

RÉGIE DE L'ÉNERGIE

ÉTABLISSEMENT D'UN MÉCANISME DE RÉGLEMENTATION  
INCITATIVE ASSURANT LA RÉALISATION DE GAINS  
D'EFFICIENCE PAR LE DISTRIBUTEUR D'ÉLECTRICITÉ  
ET LE TRANSPORTEUR D'ÉLECTRICITÉ

DOSSIER : R-3897-2014 Phase 1

RÉGISSEURS : Mme DIANE JEAN, présidente  
Me LISE DUQUETTE  
M. BERNARD HOULE

AUDIENCE DU 20 SEPTEMBRE 2016

VOLUME 5

CLAUDE MORIN  
Sténographe officiel

COMPARUTIONS

Me JEAN-FRANÇOIS OUIMETTE  
procureur de la Régie;

MISE EN CAUSE :

Me ÉRIC FRASER  
Me JEAN-OLIVIER TREMBLAY  
procureurs d'Hydro-Québec Distribution (HQD);

INTERVENANTS :

Me STEVE CADRIN  
procureur de Association hôtellerie Québec et  
Association des restaurateurs du Québec (AHQ-ARQ);

Me GUY SARAULT  
procureur de Association québécoise des  
consommateurs industriels d'électricité et Conseil  
de l'industrie forestière du Québec (AQCIE-CIFQ);

Me ANDRÉ TURMEL  
procureur de Fédération canadienne de l'entreprise  
indépendante (section Québec) (FCEI);

Me ÉRIC DAVID  
procureur de Option consommateurs (OC);

Me PRUNELLE THIBAUT-BÉDARD  
procureure de Regroupement national des conseils  
régionaux de l'environnement du Québec (RNCREQ);

Me DOMINIQUE NEUMAN  
procureur de Stratégies énergétiques et Association  
québécoise de lutte contre la pollution  
atmosphérique (SÉ-AQLPA);

Me HÉLÈNE SICARD  
procureure de Union des consommateurs (UC);

Me CATHERINE ROUSSEAU  
procureur de Union des municipalités du Québec  
(UMQ).

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1 L'AN DEUX MILLE SEIZE (2016), ce vingtième (20e)  
2 jour du mois de septembre :

3

4 PRÉLIMINAIRES

5

6 LA GREFFIÈRE :

7 Protocole d'ouverture. Audience du vingt (20)  
8 septembre deux mille seize (2016), dossier R-3897-  
9 2014 Phase 1, établissement d'un mécanisme de  
10 réglementation incitative assurant la réalisation  
11 de gains d'efficience par le distributeur  
12 d'électricité et le transporteur d'électricité.

13 Poursuite de l'audience.

14 LA PRÉSIDENTE :

15 Alors, bonjour à tous. Alors, bienvenue à cette  
16 deuxième journée. Aujourd'hui nous entendrons, tel  
17 que prévu, la FCEI, OC, le RNCREQ, SÉ-AQLPA, UC  
18 auxquels devrait s'ajouter l'UMQ qui était annoncé  
19 pour demain matin. Alors, Maître Rousseau, ça va?

20 Me CATHERINE ROUSSEAU :

21 Pas de problème.

22 LA PRÉSIDENTE :

23 Merci. Mais, d'abord, Maître Fraser, est-ce que  
24 votre témoin est prêt à répondre à la question de  
25 maître Cadrin?

1 Me ÉRIC FRASER :

2 Ah! Bien, je cherchais maître Cadrin. Alors, j'ai  
3 déposé ce matin...

4 LA PRÉSIDENTE :

5 Et le voilà.

6 Me ÉRIC FRASER :

7 Ah, bon, écoutez. J'ai quand même déposé l'extrait  
8 complet, en fait, de la section, les deux pages  
9 dans lesquelles se trouvait la citation de mon  
10 confrère que je dépose sous HQT-HQD-0082, le nom du  
11 document étant « Excerpt from report : « Incentive  
12 Regulation Options for Ontario Power Generation's  
13 Prescribed Generation Assets ». » Alors, si mon  
14 confrère veut poser sa question, le document est...

15

16 C-HQT-HQD-0082 : Excerpt from report : « Incentive  
17 Regulation Options for Ontario  
18 Power Generation's Prescribed  
19 Generation Assets »

20

21 LA PRÉSIDENTE :

22 Alors, Maître Cadrin, êtes-vous prêt à reformuler  
23 votre question pour le bénéfice de tous?

24 PREUVE DE HQD

25

1 L'AN DEUX MILLE SEIZE (2016), ce vingtième (20e)  
2 jour du mois de septembre, ONT COMPARU :

3

4 JEAN LAPOINTE, contrôleur Hydro-Québec  
5 Distribution, ayant une place d'affaires au 75,  
6 René-Lévesque Ouest, Montréal (Québec);

7

8 LUC DUBÉ, chef cadre financier réglementaire, ayant  
9 une place d'affaires au 75, René-Lévesque Ouest,  
10 13e étage, Montréal (Québec);

11

12 FRANÇOIS G. HÉBERT, directeur des affaires  
13 réglementaires et environnement Hydro-Québec  
14 Distribution, ayant une place d'affaires au 75,  
15 René-Lévesque Ouest, 22e étage, Montréal (Québec);

16

17 FRANÇOISE METTELET, chargée d'équipe stratégie  
18 réglementaire, ayant une place d'affaires au 75,  
19 René-Lévesque Ouest, 22e étage, Montréal (Québec);

20

21 JAMES M. COYNE, Senior Vice President Concentric  
22 Energy Advisors, place of business located at 293  
23 Boston Post Road West, Marlborough (MA);

24

25



1 ROBERT C. YARDLEY Jr., Senior Vice President  
2 Concentric Energy Advisors, place of business  
3 located at 293 Boston Post Road West, suite 500,  
4 Marlborough, (MA);

5  
6 LESQUELS, sous la même affirmation solennelle,  
7 déposent et disent :

8  
9 CONTRE-INTERROGÉS PAR Me STEVE CADRIN :

10 D'abord, je m'excuse de mon arrivée sur le coup de  
11 neuf heures (9 h 00) ou à peu près. Ça ne sera pas  
12 long, je vais juste retrouver la page de ma  
13 question pour la rephraser.

14 LA PRÉSIDENTE :

15 À la page 36.

16 Me STEVE CADRIN :

17 Oui, la page 36 du document, oui, mais...

18 LA PRÉSIDENTE :

19 Oui.

20 Me STEVE CADRIN :

21 ... de mes questions à moi. Parce que vous m'avez  
22 demandé de la rephraser, alors je... avec plaisir.

23 (9 h 05)

24 A. Good morning.

25 Q. [1] Good morning to you. The question was, I was

1 quoting a part from your report, which is on page  
2 36, I understand that Maître Fraser has given us  
3 also the benefit of page 35, which is provide the  
4 whole section we're referring to. So the passage I  
5 was quoting is:

6 The reliance on variance and deferral  
7 accounts can also impact incentives in  
8 a cost-of-service model.

9 This is on page 36 again.

10 For example, many vertically  
11 integrated utilities recover the fuel,  
12 variable O&M, and purchased power  
13 costs attributable to electricity  
14 production through a separate variance  
15 account with balances that are passed  
16 through the customers. Absent a target  
17 and/or sharing mechanism the  
18 passthrough feature can reduce the  
19 incentive to minimize these costs,  
20 although the threat of an after-the-  
21 fact performance review does act as a  
22 restraint, at least with respect to  
23 imprudent behaviour.

24 And my question was, Mr. Yardley, would you  
25 agree that the statement in this report that you

1 co-authored would directly apply to HQD's short-  
2 term purchase power cost situation? At the time,  
3 your answer was yes. Do you have anything else  
4 to say regarding that question?

5 A. I think the question's been modified slightly. I  
6 just checked... I checked the transcript last  
7 night, so it wasn't narrowly focussed on short-term  
8 purchases, as I recall.

9 Q. [2] I'm sorry, I didn't get your answer?

10 A. So, I think you've just changed the question  
11 slightly, because...

12 Q. [3] Well, I'm reading your question, which says:

13 Mr. Yardley, would you agree that this  
14 statement in this report that you co-  
15 authored would directly apply to HQD's  
16 short-term purchase power costs  
17 situation.

