211,000 | 3,290,782 | 25% | 712,103 | 5% | 13,923,103 | |
| **4** | **Land Rights (excludes Aboriginal)** | **1,153,176** | **17,931,382** | **23,830,512** | **5,899,130** | **25%** | **0** | **0%** | **23,830,512** | |
| **7** | **Other Consultation** | **75,403** | **1,212,080** | **2,530,194** | **1,318,114** | **52%** | **0** | **0%** | **2,530,194** | |
| **11** | **Contingency** | - | - | **49,399,445** | **49,399,445** | **100%** | **(49,399,445)** | **-100%** | - | **Allocation of Contingency** |
| **12** | **Regulatory** | **229,820** | **4,105,487** | **5,405,078** | **1,299,591** | **24%** | **(0)** | **0%** | **5,405,078** | |
| **13** | **EWT Management** | **156,602** | **4,238,388** | **4,900,644** | **662,256** | **14%** | **(0)** | **0%** | **4,900,644** | |
| **Total Project Spend** | | **93,841,829** | **457,636,814** | **705,967,521** | **248,330,707** | **35%** | **169,913** | **0%** | **706,137,434** | |
| **14** | **Interest During Construction (IDC)[1]** | **2,218,412** | **13,050,442** | **31,003,000** | **17,952,558** | **58%** | - | **0%** | **31,003,000** | |
| **Total Construction Costs [2 3 4]** | | **96,060,241** | **470,687,256** | **736,970,521** | **266,283,265** | **36%** | **169,913** | **0%** | **737,140,434** | |

1 IDC has not been reforecasted as interest rates will vary based on the OEB prescribed rates
2 On the record (EB-2017-0182)
3 Development Costs eligible for consideration as construction costs of $5.3 MM not reflected in column B. (OEB Decision, December 20, 2018)
4 Construction related costs due to COVID-19 are not included in the table above; as of Q4 2020, $0.4M has been incurred

# STAFF INTERROGATORY #40

## INTERROGATORY

**Reference:** (1) Exhibit A / Tab 3 / Schedule 1 / p. 3

**Preamble:**
NextBridge states that the emergence of health threats associated with Novel Coronavirus 2019 ("COVID-19"), caused unforeseeable delays in current construction activities. As a result of these unavoidable delays, at NextBridge's request the IESO confirmed that there is no unacceptable risk to reliability created if the projected in-service date for the East-West Tie line was shifted to on or before March 31, 2022.

With respect to the COVID-19 pandemic:

**Question(s):**

a) Please provide a list of any impacts on the 2022 revenue requirement resulting from the COVID-19 pandemic.
b) Please provide details regarding the impact of the COVID-19 pandemic on NextBridge's 2022 cost forecasts and operation of the East-West Tie line.
c) Please explain how the impacts of the COVID-19 pandemic have or have not been included in its cost forecasts. If not, please provide the impacts.
d) Please describe the interplay between the cost forecasts made in the NextBridge's evidence and the impacts of COVID-19 that are dealt with by way of Account 1509.

## RESPONSE

a) There will be no impact on the 2022 revenue requirement due to COVID-19 costs. The 2022 revenue requirement presented in the Application does not include the cost impact of the COVID-19 pandemic. Because the COVID-19 costs are unknown at this time, NextBridge has requested inclusion of COVID-19 pandemic costs in the construction cost variance account. The proposed disposition of the variance account will be after 2022, and, therefore, it will not impact the 2022 revenue requirement.

b) NextBridge's 2022 cost forecast does not include impacts from the COVID-19 pandemic, as these costs are not known yet. The line is expected to become operational on March 31, 2022.

c) See response to part a.

d) NextBridge has not included COVID-19 costs in any forecasts set forth in the Application, as these costs are unknown at this time. Also, NextBridge is not using Account 1509 as all costs incurred at this time are capital costs. Instead, NextBridge is using Account 2055 (CWIP) to track COVID-19 costs.

