

**Transmission Provider's and
Distributor's
responses to request for information number 1
of the Canadian Federation of Independent Business
("CFIB")
Partie 1**

**REQUEST FOR APPROVAL OF THE RETURN ON EQUITY
AND MECHANISM FOR HANDLING PERFORMANCE VARIANCES**

CASE R-3842-2013

Questions from Paul Centolella

Question 1

Reference:

(i) B-0008, p.5

Context:

(i) In answer to a question, Mr. Yardley mentions: "Although ESMs can be designed for a single rate plan year, they are more commonly associated with rates that are expected to be in place for two or more years."

Question 1 :

1.1 Is Mr. Yardley aware of any ESM designed for a single year rate plan where the utility files annual rate cases with their regulator? If so please provide references.

Réponse:

No. Mr. Yardley is not aware of any such ESMs, although it is conceivable that the Gaz Métro ESM might be in effect for a single year if the transition to another plan takes effect in a year.

Question 2 :

Reference :

(i) B-0008, p.5

(ii) C-FCEI-0027 (translation of B-0004) p. 19

Context :

(i) In answer to a question, Mr. Yardley mentions: "The ESM begins with the calculation of realized earnings for a preceding twelve-month period and this calculation is typically performed for each year of a multi-year rate plan."

- (ii) In its evidence HQ mentions: "... the Transmission Provider and the Distributor propose that the current process for reviewing their respective costs of service and performance be maintained. This regular review process, implemented by the Régie in their rate applications, allows for yearly monitoring of changes in costs as well as efficiency and quality-of-service indicators for each division respecting many variables."

Question 2:

- 2.1 Please confirm that Hydro-Québec is not proposing any change of the current regulatory framework of annual cost of service based rate proceedings and is not moving towards a multi-year rate plan. If Hydro-Québec is contemplating any changes to the current rate setting process, please explain.

Response:

See the response to question 5.1 of the AQCIE-CIFQ in Exhibit HQTd-5, Document 4.3.

Question 3 :

Questions :

- 3.1 Please confirm that under the current regulatory framework, avoidable expenditures incurred during the prior rate year that may have been result of failing abide by an industry standard, a breach of contract, or negligence, or which were otherwise determined to be unreasonable expenditures would not be included in the basis for and would have no impact on the following year's revenue requirement.

Réponse :

First, as a preliminary matter, the Régie does not currently review the level of actual expenses after each rate year and make retroactive adjustments to rates Second, as noted in the response to Question 14.1 of HQTd-3, document 1 (B-0020), the ESM is intended to reflect earnings from regulated utility operations in a manner that is consistent with the establishment of the revenue requirements in the rate decision. Thus, these expenses should not include expenses that are not associated with the provision of utility service. The ESM provides Hydro-Québec with an incentive to control these expenses and operate efficiently under the ESM. In addition, to the extent that these expenses continue after the current rate plan has ended, they will be reviewed for reasonableness and legitimacy in the next rate proceeding.

It should also be noted that it would be an enormous incremental burden on all parties to conduct an annual after-the-fact review of every expense and investment for purposes of applying the ESM.

Additionally, the Petitioners would like to specify that under the regulatory framework, they have an obligation to provide electricity services to Québec clientele. Basically, the sole purpose of all of the actions they take is to honour their obligations. The Petitioners also believe that all of the expenses required to provide services, including those associated with the elements mentioned in the question, must be taken into consideration when implementing the mechanism for handling performance variances (MHPV).

See also the response to question 28.1 of the Régie in Exhibit HQTD-5, document 1.

3.2 Please confirm that under the proposed regulatory framework, Régie would have to make a judgment about the reasonableness and legitimate nature of all actual expenses insofar as they may impact earnings available to be shared under the ESM. If Hydro-Québec is not proposing that Régie have the opportunity to review the reasonableness and legitimacy of actual expenditures, please explain why Hydro-Québec should be able to count toward the calculation of the ESM, expenditures which would not be allowed for purposes of calculating revenue requirements under the current rate setting process.

Réponse:

Voir les réponses aux questions 28.1 et 29 de la Régie à la pièce HQTD-5, document 1.

Also, refer to response to Request 3.1.

3.3 Please indicate how HQ is suggesting treating any expenses resulting from breach of contract, negligence, or previously disallowed expenses in the context of calculating actual earnings under the ESM.

Réponse:

Please refer to response to Request 3.1 and see response to Question 14.1 of HQTD-3, document 1 (B-0020).

Voir également la réponse à la question 28.1 de la Régie à la pièce HQTD-5, document 1.

3.4 Please indicate how HQ is suggesting treating unexpected non recurrent expenses in the context of calculating actual earnings under the ESM.