18 You said I didn't say yesterday short-term  
19 purchase power cost situation?

20 A. I don't know if you did or you didn't.

21 Q. [4] I'm sorry if I didn't.

22 A. Yeah, it's fine. The... I haven't really thought  
23 about whether or not you could design an incentive  
24 just for the short-term purchases, that's not  
25 really what this particular document is about. This

1 document refer to OPG, which has... and the focus  
2 of the report was on the generation that's owned by  
3 OPG, not on anything else. They did have some  
4 variance accounts to deal with maybe water flow was  
5 high or low in a given year, and OPG also sells  
6 ancillary services into a market, so that it would  
7 be very difficult to project, you know, what the  
8 expense would be associated with those. So that was  
9 the purpose of the variance accounts in OPG. I  
10 don't know if the short-term purchases exhibit  
11 those same characteristics. I understand they're  
12 covered by a variance account now, as part of the  
13 broader variance account, so I don't think I really  
14 have an opinion on whether or not this relates  
15 to... I don't really have an opinion on whether or  
16 not an incentive mechanism just focussed on the  
17 short-term purchases would be appropriate or not  
18 appropriate, or whether the variance account is  
19 really the right way to go. I'm not... I don't have  
20 an opinion on which tool is really best in a  
21 circumstance.

22 Q. [5] Just to go back to the quote, we're talking  
23 about purchase power costs in the quote, that you  
24 will find on the third line, which is one of the  
25 things that's passed through the customers,

1 basically the same thing as HQD? Do we agree on  
2 that?

3 A. Yes, this is just a general... this is a very  
4 general statement with respect of cost of service  
5 regulation. The entire chapter is talking about  
6 cost of service, also providing incentives, that  
7 we're not going from a system of no incentives to  
8 one with incentives. Each model has its own  
9 incentives. This is just a very general sentence,  
10 consistent with what we've talked about so far in  
11 the hearing.

12 Q. [6] I'm just trying to break it down. So, first  
13 things first, we do have purchase power costs that  
14 are passed through to customers in our system, or  
15 with HQD, the same as OPG. That's what we're  
16 referring to in that statement, or that quote.

17 A. I believe that that's the case.

18 Q. [7] And I was referring to... I'm going to go to  
19 the end of the... oh, I'm sorry. Do you have  
20 something else to add, Mr. Yardley? Mr. Coyne...

21 MR. ROBERT C. YARDLEY:

22 A. Well, if I might, and...

23 Q. [8] You can, yes, for sure, even though it's not in  
24 your report in that case, but..

25 A. Well, I do work for OPG. I'm working for them now,

1           testifying in their current rate case. So, they  
2           serve a very different model of course than HQD in  
3           that their primary role is a generator. They're  
4           much more like HQP than they are like HQD. I  
5           understand.

6           (9 h 10)

7                         And I'm not aware of them purchasing power,  
8           unless they needed to do it in the short-term to  
9           satisfy an outage at the plant in order to meet  
10          their other obligations. Of course, their primary  
11          role is production of hydropower and nuclear power.  
12          And so, I'm not sure that they serve a parallel  
13          function of short-term purchasing the same way that  
14          HQD does. So, I would want to take that parallel  
15          too far. They serve very different functions.

16         Q. [9] But when we say "purchase power costs" in that  
17          quote your knowledge of OPG, what would that be  
18          then?

19         A. I'm not aware... I'd have to ask Mr. Yardley here  
20          that OPG exercises short-term power purchases.

21         Q. [10] Okay, so...

22         A. Is that contended in that report?

23         Q. [11] Maybe I'll switch to my questions to Mr.  
24          Yardley...

25

1 Mr. ROBERT C. YARDLEY:

2 A. It's just a very general...

3 Q. [12] ... and Mr. Coyne...

4 A. Yes, it's a very general comment really in the...

5 Q. [13] I don't want you to... You can answer, you can  
6 provide us with information about OPG, no problems  
7 with that. But in that report, we can switch back  
8 to the report, what were you referring to, Mr.  
9 Yardley, when you talked about "purchase power  
10 costs", making a general statement like that in an  
11 OPG case?

12 A. It's just a very generic statement. The purpose of  
13 the report was to identify a multitude of options.  
14 It was at the very beginning of OEB's consideration  
15 of an incentive mechanism for OPG. So, at this  
16 point in the report, there's just some education  
17 going on.

18 Q. [14] Perfect. Okay.

19 A. And the point of this section was just a reminder  
20 that were going to an incentive mechanism, let's  
21 not forget that cost of service regulation has its  
22 own set of incentives. And that would be true today  
23 with Hydro-Québec... currently has its own  
24 incentives under the current model.

25 Q. [15] In the last part of the paragraph when we

1 talked... this is what we're referring to, is:

2 [...] after-the-fact performance  
3 review does act as a restraint at  
4 least with respect to imprudent  
5 behavior.

6 What would be the kind of after-the-fact  
7 performance review that we could find? What did you  
8 suggest in the OPG case, if you did suggest  
9 something?

10 A. Yes, there was no recommendation at all related to  
11 this particular paragraph. The OPG recommendations  
12 set out a range of possible incentive mechanisms  
13 for their hydroelectric and nuclear facilities.

14 Q. [16] So, "after-the-fact performance review does  
15 act as a restraint", what were you referring to...

16 A. So that would be...

17 Q. [17] ... generally?

18 A. Yes, so, if there was... and this would apply to  
19 HQD as well, if there was some concern that they  
20 had acted imprudently with respect to the short-  
21 term purchases, which I think is the issue that you  
22 are most concerned with, the Régie would have the  
23 authority to investigate and determine if some  
24 imprudent action had taken place. And that would  
25 act as a restraint on HQD's exercise of its short-



1 term purchases.

2 Q. [18] So, there's no mechanism of performance review  
3 that you found and generally going about seeing  
4 other regulated utilities and things like that. You  
5 didn't find any performance review that could maybe  
6 help us, after the fact, to check that everything  
7 was done in the proper manner.

8 A. It's done... well, typically, since regulators  
9 don't want to get burned with performance review on  
10 every aspect of every utility they regulate, they  
11 weighed... if they observed while some else raises  
12 an issue and says, "Look, we think there's a  
13 prudence issue," staff will frequently just review  
14 it, make a recommendation, "We think this is a  
15 serious issue. Let's conduct an inquiry." I've  
16 conducted these studies myself.

17 Q. [19] So, we have to raise a flag and then we check.

18 A. Well, that's...

19 Q. [20] There's no way to have a performance review  
20 mechanism put in place for after-the-fact review.

21 A. I think that's the most efficient model. Otherwise,  
22 the regulatory model will be burned with these  
23 types of inquiries. So, you want to wait until  
24 there's an indication that...

25 Q. [21] Okay.

- 1 A. I mean, that's the way every...
- 2 Q. [22] One supply...
- 3 A. ... regulator...
- 4 Q. [23] ... we're talking about supply. It's like  
5 seventy something percent of the... well, not  
6 seventy percent... something percent, which I think  
7 it's less than that for you; fifty percent (50%) of  
8 the cost that...
- 9 A. Right.
- 10 Q. [24] ... passes through to customers. Maybe I'm  
11 wrong with the numbers, but significant amount...
- 12 A. Absolutely. Yes...
- 13 Q. [25] So, there...
- 14 A. ... in this case...
- 15 Q. [26] ... a performance review on that part, which  
16 is a huge part of the bill that is sent to the  
17 customers...
- 18 A. Well...
- 19 Q. [27] ... you say that's a burden to the Régie?
- 20 A. No. As I understand it, there's a filing and  
21 stakeholders have an opportunity to see what costs  
22 have been spent.
- 23 Q. [28] Beforehand. Beforehand, for the plan.
- 24 A. But even when they go to recover their costs, I'm  
25 assuming that there's some review after the fact

1 where...

