



Régie de l'énergie

DOSSIER: R-3842-2013

DÉPOSÉE EN AUDIENCE

Date: 24/10/2013

Pièces n°: B-0089

HYDRO QUEBEC DISTRIBUTION  
HYDRO QUEBEC TRANSÉNERGIE

EARNINGS SHARING MECHANISM

OCTOBER 24, 2013

RÉGIE DE L'ÉNERGIE

Concentric Energy Advisors, Inc.  
293 Boston Post Road West, Suite 500  
Marlborough, MA 01752  
[www.ceadvisors.com](http://www.ceadvisors.com)

## Earnings Sharing Mechanism

---

- Goals of an ESM
- ESM Mechanics
- Relevant HQD and HQT Circumstances
- Recommendation



## Goals of an Earnings Sharing Mechanism

---

### Purpose:

- Share “surplus” or “shortfall” earnings relative to the authorized ROE between customers and shareholders during the term of rate plan
- Earnings are likely to deviate from the authorized level of earnings due to:
  - a) factors beyond the control of the utility that are not addressed by variance accounts, including the normal ebb and flow of the business; and
  - b) utility efforts to operate more efficiently
- Focuses on the end result, recognizing the way that utilities manage their business throughout its operations

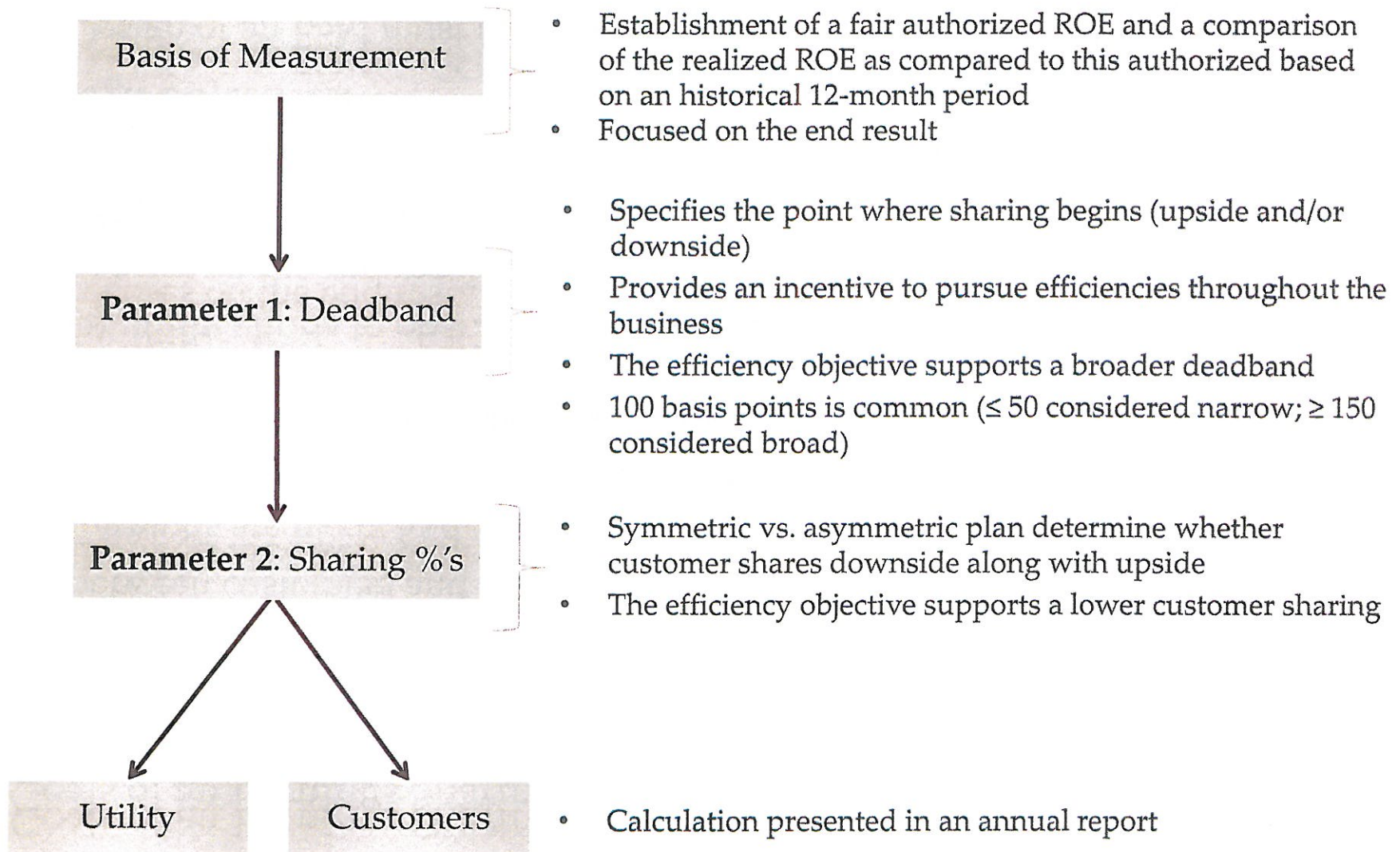
### Design Objectives:

- Design of an ESM must resolve two competing objectives: a desire to constrain earnings variability by sharing an appropriate level with customers vs. the desire to provide the utility with an incentive to pursue efficiency gains



## ESM Mechanics – 2 Key Parameters

---



## Relevant HQD and HQT Circumstances

---

1. HQD and HQT have each had surplus earnings and shortfalls over the past decade
2. There is an interest of the Régie and customers in an ESM
3. HQD has experienced greater earnings variability over the last five years than HQT and HQD's earnings are more sensitive to a change in revenues or operating expenses than HQT
4. Past efficiency gains are not a guarantee that future efficiency gains will be achievable, and they may be more difficult to achieve
5. Annual rate case filings based on cost-of-service principles
6. Presence of variance and deferral accounts



## Recommendation

---

### Recommendation:

1. Asymmetric sharing – HQD and HQT absorb all downside risk balanced by the opportunity to retain earnings within the deadband (not contested)
2. 100 basis point deadband for HQD; 50 basis points for HQT
3. 50/50 sharing above the deadband

### Rationale:

1. Simple ESM with one-tier customer sharing
2. Asymmetric design and relatively narrow deadband address interest of the Régie and customers over historical earnings variances
3. Wider deadband for HQD reflects greater sensitivity of HQD earnings to variations in revenues and operating expenses and reflect the normal ebb and flow of the business
4. Meaningful efficiency incentives will provide sustained customer benefits that provide management to pursue efficiency gains in every aspect of the business

