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BY EMAIL

May 13, 2024

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

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission on the Settlement Proposal
Upper Canada Transmission 2, Inc. (Operating as East-West Tie Limited
Partnership)
2024 Electricity Transmission Rates
OEB File Number: EB-2023-0298**

In accordance with Procedural Order No. 6, please find attached OEB staff's submission on the Settlement Proposal dated May 3, 2024, filed by Upper Canada Transmission 2, Inc. in the above referenced proceeding.

Yours truly,

Michael Price
Senior Advisor, Generation & Transmission

Encl.

cc: All parties in EB-2023-0298



ONTARIO ENERGY BOARD

OEB Staff Submission on Settlement Proposal

**Upper Canada Transmission 2, Inc. (Operating as East-West Tie
Limited Partnership)**

2024 Electricity Transmission Rates

EB-2023-0298

May 13, 2024

Background

Upper Canada Transmission 2, Inc., operating as East-West Tie Limited Partnership¹ (Upper Canada Transmission), filed an application with the Ontario Energy Board (OEB) on October 10, 2023, for approval of its 2024 electricity transmission rates, pursuant to section 78 of the *Ontario Energy Board Act, 1998* (Act). Upper Canada Transmission is requesting orders approving the following:

- Rate base additions from the Account 1509 – Impacts Arising from the COVID-19 Emergency (COVID-19 Account) balance of \$111,701,798 and the Construction Cost Variance Account (CCVA) balance of \$48,687,137
- Updated 2024 Base rate revenue requirement of \$102,576,635 consisting of:
 - 1) \$54,003,549 - 2023 OEB-approved revenue requirement
 - 2) \$918,060 - 2024 Revenue Cap Index adjustment²
 - 3) Base revenue requirement adjustment for 2024 only consisting of:
 - \$13,647,260 COVID-19 Account 1509 balance at December 31, 2023
 - \$5,948,391 CCVA balance at December 31, 2023
 - \$6,657,108 Debt Rate Variance Account (DRVA) balance at December 31, 2023
 - (\$375,041) Earnings Sharing Mechanism Account (ESMA) balance at December 31, 2023
 - 4) Base revenue requirement adjustment for all remaining years of the Custom IR term (2024 to 2027) consisting of:
 - \$8,311,781 capitalized COVID-19 costs
 - \$3,622,832 capitalized CCVA costs
 - \$9,842,696 actual Debt Rate costs
- Establishment of a new Debt Rate Variance Account to record differences between Upper Canada Transmission's current actual cost of debt and the revised cost of debt that may arise due to new issuances required to finance the incremental rate base additions from the COVID-19 Account 1509 and the CCVA

In its application, Upper Canada Transmission estimated its 2024 transmission rates would result in a net impact on average transmission rates of 2.39% and an average

¹ EB-2023-0091 Decision and Order, March 9, 2023, transferred Upper Canada Transmission, Inc.'s (operating as NextBridge) Electricity Transmission Licence to Upper Canada Transmission 2, Inc., (operating as East-West Tie Limited Partnership).

² Based on OEB-2020-0150, Decision and Order, approved Custom IR term April 1, 2022 to December 31, 2027.

transmission customer bill impact of 0.28%. The revenue requirement would result in an average total bill impact of approximately 0.25% (35 cents per month) for a typical Residential (R1) customer consuming 750 kW per month.

The OEB issued, on December 12, 2023, a Decision and Order approving on an interim basis, a 2024 revenue requirement for Upper Canada Transmission of \$54,921,609 to be included in the calculation of the UTRs effective January 1, 2024. The interim 2024 revenue requirement consists of a 2024 Revenue Cap Index adjustment of \$918,060 and an OEB-approved 2023 revenue requirement of \$54,003,549.

Status of Issues

A settlement conference was held on February 13, 16, 26 and 28, 2024. The following approved intervenors participated in the settlement conference: Association of Major Power Consumers in Ontario (AMPCO), Canadian Manufacturers & Exporters (CME), Coalition of Concerned Manufacturers and Businesses of Canada (CCMBC), Consumers Council of Canada (CCC), School Energy Coalition (SEC) and Vulnerable Energy Consumer Coalition (VECC).

Upper Canada Transmission filed a settlement proposal on May 3, 2024 (Settlement Proposal). The Settlement Proposal reflects a comprehensive settlement on all issues included on the OEB approved issues list between all intervenors and Upper Canada Transmission.

The Settlement Proposal, if approved, would result in: (i) a \$30 million reduction to the applied for COVID-19 Account balance from \$111.7 million to \$81.7 million; (ii) a decrease of \$6.4 million to Upper Canada Transmission's 2024 proposed revenue requirement from \$102.6 million to \$96.1 million; (iii) a decrease to the proposed total bill impact on a typical residential customer with a monthly consumption of 750 kWh from an estimated increase of \$0.35 or 0.25% per month to an increase of \$0.30 or 0.22% per month.