2 Q. [29] Yes, there is. There is.

3 A. And so, during that review, if people get a chance,  
4 as I understand it, to look at all the costs and  
5 then a party or the Régie could raise a question  
6 and indicate, "You know, this looks like a serious  
7 issue." It may have happened in the past, and it  
8 conducted more detail drilled down into that  
9 particular issue to determine if it was a prudence  
10 issue based on the application of a prudence  
11 standard, based on what...

12 Q. [30] Okay. So, no mechanism...

13 A. ... each knew at the time.

14 Q. [31] ... in itself. No mechanism for...

15 A. You wouldn't want it.

16 (9 h 16)

17 Q. [32] ... indicator, any kind of a thing that would  
18 help us raise flag if there's a problem or not and  
19 then we can discuss about what were the reasons for  
20 what we thought, at first, maybe could have been  
21 imprudent supply costs incurred.

22 A. You have an opportunity for discovery, I'm  
23 assuming.

24 Q. [33] Yes.

25 A. And so, through discovery, you can pursue the issue

1 as much as you like, I would imagine.

2 M. FRANÇOIS G. HÉBERT :

3 R. Maître Cadrin, si vous le permettez. Vous permettez  
4 que j'ajoute un commentaire?

5 Me STEVE CADRIN :

6 Q. [34] Bien certainement, certainement.

7 R. Comme je l'ai mentionné hier, le cadre  
8 réglementaire au Québec quant aux transactions de  
9 court terme est clairement défini par la Régie. Les  
10 transactions court terme qui sont effectuées - et  
11 là, on parle de transactions court terme, c'était  
12 le sens de votre question - qui sont effectuées  
13 sous dispense font l'objet d'un suivi administratif  
14 par la Régie. Ça c'est suite à une décision, la  
15 D-2007-044.

16 Q. [35] Vous me l'avez dit hier Maître Hébert.

17 R. Oui, je le répète.

18 Q. [36] D'accord.

19 R. Parce qu'il y a des suivis. Vous parlez de drapeaux  
20 qui doivent être levés, alors il y a une analyse  
21 attentive qui est faite par le personnel de la  
22 Régie lorsque le Distributeur dépose ses suivis des  
23 transactions court terme. Il y a également une  
24 analyse qui est faite dans le cadre des rapports  
25 annuels du Distributeur, toute l'information y est

1 mentionnée, et il y a troisième forum où les  
2 intervenants ont la chance de soulever les  
3 transactions qui peuvent leur sembler coûteuses ou  
4 imprudentes et je mentionnais hier l'exemple du  
5 dossier tarifaire de l'année dernière où on en a  
6 discuté longuement.

7           Alors, il y a des forums, comme le  
8 mentionnait monsieur Yardley, pour soulever ces  
9 enjeux-là et on parle d'allégement de la  
10 réglementation en vertu de l'article 48.1 qui est  
11 applicable au Distributeur, alors que d'avoir un  
12 autre forum, un autre outil, ce serait ajouter un  
13 quatrième outil aux outils qui existent déjà. On ne  
14 pense pas que ça soit opportun et on pense que le  
15 cadre réglementaire actuellement est équitable, il  
16 y a une transparence adéquate et ça aussi, la Régie  
17 l'a mentionné dans le cadre de sa décision D-2007-  
18 044.

19 Q. [37] Merci Maître Hébert, j'entends votre  
20 plaidoyer. Ceci étant dit, ça conclut mes questions  
21 pour les experts et le panel d'Hydro-Québec. Merci  
22 beaucoup Messieurs.

23 LA PRÉSIDENTE :

24 Merci.

25

1 Me STEVE CADRIN:

2 Thank you very much, Sir.

3 Mr. ROBERT C. YARDLEY:

4 Thank you.

5 LA PRÉSIDENTE :

6 Merci Maître Cadrin. Maître Turmel pour la FCEI.

7 INTERROGÉS PAR Me ANDRÉ TURMEL :

8 Bonjour Madame la Présidente, bonjour aux  
9 Régisseurs. André Turmel pour la Fédération  
10 canadienne de l'entreprise indépendante. Bonjour  
11 aux panelistes, good morning Mr. Yardley, good  
12 morning Mr. Coyne. So FCEI is representing small  
13 and medium businesses.

14 Q. [38] Alors, peut-être qu'on va commencer notre  
15 première ligne de questions avec la pièce C-HQD-  
16 0052 et mes questions vont être dirigées vers les  
17 experts, so I would ask you to take C-HQT-HQD-0052,  
18 which is Régie number 52, which are the answers to  
19 information request provided by FCEI. Then I would  
20 ask you to go to question 2.2. 2.2 C-HQT-HQD-0052.  
21 Let me know when you are... 2.2. Okay, at 2.2., let  
22 me know when you're there, Sir. Okay?

23 Mr. ROBERT C. YARDLEY:

24 A. Okay.

25 Q. [39] So at 2.2, well, the question is in French

1 but, basically... but the question was asked to  
2 both HQ and you: how should the future MRI, how it  
3 should incentivize HQD to make sure that it  
4 optimizes its investment expenses. Then, in French,  
5 I suspect HQD answered that, basically, they have a  
6 current regulatory framework, the way it works and  
7 that's it. And then, you provided the following  
8 answer, which is réponse de Concentric, I'm going  
9 to quote them, if you don't mind. So,

10 With respect to HQD,  
11 you stated that,

12 Optimal capital expenditures will be  
13 determined by asset management  
14 practices and operational  
15 requirements, including the obligation  
16 to maintain a reliable and resilient  
17 distribution network. Once HQD commits  
18 to an investment authorized by the  
19 Régie, it has an obligation to  
20 implement that investment according to  
21 the relevant decision, and  
22 amortization expense will be incented  
23 under the proposed MRI.

24 With respect to HQT,  
25 Optimal capital expenditures should be

1                   determined by asset management  
2                   practices and operational  
3                   requirements, including the obligation  
4                   to maintain a reliable and resilient  
5                   transmission network.

6           It looks the same like above.

7                   Once HQT commits to an investment  
8                   authorized by the Régie, it has an  
9                   obligation to implement that  
10                  investment according to the relevant  
11                  decision and to manage all its costs  
12                  as efficiently as possible, including  
13                  CAPEX.

14           End of your statement. So We will go... we'll work  
15           with those statements for the following minutes.  
16           So, will you please, first of all, explain what you  
17           mean when you wrote:

18                   Optimal capital expenditures will be  
19                   determined by asset management  
20                   practices and operational  
21                   requirements, including the obligation  
22                   to maintain a reliable and resilient  
23                   distribution network.

24           So, basically, give me more about that sentence,  
25           what you meant by that.



1 (9 h 21)

2 Mr. ROBERT C. YARDLEY:

3 A. The distribution planning is one of the central  
4 functions of a distribution utility, so... And,  
5 typically, the way that it works is that each year  
6 the distribution planning group will take  
7 information regarding the stress on existing assets  
8 from prior experience. It could be... it would  
9 include outages on certain feeders, it would  
10 include issues at substations, it would include a  
11 load forecast by area that allows them to identify  
12 that going forward some number of years because  
13 they typically would look at least five years in  
14 advance because of the time required to make the  
15 investments necessary to address the issue. So, I'm  
16 excluding emergency circumstances. And they would  
17 make... come up with a proposed capital budget for  
18 the coming year. That capital budget would be  
19 subject to a total financial target. You know, you  
20 cannot do everything, every year, without  
21 maintaining control over the amount that you are  
22 investing. And so, the capital budget would be  
23 prioritized based on various criteria that would  
24 include the severity of the risk to reliability and  
25 resiliency. It would include projects that HQD is

1 required by government to execute. And it would  
2 also examine the option of either replacing a piece  
3 of equipment. It could be a significant piece or a  
4 minor piece, versus trying to keep that equipment  
5 in service for another year, or two or three,  
6 through some maintenance programme. So, that's the  
7 optimization that takes place. It is assisted by  
8 very sophisticated load analysis models that only a  
9 distribution planner could explain. But  
10 essentially, it looks out into the future and at  
11 various scenarios and examines the stress,  
12 incremental stress, on facilities and that would be  
13 the practice...

14 Q. [40] Okay.

15 A. ... that is followed.

16 Q. [41] Thank you. So, basically, if I do understand,  
17 you say that this management practice... those  
18 asset management practices by themselves do insure  
19 the optimization of investment.