# STAFF INTERROGATORY #46

## INTERROGATORY

**Reference:** (1) Exhibit B / Tab 1 / Schedule 5 / Attachment 2 / p. 8

**Preamble:**
Reference 1 states:

> For this update, the IESO used the updated capital cost estimates for the new line and the station upgrades that the transmitters filed with the OEB on July 31, 2017 in their LTC applications. Based on its filed evidence, NextBridge estimates a cost of $777 million for the E-W Tie line, an increase from the previous planning estimate of $500 million used in the December 2015 Report. NextBridge has stated that the cost increase reflects unbudgeted costs, new scope requirements, other unforeseeable factors such as the delay to the in-service date, and development phase project refinements.

**Question(s):**

a) Please explain the details and provide the amounts that resulted in the cost estimate increasing by 55 per cent from $500 million to $777 million in 2017.
b) Please explain how the cost estimate has remained the same from 2017 to the time of this application, while the in-service date has changed to March 31, 2022.

## RESPONSE

a) The increase in NextBridge's construction and development costs from the original estimate to $777 million was explained in detail in the LTC hearings and can be found in its LTC Application filed in EB-2017-0182, Exhibit B, Tab 9, Schedule 1, Page 5 through 11. However, NextBridge's LTC Application used the cost indicated in its designation proceedings of approximately $420 million. NextBridge does not know how the IESO derived the $500 million amount in its December 2015 planning estimate.

b) Construction costs for the East-West Tie line are forecasted to be on budget when compared to the budget in the LTC Application. While increases have been identified in certain budget areas, the use of the previously-budgeted value for contingency allows for sufficient allocation of funds to address areas where budget increases were identified.

STAFF INTERROGATORY #52

INTERROGATORY

**Reference:** (1) Exhibit C / Tab 2 / Schedule 4 / p. 1
(2) OEB Minimum Technical Requirements for the Reference Option of the E-W Tie Line / November 9, 2011
(3) EB-2017-0182 / NextBridge Argument-in-Chief / October 22, 2018
(4) Exhibit C / Tab 2 / Schedule 4, p. 3, paragraph 9
(5) Exhibit C / Tab 2 / Schedule 4, p. 4, paragraph 11
(6) Exhibit C / Tab 2 / Schedule 4, p.30, paragraph 99
(7) Exhibit C / Tab 6 / Schedule 1

**Question(s):**

a) Please state what year the construction costs are based in (e.g. 2021 or 2022 dollars).
b) Please confirm that the design and technical specifications of the project comply with the OEB's Technical Requirements outlined in the designation proceeding (Reference 2).
c) At the time of the LTC proceeding, NextBridge argued that the construction cost would fall within the range of $737M +/- 10% (Reference 3). What band of uncertainty exists around the forecast budget of $737.1M at this point in time?
d) Reference 4 states that "[…] most costs are now essentially fixed for the majority of activities." Please identify which costs are fixed and which are not yet fixed. For the costs that are fixed, please indicate whether the fixed cost is consistent with the budgeted amount, and if not, provide the difference and explain any discrepancy. For the costs that are not yet fixed, indicate when NextBridge expect these costs to be finalized.
e) Reference 5 states that "As of the date of this filing, nearly 90% of forecasted construction costs have been contracted […]" Please identify construction costs that have not been contracted. When does NextBridge expect these costs to be finalized?
f) Reference 6 states that "NextBridge has no contingency in the construction costs." Please explain how NextBridge plans to address any future construction budget increases when there is no remaining contingency.
g) Please identify which cost category of the table on Exhibit C, Tab 2, Schedule 4, p. 1 includes the cost of the Capital Cost Recovery Agreement described in Reference 7.