Submission

Per the OEB's *Practice Direction on Settlement Conferences*, OEB staff is required to file a submission commenting on two aspects of the Settlement Proposal: whether the settlement represents an acceptable outcome from a public interest perspective, and whether the accompanying explanation and rationale is adequate to support the settlement.

OEB staff submits that the Settlement Proposal is in the public interest, and that the accompanying explanation and rationale are adequate to support the Settlement Proposal. OEB staff's submission provides reasons for OEB staff's position by commenting on the Settlement Proposal's most material aspects, rather than examining each issue on the approved issues list individually.

For the following reasons, OEB staff supports the agreement reached by the Parties:

- The Application proposed \$111.7 million in Capital expenditures recorded in the COVID-19 Account be applied to rate base. The proposed expenditures consisted of material and labour costs of \$22.7 million and productivity losses of \$89.0 million. The productivity losses included direct labour impacts, equipment impacts, subcontractor impacts and contractor mark-up. Interveners were not in agreement with Upper Canada Transmission on the appropriateness of how those Capital expenditures were determined and if there should be full rate recovery. For the purposes of settlement, the Parties agreed to a reduction of \$30.0 million to the applied for COVID-19 Account balance from \$111.7 million to \$81.7 million.

OEB staff submits that a \$30.0 million reduction to the COVID-19 Account balance, resulting in a \$81.7 million amount, is a reasonable outcome based on the evidence and circumstances in this case including the unprecedented nature of COVID-19, questions about the methodological approaches used to quantify productivity losses, and the contractual terms between Upper Canada Transmission and the EPC contractor.

- In the Settlement Proposal four fine-tuning adjustments³ were made to the proposed 2024 revenue requirement:
 - The COVID-19 Account and CCVA revenue requirement calculation has been updated to reflect more precise date range groupings, average rate base calculation and average debt cost calculation. The impact of this one-time adjustment is a reduction in the 2024 revenue requirement of \$45,000.
 - The COVID-19 Account and CCVA revenue requirement calculation has been updated to exclude the cost of debt on payments not made to the EPC contractor until September 2022. This one-time adjustment affects the interest amount otherwise included in the Application during the period April 1, 2022 to August 31, 2022. The resulting impact is a one-time reduction to the 2024 revenue requirement of \$719,868.
 - The 2022 Earnings Sharing Mechanism amount owing to ratepayers has been updated to gross-up the balance for income tax and for corrections that affect Operating Revenue and Operation Expense calculations used in the ESM calculation. The overall impact is a \$270,125 reduction in the 2022 ESM Balance.

³ Settlement Proposal, pp. 10 to 11.

- The 2024 revenue requirement for COVID and CCVA has been adjusted to reflect the calculation of 2024 rate base using the mid-year rate base amount (half-year rule). The impact is a \$49,707 reduction in 2024 base revenue requirement.

OEB staff submits that the fine-tuning adjustments to the proposed 2024 revenue requirement are reasonable and consistent with OEB's accounting policies and guidance.

- The Application proposed a 2024 revenue requirement of \$102.6 million. In the Settlement Proposal, the revenue requirement was revised to \$96.1 million. The Settlement Proposal reduced the originally proposed revenue requirement by \$6.4 million to align with the agreed reduction of \$30 million of incremental capital expenditures in the COVID-19 Account and the four fine-tuning adjustments made to the proposed 2024 revenue requirement.

OEB staff submits that the revised 2024 revenue requirement of \$96.1 million is reasonable.

- The Application proposed a total bill impact on a typical residential customer with a monthly consumption of 750 kWh of an estimated increase of \$0.35 or 0.25% per month. The Settlement Proposal agreed to by the Parties revises the total bill impact on a typical residential customer with a monthly consumption of 750 kWh to an estimated increase of \$0.30 or 0.22% per month. This decrease is attributable to the revised 2024 revenue requirement.

OEB staff submits that the total bill impact is reasonable.

- The Application proposed the creation of a new Debt Rate Variance Account to track differences between Upper Canada Transmission's current actual cost of debt and the revised cost of debt that may arise due to new issuances required to finance the incremental rate base additions approved for recovery in the Application. The Settlement Proposal agreed to by the Parties establishes a new Debt Rate Variance Account, which will be symmetrical, and will be used to record the difference, if any, between annual forecast and actual debt rate expenses. Any difference in actual interest costs relative to the rates approved in the Application will be returned to/paid by ratepayers as determined in Upper Canada Transmission's next rebasing application.

OEB staff submits that the establishment of a new Debt Rate Variance Account is reasonable.

~All of which is respectfully submitted~