20 A. They do. They're subject to... typically subject to  
21 a constraint that... driven by rate impact concerns  
22 and financial concerns in some instances, that you  
23 wouldn't want to do everything in one year, if it  
24 didn't need to be done. You certainly want to  
25 address the issues in time so that reliability,

1 which is typically an absolute objective of the  
2 utility, is not threatened. But you would be  
3 mindful of the impact on customers as you are  
4 performing that exercise.

5 Q. [42] Okay. Thanks. And when you wrote that... with  
6 respect to HQT, even though HQT is another story  
7 later on, but I want to measure what that passage  
8 on HQD. When you wrote that... about HQT that:

9 [... ] commits to an investment  
10 authorized by the Régie, then it has  
11 an obligation to implement that  
12 investment according to the relevant  
13 decision and to manage all its costs  
14 as efficiently as possible, including  
15 CAPEX.

16 Question: does that apply also to HQD, this  
17 sentence, to your knowledge?

18 A. I don't know specifically the answer to that  
19 question.

20 Q. [43] Okay.

21 A. I'm assuming that the... I believe the practice I  
22 described is the way that HQD plans its system. The  
23 one caveat that I would make is that HQT has  
24 invested in a new asset management model that it  
25 has been refining to take a more... to address this

1 issue for the transmission network.

2 Mr. JAMES M. COYNE:

3 A. If I might add, and we're making the same  
4 statement, so we feel... so, yes, the same  
5 obligation exists, to manage its system according  
6 to that. As we say, the obligation implement  
7 investment according to the relevant decision. So,  
8 it's the same statement. So, we see them in  
9 parallel.

10 Q. [44] Okay. Thanks. And would that statement...  
11 Sorry? Okay? Would that statement be similarly  
12 accurate with respect to investments less than ten  
13 million dollars (\$10 M) approved globally by HQD,  
14 as you know, in the distribution?

15 (9 h 26)

16 Mr. ROBERT C. YARDLEY:

17 A. It would... the investment... obviously, the larger  
18 than ten million dollar- (\$10 M) projects receive,  
19 you know, targeted focus. Before that, but the,  
20 there is a large number of relatively small  
21 investments, which would be typically grouped into  
22 categories. And so as HQD was preparing its budget,  
23 it would decide to allocate, you know, X percent to  
24 this particular type of issue that it's addressing,  
25 poles for example; it wouldn't identify a project

1 for each specific pole, it would have a budget for  
2 all pole work, and the person responsible for that  
3 work would be given a budget for the year, and they  
4 would be provided with the authority and discretion  
5 to determine how to spend that, you know, which  
6 particular poles, which neighbourhoods would  
7 require the focus, for example.

8 Me FRANÇOIS G. HÉBERT :

9 R. Maître Turmel, si vous me permettez d'ajouter, dans  
10 la pratique, il est fréquent que le Distributeur et  
11 le Transporteur vont déposer un dossier conjoint,  
12 justement parce qu'il y a un projet qui, il y a de  
13 l'efficience qui se dégage de faire un projet  
14 conjointement avec le Distributeur. Depuis le début  
15 de la réglementation, on en a déposé, en  
16 Distribution à tout le moins, une vingtaine de ces  
17 dossiers conjoints-là, alors ça assure, justement,  
18 le déploiement d'une solution qui est efficace, une  
19 alternative qui est moins coûteuse généralement.

20 Et, évidemment, tout ça est revu par la  
21 Régie mais c'est la pratique qui est intégrée, là,  
22 chez le Distributeur, et sans vouloir parler pour  
23 le Transporteur, chez le Transporteur également.

24 Me ANDRÉ TURMEL :

25 Q. [45] And going back to those investment

1 authorizations, to your knowledge, is it your  
2 opinion that the fact that the Régie does authorize  
3 those investments, does that, is that sufficient  
4 to, does that guarantee or ensure that it is the  
5 optimal investment choice?

6 Mr. ROBERT C. YARDLEY :

7 A. At the time that it would review the budget and  
8 look at the individual projects, well certainly,  
9 you know, looks at the projects above ten million  
10 (\$10M), but even at the time that it looks at the  
11 budget for the ten million (\$10M) and the  
12 allocation, and it would review the reasoning and  
13 how that allocation was determined among different  
14 types of projects. And so, I would consider that to  
15 be an opportunity to review the decisions that were  
16 made, and how they were made, and the priorities,  
17 it's really a priority question.

18 Q. [46] So this is interesting what you say, the  
19 opportunity to review, as you mentioned, if we put  
20 that aside and, but I just want to go back to your  
21 opinion, your professional opinion -- is that your  
22 opinion that the Régie has a sufficient knowledge  
23 from the operational standpoint, from HQD, to be  
24 able to, well, to judge, well, to have a hundred  
25 percent (100%) average on grade marks to make to be

1 really top on the overall investment activities  
2 from HQD?

3 A. I mean, I can't render an opinion with respect to  
4 the Régie specifically, or with respect to the  
5 staff or, but, well, the distribution planning  
6 models that I referred to earlier are incredibly  
7 complex, and maybe very few of us in this room  
8 would understand them. The notion of priorities is  
9 not really that complex, I don't believe you would  
10 need to be an engineer, for example, to review, ask  
11 questions, understand the responses, and form an  
12 opinion, make a recommendation on the capital  
13 budget.

14 Q. [47] Then, in your statement, you also wrote that  
15 HQD had an obligation to maintain and to, well, to  
16 act as it was described. So I just want to  
17 understand what you mean by this obligation. First  
18 of all, on what basis do you state that HQD has an  
19 obligation to manage its cost in an efficient way,  
20 is that a moral obligation or legal, I'm not asking  
21 you any legal stuff, but when you say "obligation",  
22 normally, we go and look into the text, or what do  
23 you mean by this?

24 A. Well, I'll take the two comments separately --  
25 reliability and resiliency. So with respect to

1 reliability of service, you know, maintaining under  
2 normal circumstances, not extreme, storm, or  
3 weather, or stresses on the network, I would state  
4 that HQD has an obligation, under blue-sky  
5 circumstances, to ensure that their network is  
6 capable of delivering electricity to every customer  
7 at all times. Obviously, there will be equipment  
8 outages that are unanticipated cars would run into  
9 poles but, in terms of normal circumstances, I  
10 would say that's an absolute obligation.

11 (9 h 31)

12 With respect to resiliency, the matter is,  
13 it's a little bit different because you can make an  
14 electric distribution system one hundred percent  
15 (100%) resistant to outages from an ice storm, for  
16 example. You could underground every facility in  
17 Quebec so there, in the case of resiliency, it's a  
18 matter that requires more public input to determine  
19 where those trade-offs might be in terms of the  
20 costs, you know, where on the curve do you want to  
21 be. If you think of it as a curve, where the, you  
22 know, when you're moving up the curve, small  
23 investments can add a lot to resiliency but you do  
24 get to a point where you're spending a lot of money  
25 for relatively small increments to go from ninety-



1 five percent (95%) to ninety-six percent (96%). So,  
2 there's more of a conversation around resiliency  
3 that needs to take place so the customers are,  
4 you're representing customer interests in terms of  
5 the amount that's being spent.

6 Q. [48] Just to make sure, so, basically, you say the  
7 obligation is derived from two ideas: first,  
8 reliability may imply technical standards?

9 A. Yes.

10 Q. [49] Technical standards, sort of; and then,  
11 resiliency is more of a, I would take it, some sort  
12 of a moral kind of... Is that the idea? I'm not  
13 sure I'm getting that resiliency.

14 A. No, I think... Well, it's a public service  
15 enterprise.

16 Q. [50] Yes.

17 A. You know, so they're representing the public  
18 broadly, customers individually.

19 Q. [51] Okay.

20 A. The local economy. So, there's always a trade-off.  
21 But with respect to reliability under normal  
22 circumstances, I think the public would find it  
23 unacceptable if there were repeated reliability  
24 issues in a particular area of their network.

25 Q. [52] Okay.

1 A. They would be...

2 Q. [53] Okay, got it. Okay. But this kind of  
3 obligation, does that imply or guarantee that the  
4 costs by themselves are effectively managed in the  
5 most efficient way. You know, that's one thing to  
6 say "We're doing this." but is that managed in an  
7 efficient costly way?