Réponse :

Non recurrent expenses, expense reductions, and revenues will be included in calculating actual earnings for purposes of the ESM as long as they are associated with the provision of regulated utility service. One of the objectives of the ESM is capture the variation in earnings attributable to the normal ebb and flow of the business, including any non recurrent expenses or revenues, as long as they are associated with providing regulated utility service.

Voir également la réponse à la question 28.1 de la Régie à la pièce HQTD-5, document 1.

Question 4 :

Reference :

(i) C-FCEI-0038 (translation of B-0018), p. 23 of 41

Context :

- (i) Answering question 12.3 from the Régie about the regulatory framework in which the overearnings will be examined, HQ mentions, referring to the annual reports yearly filed with the Régie, that "The divisions are of the opinion that this tried and tested strict regulatory framework is adapted to draw up the annual statement of performance variances and determine the amounts that must or must not be remitted to the customer base pursuant to the ESM that will be approved".

Question 4:

4.1 Would the divisions be open to considering a process in which the reasonableness of actual costs would be looked at through a paper hearing?

Réponse :

See the responses to questions 29 and 29.2 of the Régie in Exhibit HQTD-5, document 1.

Question 5 :

Reference :

(i) B-0008, p.9

Context :

- (i) In answer to a question, Mr. Yardley mentions: "Tiered sharing formulas can be designed to either increase the percentage of customer sharing as earnings increase or they can incorporate a decreasing customer share as earnings increase."

Question :

5.1 Please provide examples of actual ESMs with decreasing customer shares.

Réponse:

Mr. Yardley cited the potential for decreasing customer shares to help drive home the impact of an ESM on the incentive to pursue efficiency gains. It is this concern that led the Alberta Utilities Commission to decline to include an ESM as part of future Performance-Based Regulation plans. (Decision 2012-237 issued September 12, 2012, paragraph 818).

Question 6

Reference :

- (i) B-0008, pp.13 and 14

Context :

- (i) In answer to a question, Mr. Yardley mentions: "Annual rate filings based on cost-of-service principles act as a disincentive to pursue efficiency gains, although the evidence indicates that HQD and HQT have each been able to reduce Operating Expenses below the level that has been used to calculate rates over the past few years.

For purposes of designing an ESM in this proceeding, this implies that an understanding that the ESM will remain in place for a number of years, even if rates are to be reset more frequently will promote the pursuit of efficiency gains."

Question:

6.1 Please explain why, in the context of annual rate filings based on cost-of-service principles (which act as a disincentive to pursue efficiency gains), the understanding that the ESM will remain in place for a number of years will promote the pursuit of efficiency.

Réponse:

The preamble to this question cited a quotation that stopped short of including the next sentence in Mr. Yardley's testimony: "[i]t also implies

that a meaningful deadband is appropriate to provide an incentive for HQD and HQT to pursue these efficiency gains."

An understanding that an ESM with a meaningful deadband will remain in place in subsequent years increases the incentive for the utility to pursue efficiency gains that may require an initial investment and/or take a longer period if time for the efficiency benefits to be realized.

Question 7 :

Reference :

(i) C-FCEI-0027 (translation of B-0004), p. 20

Context :

(i) In its evidence HQ mentions: "However, from a rate stability perspective, it would be relevant to re-assess the conditions according to the size of the earnings deviations to be shared."

Question :

7.1 Please confirm that HQ is not suggesting that sharing rules could be revised depending on their size, but that the modalities to return the clients' share could be re-assessed to avoid rate volatility.

Réponse :

Hydro-Québec is not suggesting any change to the sharing parameters based on the size of any sharing with customers. Hydro-Québec is suggesting that some flexibility to adjust the timing of the sharing may be appropriate to address rate volatility concerns. Such an adjustment would be proposed in a rate case.

Question 8 :

Reference :

(i) C-FCEI-0027, pp. 18 and 19.

Preamble :

(i) In response to the Request for Additional Evidence from the Régie, request 19.2, "Please indicate which existing or new performance measures the Transmission Provider and the Distributor would use in an ESM," Hydro-Québec responded, in

part: "Furthermore, the Transmission Provider and the Distributor maintain the following variance accounts set up to ensure fair treatment of the parties and to cover significant factors beyond their control. These accounts are as follows:

HQT:

Variance account for revenue from point-to-point transmission services;

Variance account for pension costs;

HQD:

"pass-on" account for the purchase of electricity;

Variance account for transmission loading;

smoothing account for transmission and distribution revenue for weather conditions;

Variance account for fuel cost;

Variance account for load retention rates;

Variance account for pension costs;

Variance account for major blackout costs;

variance account for costs related to the Bureau de l'efficacité et de l'innovation énergétiques."