RESPONSE

a) The construction costs are in nominal dollars. The remaining spend has been escalated to the appropriate year of spend. As an example, spend in 2022 is in 2022 dollars.

b) NextBridge's design and technical specifications of the East-West Tie line comply with the OEB's Technical Requirements outlined in the designation proceeding – with two exceptions. As indicated in its Leave to Construct application (EB-2017-0182, Exhibit C, Tab 2, Schedule 1,Page 1 to 9) NextBridge took exception to the 20 ohm maximum tower grounding resistance requirement and the requirement to use Stockbridge dampers from the designation proceeding.

   Preliminary soil resistivity tests on the East-West Tie line indicated that the 20 ohm limit prescribed in the technical requirements would be difficult to achieve with reasonable effort and at a reasonable cost. Instead NextBridge achieved the technical requirement for lightning outage rates by installing surge arresters on three phases of one circuit. This is a proven effective mitigation in areas of high soil resistivity such as the Canadian Shield.

   Instead of using Stockbridge-type vibration dampers, NextBridge used spiral vibration dampers to dampen shield wires, which are more effective than Stockbridge-type vibration dampers on small diameter conductors.

c) There is no uncertainty around the $737 million of construction costs. Please refer to Staff #42.

d) The largest fixed cost in the forecast is the EPC contract, which is consistent with the forecasted amount. Additionally, materials have also been contracted at a fixed price which is consistent with forecast. Work to be completed by contractors other than the EPC contractor has also been contracted and is expected to align with the forecast.

e) The vast majority of the uncontracted costs are for costs that will not be contracted or are already finalized under firm agreements and do not require further contracting. For example, the labour costs of parent/partner personnel supporting the East-West Tie line will not be contracted as it is an internal cost. Additionally, the majority of Indigenous costs are under firm executed agreements and are already finalized or paid. Land costs are also under firm agreements with landowners and considered finalized or already paid.

f) See answer c) above.

g) NextBridge is not seeking the recovery of costs under the Customer Connection and Cost Recovery Agreement with Hydro One.

# STAFF INTERROGATORY #57

## INTERROGATORY

**Reference:** (1) Exhibit C / Tab 2 / Schedule 4

**Preamble:**
Reference 1 states that "a total of $737.1 million in construction costs is forecasted to complete the East-West Tie line, of which 57% have already been incurred as of October 31, 2020."

**Question(s):**

a) With 57% of construction costs incurred to date, please clarify if 57% of the construction is complete, and if not, explain why NextBridge currently estimates the project budget of $737.1 million will not be exceeded?

## RESPONSE

a) As of October 31, 2020, the amount of construction completed is 40%. NextBridge currently estimates the project budget of $737.1 million will not be exceeded, because completion of 40% of the construction and spending 57% of overall costs has tracked and continues to track to an overall cost of $737.1, absent unforeseen events and unknown costs.

   For context, the percentage of construction costs spent does not necessarily align with the percentage of construction activity but does provide assurance that the East-West Tie line project is on budget. Examples of necessary costs spent:

   - Material costs have already been incurred to purchase the towers and wire and ship them to the construction site;
   - Land payments have already been made to landowners in order to secure access to the right of way to allow for construction;
   - NextBridge has spent costs to ensure that Indigenous communities have properly been consulted prior to construction to meet Duty to Consult obligations with the Crown; and
   - The work to obtain environmental permits (such as field studies) needed to be completed prior to construction activities beginning.

Additionally, construction has seasonal and environmental constraints, such as species at risk timing windows. When the 40% was calculated the winter construction season had not started and the ground was not completely frozen. Once the ground was frozen, clearing activities and foundation installations started taking place.

# STAFF INTERROGATORY #48

## INTERROGATORY

**Reference:** (1) Exhibit B / Tab 1 / Schedule 7 / p.2 / Table 1
(2) EB-2017-0182 / OEB Staff Submission / November 1, 2018 / p. 14 / Table 1

**Preamble:**
In Table 1 of Reference 2 OEB staff compares NextBridge's project cost of $777M to five Hydro One project scenario costs. Scenario 2 indicates a Hydro One total project cost of $682.8M for the route around Pukaskwa National Park.