8 A. That's the... the prioritisation would reflect that  
9 balance, there would be certainly a cost, it would  
10 be a very significant element of those decisions,  
11 both how much to spend in a given year versus  
12 deferring some until next year, which is just  
13 typical. Typically, a budget would have more  
14 deferred than actually executed in a given year  
15 because if the distribution network is doing its  
16 job, they can see some years in advance where work  
17 will need to be done. So, the cost is done then but  
18 once the projects are determined or the buckets are  
19 established - even for small projects - then it  
20 would be up to HQD to execute the projects as  
21 efficiently as possible.

22 Mr. JAMES M. COYNE:

23 A. But I just want to... Can I jump in for a moment?

24 Q. [54] Yes.

25 A. If possible without disrupting this dialogue but I

1 think the, when you used the word "obligation" the  
2 way I...

3 Q. [55] You used the word "obligation".

4 A. Yes, you're citing us.

5 Q. [56] Yes, yes.

6 A. Understood. So, I think the obligation probably is  
7 represented in paragraph 73 of the Act and there,  
8 it requires the electric power carrier and  
9 distributor to obtain the authorization of the  
10 Régie to, among other things,

11 Extend, modify or change the use of  
12 their transmission or distribution  
13 system.

14 And then, the Act requires the Régie,

15 When examining an application for  
16 authorization, the Régie shall  
17 consider such economic, social and  
18 environmental concerns as have been  
19 identified by order by the Government  
20 and, in the case of an application for  
21 the purposes of subparagraph 1 of the  
22 first paragraph, the Régie shall  
23 consider, where applicable...

24 Well, I don't need to read the entire paragraph to  
25 you but I think the obligation boils down to the

1 Act and it basically says that it's up to the  
2 Distributor in this case to present its plans and  
3 then the Régie is required, under the Act, to  
4 review those plans according to those standards.

5 So, I think that when it comes to a legal  
6 obligation, again, without practising as an  
7 attorney, that's where the rubber meets the road.  
8 What Bob is referring to is planning standards that  
9 we see as being common across the industry that we  
10 would also see HQD comply with. I think those two  
11 come together. So, the legal obligation comes from  
12 the Act, the planning tools that the company would  
13 use, the division would use, would be those that  
14 we're characterising here in this conversation.

15 M. FRANÇOIS G. HÉBERT :

16 Mais j'ajouterais, Maître Turmel, qu'évidemment, le  
17 Distributeur a l'obligation de servir en vertu de  
18 la loi, de desservir sa clientèle, et l'accessoire  
19 qui suit le principal, c'est qu'encore faut-il que  
20 le réseau soit fiable. Alors, c'est important pour  
21 le Distributeur de maintenir un réseau fiable. Et  
22 quant à l'économique des investissements, bien, non  
23 seulement il y a l'article 73 mais vous connaissez  
24 très bien le règlement d'application qui a été  
25 adopté en vertu de l'article 73 qui commande au

1 Distributeur d'établir la faisabilité économique de  
2 chacun de ses projets, d'une part, auprès de la  
3 Régie, et également de présenter des alternatives.

4 (9 h 36)

5 Vous demandiez si la Régie avait tous les  
6 outils pour évaluer du bien-fondé des projets mais  
7 un des outils, c'est certainement de présenter des  
8 alternatives, avec leurs coûts, et la Régie est en  
9 mesure à ce moment-là de prendre une décision  
10 éclairée. Et c'est ce qu'on fait depuis le début de  
11 la réglementation des activités du Distributeur.

12 Me ANDRÉ TURMEL :

13 Q. [57] So going back to the obligation, I'm not  
14 discussing whatever obligation may be in the act or  
15 regulation, they are there and if it is an  
16 obligation by statute, it is an obligation. I'm  
17 more, I'm much more interested with respect to how  
18 do we ensure, make sure that this transforms into  
19 the most efficient way to get the investment done,  
20 and to be measured, and to, I mean, I'm in this  
21 area so, for instance, how do you, this being said,  
22 apart from the regulatory process, how do you  
23 measure if HQD had met that obligation from a cost,  
24 from a cost efficiently standpoint, not from a  
25 legal standpoint, how do we ensure that, how do we

1 measure that?

2 Mr. JAMES M. COYNE :

3 A. Well, first of all, one can never be assured of  
4 optimization...

5 Q. [58] Okay.

6 A. ... optimization is a goal, and in any process that  
7 is a goal, it's difficult to measure the optimum.  
8 I'm not aware of any measure of the optimum in the  
9 electric industry when it comes to capital  
10 budgeting. It's, by definition, it's a process that  
11 contains many elements, and it's a mixture of O&M  
12 expenditures, capital expenditures, timing, and as  
13 Bob mentioned, the state of the system over time.  
14 So optimization is really complex.

15 The way a regulator typically approaches  
16 this issue is to look at the processes that the  
17 company has in place to make those determinations.  
18 And it's incumbent upon the company to show that it  
19 has processes in place that allows it to make the  
20 appropriate decisions when it comes time to make  
21 capital investments.

22 So it's an ongoing dialogue typically  
23 between the utility and its regulator, and more  
24 often than not, it's around the processes that are  
25 in place more than anything else, because it's

1           difficult for a regulator to sit in the shoes of a  
2           distributor on a day-to-day base in understanding  
3           those decisions.

4                        So it is a process-based review, and in the  
5           case of HQD, it's also an annual review today of  
6           its capital investment plans, and one of the  
7           reasons that we have recommended that that process  
8           remain in place is to give the Régie the ongoing,  
9           both the Régie and the stakeholders, the ongoing  
10          review powers and authority that they have over  
11          those capital decisions.

12        Q. [59] So just to make sure, I want to make sure, so  
13        you say that, yes, you cannot be a hundred percent  
14        (100%) sure about optimization, it's complex, it's  
15        difficult, and therefore, that's why, in a sense,  
16        you are in agreement with HQD that proposed a  
17        rather light, uncomplex method, is that, could we  
18        sum things up on that?

19        A. Not at all, no, I would say that there is a very  
20        rigorous review process here for valuating both  
21        small and large projects that exist today and will  
22        continue into the future, so I wouldn't call that  
23        "light". If anything, you know, you can contrast  
24        that against an I-X program that would be all  
25        inclusive for example, that might include capital.

1 And there, there'd be no review of capital  
2 projects, unless there was a requirement for a  
3 large project that had to happen outside of that  
4 process.

5 So in this case, you're not looking at one  
6 overall revenue path that would be inclusive of  
7 capital, you're giving the Régie and stakeholders  
8 the continued ability to review all those capital  
9 decisions. So I would say, if anything, it would  
10 be, rather than light, it would be something that  
11 would continue to have a fairly strong ongoing  
12 review of capital expenses...

13 Q. [60] Okay...

14 A. ... versus an I-X hands-off kind of a formula,  
15 which in fact we really don't see in the industry.

16 Q. [61] And, but going back to this obligation, what  
17 does happen when HQD is not meeting that  
18 obligation, as you described in the written text?

19 A. Well, then, it would be incumbent upon the Régie,  
20 if it made that determination, to question whether  
21 or not its decision-making process was the correct  
22 one and to insist that the company make changes, if  
23 it felt as though it weren't making proper capital  
24 decisions, and if the ultimate tool it has is to  
25 disallow capital investments or to disallow



1 proposals for specific projects.

2 Q. [62] But that's after the fact?

3 A. No, before the fact, because it will, the company  
4 will be filing for its, continue to file for its  
5 sub ten million dollar (\$10M) projects with an  
6 annual filing, and it will continue to file for  
7 large projects over ten million (10 M) with  
8 project-specific approval. So those are all before  
9 fact. So those review processes we view as staying  
10 in place.

11 Q. [63] So, in fact, what you say is the management by  
12 HQD, as it was described, and the current framework  
13 is sufficient in a way to guarantee, to your  
14 opinion, the efficiency. But is there any...