Questions :

8.1 For each of the variance accounts, please provide the budgeted and actual amounts of revenues or costs for years 2007 through 2012.

Réponse:

See the response to question 4 of the ACEF of Québec in Exhibit HQTD-5, document 3.

8.2 When were those variance accounts approved?

Réponse:

See the response to question 4 of the ACEF of Québec in Exhibit HQTD-5, document 3.

8.3 Besides those costs covered by variance accounts, are there other budget item that do not affect earnings differentials because they are known with certainty. Costs fixed by contract would be an example of that.

Response:

All of the Petitioners' budget items are subject to variances, since the costs associated with the test year are based on projections. The budget items covered by variance accounts protect the Petitioners as well as the clients.

8.4 Please confirm that HQT revenues from HQD are also neutralized in addition to point-to-point revenues.

Response:

The variance account for the point-to-point transmission service revenues represents the variance between the projected revenues for point-to-point transmission services and the actual revenues recorded for those services. The balance of the variance account is allotted to the clients of the long-term point-to-point transmission services and of the native load. What is more, the annual invoice for the native load transmission services is fixed.

8.5 Please confirm that in addition to the above mentioned accounts, HQD also maintains variance accounts covering the costs of major projects. Please identify the major projects for which HQD has maintained variance accounts during the period 2007 through 2012 and the budgeted and actual costs in each year included in these variance accounts. Please identify the major projects for which HQD has proposed variance accounts for 2014 and the budgeted 2014 spending to be included in each such variance account.

Response:

The Distributor confirms that whenever necessary, it uses variance accounts for deferred expenses of projects worth \$10 million and more. In 2014, no variance account was presented in respect of projects exceeding \$10 million in R-3854-2013.

Variances between the actual and recognized amounts of the variance accounts used between 2007 and 2012 were presented in Exhibits HQD-8, document 7 of R-3740-2010, R-3776-2011 and R-3814-2012.

8.6 Please indicate the total amount of pension costs included in the 2014 revenue requirement including indirect pension costs imbedded in the costs of internal service providers. Please confirm that the totality of those costs is neutralized through pension costs variance accounts.

Réponse:

For the Distributor, see Table 4 in Exhibit HQD-7, document 1 (B-0023) of R-3854-2013. The Distributor confirms that all of the pension costs variance is neutralized through the pension costs variance account.

For the Transmission Provider, the pension costs included in the projected revenue requirement for 2014 stand at \$71.1 million. The Transmission Provider confirms that all of the pension costs variance is neutralized through the pension costs variance account.

Question 9 :

Reference :

(i) C-FCEI-0038, p. 41

Context :

- (i) In response to the Request for Additional Evidence from the Régie, request 19.2, "Please indicate which existing or new performance measures the Transmission Provider and the Distributor would use in an ESM," Hydro-Québec responded, in part: "Without commenting on the specific measures to be included, a question which Mr. Yardley has not studied, Mr. Yardley believes that they should reflect only the most important measures of service quality that can be objectively measured (e.g. reliability of service)...."

Questions :

9.1 For the Distributor, what were the System Average Interruption Duration Index (SAIDI) minutes of interruption per customer for each year from 2007 through 2012?

Response:

The SAIDI for 2008 to 2012 are presented in rate case R-3854-2013, Table 3 of Exhibit B-0013/HQD-1, document 5. For 2007, please see rate case R-3814-2012, Table 2 of Exhibit B-0025/HQD-7, document 2.

9.2 What methodology has Hydro-Québec used to calculate normalized SAIDI to exclude interruptions that are mainly caused by extreme weather conditions?

Response:

The Distributor presents its own methodology for normalizing the interruption duration index in R-3854-2013, Schedule D of Exhibit B-0013/HQD-1, document 5, page 33.

9.3 For the Distributor, what would be the System Average Interruption Duration Index (SAIDI) minutes of interruption per customer including interruptions mainly caused by

extreme weather events for each year from 2007 through 2012?

Response:

See the response to question 9.1.

9.4 What is the breakdown of SAIDI minutes of interruption per customer for each year from 2007 through 2012 (without and with interruptions mainly caused by extreme weather events) between average minutes of interrupted service for residential customers, small commercial and industrial customers, and large commercial and industrial customers?

Response:

The information the Distributor has is not broken down by type of client.

9.5 Has Hydro-Québec conducted any studies of the costs to customers associated with service interruptions, including but not limited to Value of Lost Load surveys? If so, please provide these studies.

Response:

No. The Distributor does not conduct such studies.