**Question(s):**

a) Please provide a revised version of Table 1 of Reference 1 that includes the cost for the proposed Lake Superior Link project that was submitted by Hydro One during the Leave to Construct proceeding (EB-2017-0364).
b) Can NextBridge provide an explanation for differences between its estimate of $777M and the forecast project cost of $682.8M provided by Hydro One in scenario 2 of Reference 2 from the LTC proceeding?

## RESPONSE

a) Table 1 of Reference 1 is an excerpt from the report and work product of independent consultant Charles River Associates (CRA) based on its benchmarking against comparable existing transmission projects. CRA's approach to benchmarking is addressed in section 1.2. In summary, in preparing the evidence, "CRA reviewed publicly available data from transmission solicitations, public documents, regulatory filings" (at p.2). CRA's assumptions and calculations are further addressed in section 2 and Figures 1-15 of its report.

   In contrast, the data and cost estimates provided in Table 1 Reference 1 Lake Superior Link (LSL) project is not a comparable completed transmission project, but, rather, a proposed project based on data and estimates of how the LSL may proceed that are now well over two years old. Therefore, NextBridge does not accept Staff's inference that information and estimates of LSL project that are reasonable comparable to the East-West Tie line, and, thus, it is not appropriate to incorporate them into the work of CRA, an independent expert. Furthermore, it is misleading to effectively "cut and paste" the data and estimate(s) of data over two years old into CRA's table of comparable, completed transmission projects.

Accordingly, NextBridge will not produce the information requested by Staff, as it is not information that is reliable and has no probative value.

b) NextBridge is not aware of the assumptions or motivations in support of the LSL cost projections, and, therefore, cannot speak to the differences between the two figures. Moreover, the LSL cost projects are well over two years old, and any information provided related to the LSL cannot be considered current or probative of current estimates and actuals. Further, the old LSL estimates are not probative of the prudence of NextBridge's construction costs in this proceeding. Rather, the probative evidence on construction costs is the detailed evidence that NextBridge has submitted in its Application on the prudence of its construction costs and how these construction costs compare to comparable, completed transmission projects in the CRA benchmarking report.

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

BY EMAIL and WEB POSTING

November 9, 2020

To: All Rate-regulated Electricity Distributors and Transmitters
All Rate-regulated Natural Gas Utilities
Ontario Power Generation Inc.
All Registered Intervenors in 2021 Cost-based Applications
All Other Interested Parties

**Re: 2021 Cost of Capital Parameters**

The Ontario Energy Board (OEB) has determined the values for the Return on Equity (ROE) and the deemed Long-Term (LT) and Short-Term (ST) debt rates for use in the 2021 cost-based applications (i.e. cost of service and custom incentive rate-setting (custom IR) applications, including any applicable custom IR updates). The ROE and the LT and ST debt rates are collectively referred to as the cost of capital parameters. The updated cost of capital parameters are calculated based on the formulaic methodologies documented in the *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*, issued December 11, 2009.

## Cost of Capital Parameters for 2021 Rates

For cost of service and custom IR applications with effective dates in 2021, the OEB has updated the cost of capital parameters based on: (i) the July 2020 survey from Canadian banks for the spread over the Bankers' Acceptance rate of short-term loans for R1-low or A (A-stable) commercial utility customers, for the ST debt rate; and (ii) data three months prior to January 1, 2021 from the Bank of Canada, Investment Industry Regulatory Organization of Canada, *Consensus Forecasts*, and Bloomberg LP, for all cost of capital parameters.

The OEB has determined that the updated cost of capital parameters for rate applications for rates effective in 2021 are:

| Cost of Capital Parameter | Value for Applications for rate changes in 2021 |
|---|---|
| ROE | 8.34% |
| Deemed LT Debt rate | 2.85% |
| Deemed ST Debt rate | 1.75% |