15 A. Well, we didn't... if I may...

16 Q. [64] Yes.

17 A. ... we're saying that it's incumbent upon the  
18 company to have those tools, but it's also the  
19 obligation of the Régie to ensure that the company  
20 is carrying out those capital investment decisions  
21 according to the standards that are embodied in the  
22 act. So it's a two (2)-part process, the company  
23 has its obligations, and the Régie has its.

24 Q. [65] Okay. So if you're so sure about the fact that  
25 management and the current process does guarantee,

1 does ensure efficiency, how come it doesn't do the  
2 same thing for the operation expenses?

3 A. Can I rephrase your question if I might, and that  
4 is why would we include operating expenses under I  
5 minus X and not capital? Is that...

6 Q. [66] No, I would not accept your rephrasing. I will  
7 ask again my question. So, the fact that you're so  
8 sure about investment expenses, no need for further  
9 I would say action or regulatory action from one  
10 hand, and on the other hand, you say... I'm asking  
11 you why therefore it shouldn't be the same idea  
12 with respect to operation expenses, where you do  
13 propose an MRI?

14 A. Yes, the reason is that operating expenses tend to  
15 be more inflation-driven, more linear, and in the  
16 case of capital... and more within the company's  
17 direct control. When the company makes  
18 hiring/firing decisions, decisions concerning  
19 maintenance levels and its various asset tranches,  
20 those are arguably much more within the company's  
21 control as opposed to whether or not it needs to  
22 replace a sub-station, or expand its distribution  
23 system to serve a new neighbourhood. Those are more  
24 discrete decisions that may or may not track with  
25 inflation, but one shouldn't assume that they do.

1           So, that's why we distinguish, and many MRI  
2           programs do distinguish, I would say in fact most  
3           do distinguish between capital expenses and  
4           operating expenses for that reason.

5           Q. [67] Okay, so if I do understand, the expenses that  
6           are in relation with investment, and the one in  
7           relation with Opex are such different in nature  
8           that it would trigger a different treatment?

9           A. Different enough, yes.

10          Q. [68] Okay. Now, I would ask you to go to HQD-HQT-  
11          Document 47. Those are the answers to questions  
12          from HQARQ. It's 1.3, question 1.3. So, C-HQD-HQT-  
13          47. Let me know when you're there.

14          A. I think I am.

15          Q. [69] Okay, good. So, in that question at 1.3 of  
16          document 47, you were asked if the fuel costs are  
17          totally without the control of HQD, and then you  
18          offered the following answer:

19                               Well, in the annual rate case, the  
20                               Régie approves fuel costs in the  
21                               related deferral account. This annual  
22                               review of supply and fuel costs is the  
23                               best incentive to ensure that these  
24                               costs are the lowest they can possibly  
25                               be for a customer.

1 First question to you, sir, on what basis are you  
2 stating that this annual review of supply and fuel  
3 costs is the best incentive to ensure that these  
4 costs are the lowest that they can possibly be? I  
5 just want to understand how do you make that  
6 statement so strong, and why?

7 (9 h 48)

8 A. Well, two (2) reasons. One is that clearly HQD  
9 can't control the price of number 2 oil that flows  
10 with international markets. So what are you left  
11 with to ensure that the company has prudent and  
12 reasonable fuel purchasing practices, and our  
13 statement here suggests that a review by the Régie  
14 to ensure that it's buying according to best  
15 practices is the next best solution that's  
16 available. So, as we see it, this is typical with  
17 any other fuel purchase review we see by regulators  
18 of utilities, we see it for both gas and electric  
19 utilities and the types of questions that are  
20 typically asked are what percentage did you  
21 contract for, what percentage did you leave the  
22 short-term purchases, what did you pay for those  
23 contracts, did you go out for bid, what was the  
24 lowest bid if you didn't choose it, and why. So  
25 those are the types of factors. What types of risk

1 management policies do they have in place, did you  
2 contract ahead in the market? Some regulators allow  
3 their utilities to have a hedging program, others  
4 don't, in which case, did you use your hedging  
5 program to mitigate the volatility in fuels prices?

6 So those are the typical reviews that we  
7 see, and I think it's probably the most effective  
8 tool that we see.

9 Q. [70] Okay.

10 A. In terms of the regulator and stakeholders ensuring  
11 that the utility is buying at the best price it can  
12 for those fuels that are beyond its direct control  
13 from a price standpoint.

14 Q. [71] You just described in a long way how... a  
15 general description of how it would be done under a  
16 study, but have you conducted any study on what you  
17 just said on this topic, on the fuel, HQD costs  
18 strategy?

19 A. No. That was not within the scope of our mandate.

20 M. FRANÇOIS G. HÉBERT :

21 R. Mais, comme le précise maître Turmel, le  
22 Distributeur, dans sa réponse, nous faisons appel à  
23 la concurrence pour avoir les meilleurs prix  
24 possibles sur le marché, alors il y a une équipe  
25 qui, évidemment, y veille tous les jours, là, ou au

1 moment où on contracte du mazout pour nos  
2 centrales.

3 Q. [72] Going back to you, gentlemen, again, how... Do  
4 you think that if the fuel costs were not the  
5 lowest as they can possibly be, from your  
6 knowledge, do you know that the Régie would be, as  
7 it is now, equipped to detect it? To detect...

8 Mr. JAMES M. COYNE:

9 A. No, we don't... We don't have knowledge of the  
10 Régie's staff's capability in that regard. What we  
11 typically see is, on staff, somebody who has  
12 expertise in fuels markets, gas markets, wholesale  
13 electric markets, to assist the Board in those  
14 evaluations, in making those determinations. If  
15 the... But we have not studied the Régie's staff's  
16 capabilities to have knowledge of that  
17 specifically.

18 Q. [73] Again, and this statement that we quote again,  
19 the 1.3 answer, I just want to make sure that this  
20 statement does apply to all types of costs, or only  
21 about fuel, about supply costs. Is that... Is there  
22 a distinction between fuel costs and more... other  
23 costs?

24 A. Well, we were referring to fuel costs specifically  
25 there, but I think one could make the general

1 statement that the review of the practices  
2 associated with pass-through costs is an important,  
3 if not the most important tool that the Régie would  
4 have. In some cases, to the extent that they're  
5 available, one could also benchmark costs against  
6 other utilities. To the extent that they're  
7 homogeneous costs. But in the case of fuels, they  
8 vary so much regionally, I'm not sure that that  
9 would be practical.

10 Q. [74] Okay.

11 A. If you were buying widgets, where there is an  
12 international market, you could compare HQD's  
13 purchases of those widgets compared to what CONED  
14 paid for them, for example. Making appropriate  
15 adjustments for exchange rates or what Ontario  
16 Hydro paid for them.

17 Q. [75] Thank you very much. So, again, within the  
18 same document, C-HQD-47, but a little bit earlier  
19 at 1.2, I'm just gonna discuss the short-term and  
20 long-term capacity need. The management of  
21 capacity... well, transmission capacity. So, at  
22 1.2, you were asked, if you got that, to discuss  
23 those issues, and in fact you said - I do take for  
24 granted that it is you that answered those - is:

25 HQD has a very limited ability to

1 influence transmission costs,  
2 particularly in the near-term. Once  
3 HQD informs HQT of its energy and  
4 power needs, resulting from the growth  
5 in demand and the supply strategy in  
6 place to satisfy its customers, HQT  
7 assesses transmission network capacity  
8 by considering all transmission  
9 customers' needs.

10 And then again:

11 HQD has some ability to impact  
12 transmission costs in the long-term  
13 through the promotion of conservation  
14 and demand management programs if such  
15 programs are significant enough to  
16 impact the timing of need for new  
17 distribution and transmission  
18 facilities that would otherwise be  
19 required to meet demand growth.

20 End of statement.

21 (9 h 55)

22 So when you say that :

23 HQD has very limited ability to  
24 influence transmission costs [...] in  
25 the near-term.



1 have you conducted any, any particular study or  
2 research on that, or it is just more a general  
3 statement from your general experience?

4 A. It is, no, we conducted no specific study, it's  
5 from our general knowledge of how utilities operate  
6 and how their costs are driven, and the  
7 relationship to transmit to both Distribution and  
8 Transmission peak loads. We did have a discussion  
9 with the company on this issue, both at the HQT  
10 level and the HQD level, to understand the  
11 relationship in this regard and how those costs,  
12 how the peak load is calculated and the impact on  
13 charges from HQT to HQD. So we wanted to understand  
14 both the operational relationship and the economic  
15 relationship between the two divisions.

16 Q. [76] Okay.

17 A. And that was the basis for us reaching that  
18 determination.

19 Q. [77] Okay, I'm going to give you now, and to your  
20 counsel, a copy of HQD's tariff; it's taken from  
21 HQD's web page this morning about interruptible  
22 tariff for HQD. So let me know when you have it,  
23 take the time to read it, I just want to discuss  
24 that. So it comes from... c'est une copie, Madame  
25 la Présidente, des tarifs d'HQD tels qu'on les

1           trouve ce matin sur le Tarif d'HQ daté  
2           d'aujourd'hui, simplement pour qu'on en discute.  
3           C'est la version anglaise pour que je puisse  
4           discuter de ça avec nos experts. Donc, Madame la...

5           LA GREFFIÈRE :

6           C-FCEI-0056.

7           Me ANDRÉ TURMEL :

8           Voilà, c'est les Tarifs interruptibles, en anglais,  
9           d'HQD.

10

11           C-FCEI-0056 :           Extraits de l'option  
12                                    d'électricité interruptible  
13                                    d'HQD, en anglais

14

15           Q. [78] Vous me direz quand vous êtes prêts, let me  
16           know when you're ready... So I don't know if you  
17           are aware, but HQD does have, does offer an  
18           interruptible tariff to its large customers, and I  
19           just want to take, to read the three first  
20           paragraphs of the page you just got. So it's, the  
21           title, "INTERRUPTIBLE ELECTRICITY OPTIONS FOR RATE  
22           L CUSTOMERS", "L" being large customers --  
23           industrial customers, sorry. So:

24

          If you are a Rate L customer and can

25

          exercise some load-shaving capability

1 at Hydro-Québec's request, these  
2 options offer a great opportunity for  
3 you to save money on your winter  
4 electricity bill.

5 With these interruptible electricity  
6 options for Rate L customers, Hydro-  
7 Québec offers you credits in exchange  
8 for curtailing your electricity  
9 consumption on request.

10 These options were developed to help  
11 balance electricity supply and demand  
12 in Québec. By limiting your power  
13 consumption, you contribute to a wiser  
14 use of our collective resources. In  
15 return, Hydro-Québec pays you the  
16 equivalent of what it spends when it  
17 buys power on open markets.

18 So my first question is that, so you do know how  
19 those kinds of interruptible types work, I guess  
20 that, I suspect that are some in some U.S.  
21 jurisdictions, yes?

22 Mr. JAMES M. COYNE :

23 A. Yes, most utilities have such a tariff.

24 Q. [79] Okay. So...

25 A. And we were aware of this tariff as well.

1 Q. [80] Okay. So by, in using this tariff from time to  
2 time, and this option from HQ's standpoint, when  
3 you say that "HQD has very limited ability to  
4 influence transmission costs", I just want to  
5 understand, did you include or make reference to  
6 that option, interruptible tariff, within your  
7 characteristic of "very limited ability", I just  
8 want to understand, HQD having to curtail or, for  
9 whatever reason, it takes less transmission than it  
10 may have an impact on its transmission costs, so I  
11 just want to connect the dots between your  
12 statement and that, the existence of this tariff  
13 within HQD.

14 A. And your specific question is, I'm sorry?

15 Q. [81] Well, I would ask you to explain about, when  
16 you say, "HQD has very limited ability to influence  
17 transmission costs", were you making reference or  
18 not to that tariff, or is that totally  
19 disconnected? I just want to...

20 Mr. ROBERT C. YARDLEY :

21 A. It's my understanding that HQD pays demand charges  
22 for its transmission service...

23 Q. [82] Sorry, could you just speak a little louder?

24 A. I'm very quiet, I'm sorry. HQD pays demand charges  
25 for its transmission tariff, and this tariff is

1 really designed to economize, optimize the supply  
2 cost portfolio, so if an interruptible customer is  
3 willing to interrupt that would generate savings on  
4 the supply side. My understanding is it doesn't  
5 really affect the transmission costs and it  
6 wouldn't affect...

7 (10 h 00)

8 Q. [83] At all?

9 A. ... the planning for transmission facilities or the  
10 amount of facilities that have been invested in or  
11 in rate base.

12 Mr. ROBERT C. YARDLEY:

13 A. The one exception would be there... I see there's a  
14 fixed credit option here of thirteen dollars (\$13)  
15 per kilowatt so, if you in advance had put yourself  
16 on this turf and said, "Yes, you can shave a, you  
17 know, a hundred (100) kilowatts from us when you  
18 need to". Then, from a planning standpoint, HQD  
19 then could include that in its load estimate that  
20 it provides to HQT. So if it was under, as I read  
21 this, and the company could correct me if I'm  
22 wrong, I think they could plan on option 1, fixed  
23 credit, if the customer signed up for that option.

24 But if it was under the variable credit  
25 option, then no because...

1 Q. [84] But under what you just mentioned, that is a  
2 possibility to, well, to manage transmission costs  
3 in a way.

4 A. Well, if they have known in advance, if they've  
5 signed up for that fixed cost option, then I would  
6 say yes. And to answer your question specifically,  
7 yes, those are the types of tools that we were  
8 talking about when we said, "limited ability."

9 Q. [85] Okay.

10 (10 h 02)

11 A. We were talking to peak load shaving and demand-  
12 side management tools. And the reason we said  
13 "limited" is that the company can develop to peak-  
14 load shaving and demand-side management tools. And  
15 the reason we said limited is that the company can  
16 develop these tools, it works with the Régie to  
17 approve the budgets in the specific tools and  
18 tariffs that it offers, so those were appropriate  
19 tools for a distributor to use. And over time, they  
20 can have a greater impact if the determination is  
21 reached by the company and the Régie that shaving  
22 peak-load is an important cost-saving element for  
23 customers, then expenses can be increased, or  
24 incentives can be created that are greater to get  
25 more customers on this tariff versus their standard

1 industrial tariffs.

2 Q. [86] So, if I get you right, so HQD has some  
3 ability, maybe limited, but has some ability with  
4 respect to near-term, and in your written answer  
5 about long-term, you say that it has some also  
6 ability to impact transmission costs. So, with  
7 respect to long-term now, I'm just trying to get  
8 how...

9 A. Yes, I'm...

10 Q. [87] ... sorry, why shouldn't we have an incentive  
11 too for those too, if not the near-term at least  
12 the long-term? Because you do recognize that it  
13 does have an impact. Just trying to get the logic  
14 of it.

15 A. Well, if I may, the statement we made was HQD has  
16 some ability to impact transmission costs in the  
17 long-term but very limited ability in the near  
18 term, so that was the statement we made; we haven't  
19 changed that. And these are the types of tools that  
20 can be used in the near term and the long-term. So,  
21 how can... so, just to make sure that your question  
22 is the one that I was answering...

23 Q. [88] Sorry to interrupt. Yes, so, you make two  
24 distinctions in the written statement. For the near  
25 term, you say, "has a very limited ability," and

1 for the long-term, you say "has some ability." Is  
2 there a difference I see there?

3 A. Yes.

4 Q. [89] But I did get from what the option, the  
5 discussion on interruptible tariff, that there's  
6 some room, limited, for near term, but for some  
7 management. Then I stop here. Going back to the  
8 long-term, I go back to your written statement,  
9 where now you wrote that it has some ability to  
10 manage transmission costs. My question is, now with  
11 these two answers, and the caveats that you just  
12 made this morning, why shouldn't we have an  
13 incentive, at least for long-term costs, and why  
14 not for short-term? But let's...

15 A. We see... the way this is typically handled is that  
16 a budget is determined, you know, the budget's  
17 probably the most... budget and tariff is the most  
18 effective tools that a distributor has to manage  
19 its peak load. And when I say budget, I mean, it's  
20 typically a demand-side management program. So the  
21 way that works is for the company to identify its  
22 most sensitive peak loads, and determine which of  
23 those loads may have some flexibility. An  
24 industrial customer that can take a second shift  
25 and make it a third shift, for example, might sign



1 up for a tariff like this.

2 So it's through tariff design, and also  
3 through designing demand-side management budgets  
4 where the company would come in and incentivize an  
5 industrial customer, commercial or residential  
6 customer, with replacing motors that have a lower  
7 peak demand, when they come on, for example, all  
8 those tools can be used with a budget that's set  
9 between the company and the Régie, in this case.  
10 And so, those tools are there, and over time, as  
11 those program investments grow, they can become  
12 useful in terms of peak shaving, and also promoting  
13 loads and other aspects of the system that would  
14 help to flatten the load. Electric vehicle  
15 programs, for example, are being used in order to  
16 fill load and off-peak hours. That becomes one of a  
17 generation capacity optimization no more than peak-  
18 load reduction.

19 So, there is those types of tools, and to  
20 your question around incentives, the way that is  
21 more typically structured is that the... it's a  
22 budget discussion and a program discussion between  
23 the regulator and the utility. The only incentives  
24 that I can think of in that regard are more on the  
25 gas distributor side, where I'm aware of one case

1 at least where, if a gas distributor met its demand  
2 side management program goals, and that is it spent  
3 what it basically said it was going to spend, then  
4 there was a positive incentive associated with  
5 getting that done; and that was Enbridge in  
6 Ontario, for example, and they could earn two or  
7 three million dollars a year more by installing as  
8 many water-heater wraps as they said they were  
9 going to, replacing as many old burners as they  
10 said they were going to, and doing as many audits  
11 as they said they were going to, for example. So  
12 that was a positive incentive, but there was no  
13 penalty associated with not doing that.

14 Q. [90] Okay, so I take from your answer that it is  
15 possible, it is doable, may come with a cost or a  
16 budget issue, but it is not, it is doable?

17 (10 h 08)

18 A. It's possible to target incentives around  
19 implementing demand site management programs, yes.

20 Me FRANÇOIS G. HÉBERT :

21 R. And, Maître Turmel, si vous me permettez de faire  
22 un petit pas en arrière...

23 Q. [91] Est-ce que je gagne du temps pour ça?

24 R. Pardon?

25 Q. [92] Est-ce que je gagne du temps dans mon...

1 R. C'est madame la Présidente qui va en décider. Mais  
2 il faut revenir au cadre réglementaire qui est  
3 présentement en place. Là, on parle essentiellement  
4 de la prévision de la demande du Distributeur, là,  
5 pour des fins d'investissements chez le  
6 Transporteur, il faut comprendre que la prévision  
7 des besoins est présentée, on le rappelle, dans  
8 tous les plans d'approvisionnement du Distributeur,  
9 où tous peuvent en discuter, incluant les clients  
10 qui vont bénéficier du tarif dont on parlait il y a  
11 quelques minutes. C'est présenté dans les suivis  
12 annuels également, et dans les causes tarifaires.

13 On présente aussi, Madame la Présidente, un  
14 suivi de la performance de nos modèles de  
15 prévisions dans tous nos dossiers tarifaires. Et  
16 sur la base des prévisions du Distributeur, de ces  
17 prévisions-là qui sont amplement discutées, qui  
18 sont examinées par la Régie, par les intervenants,  
19 le Transporteur, lui, va concevoir, et je ne veux  
20 pas parler pour lui, un plan d'investissements qui,  
21 lui, est également revu par la Régie en vertu de sa  
22 loi habilitante, alors tout ce, pour s'assurer  
23 évidemment que le plan d'investissements du  
24 Transporteur est optimal.

25 Alors les outils sont déjà en place pour

1 questionner l'ensemble de ces questions-là. Le  
2 cadre réglementaire au Québec est ainsi fait que et  
3 le Distributeur et le Transporteur sont réglementés  
4 par la Régie et le cadre permet l'exercice que vous  
5 souhaitez. C'est un peu différent des autres  
6 juridictions où, par exemple, on ne questionne pas  
7 les coûts de transport de Gaz Métro parce qu'ils  
8 sont décrétés et les plans d'investissements de  
9 TransCanada Pipelines sont discutés devant l'ONE,  
10 il y a un tarif qui est décidé et Gaz Métro va  
11 intégrer ce tarif de transport-là dans ses causes  
12 tarifaires annuelles.

13 Ce n'est pas différent sauf que, au Québec,  
14 on a un régime particulier où la Régie a ces deux  
15 chapeaux-là.

16 (10 h 09)

17 Q. [93] Pendant que je vous ai, Maître Hébert, vous  
18 allez voir, il y a un lien, dans le dossier  
19 tarifaire que vous avez déposé, HQD-3980-2016, sauf  
20 erreur, donc vous proposez... pas sauf erreur, vous  
21 proposez la mise en place d'un compte d'écart sur  
22 les revenus nets des achats, que la FCEI a demandé  
23 à deux reprises, la Régie a dit non deux fois. Mais  
24 cette année, vous arrivez avec cette proposition-  
25 là. Je trouve que c'est une bonne chose. Mais, là,

1 la question c'est, juste pour qu'on soit sûr donc,  
2 dans le dossier actuel, est-ce que... parce que  
3 vous aviez à ce moment-là - comment dire - quand ça  
4 a été déposé ce dossier-là, il n'y avait pas ce  
5 compte-là, est-ce que vous allez - bien comment  
6 dire - le compte n'est pas encore accepté, mais  
7 est-ce que la proposition qui va être faite, qui  
8 est faite du MRI va... bien, est modifiée d'emblée  
9 avec cette modification-là que vous demandez à la  
10 Régie? J'essaie juste de comprendre. Il y a six  
11 mois dans ce dossier-ci, on n'avait pas de compte  
12 d'écart. Mais, là, il semble qu'on se dirige vers  
13 un compte d'écart. Ça peut avoir un impact sur le  
14 mécanisme.

15 R. Évidemment, on ne peut pas présumer de la décision  
16 de la Régie, mais si la Régie acceptait le compte,  
17 bien, ça fera partie intégrante du cadre  
18 réglementaire du MRI.

19 Q. [94] O.K. Mais avez-vous une idée de l'impact? À ce  
20 stade-ci est-ce que vous l'avez mesuré?

21 R. On ne l'a pas évalué. Mais c'est un facteur, c'est  
22 un compte qui devrait être exclu. Alors,  
23 intuitivement, je vous dirais qu'il y aurait peu  
24 d'impact en général sur le mécanisme. Mais je ne  
25 l'ai pas, ni moi ni mon équipe on a évalué ça plus



1 appropriate levels of service quality  
2 for its customers. This goal is  
3 consistent with those articulated in  
4 Article 48.1. In doing so, the utility  
5 would be expected to employ a  
6 combination of short-term cost  
7 management measures (for example,  
8 reduced vegetation control under power  
9 lines in areas displaying less  
10 aggressive vegetation growth), and  
11 sustainable productivity  
12 improvements...

13 Some other examples.

14 These changes benefit customers  
15 through sharing of gains in the ESM in  
16 the short-term, or more permanently as  
17 these gains are captured for customers  
18 as the plan is rebased or rolled over  
19 to a subsequent plan.

20 So, I'll let you finish the reading. So, it seemed  
21 that you imply that it would be appropriate to  
22 reduce short-term cost even if these cost  
23 reductions would not be sustainable. In other  
24 words, we would cut the expenses today but we will  
25 have to increase them later. In the short-term, we

1 would share the gain with the ESM. Is that what you  
2 imply?

3 Mr. JAMES M. COYNE:

4 A. Well, we would say that both are good, both short-  
5 term unsustainable cost reductions because they do  
6 provide direct savings to the benefit of customers  
7 and the shareholder and of course, long-term  
8 sustainable gains are also desirable. But both are  
9 good.

10 Q. [97] And is that also your professional opinion  
11 that it is legitimate for HQD to be rewarded for  
12 these short temporary costs reduction?

13 A. Be rewarded through an ESM?

14 Q. [98] Yes.

15 A. Yes, that's a favourable cost reduction to the  
16 benefit of customers.

17 Q. [99] But let's take an example, because you gave  
18 the example of vegetation control, okay? Let's say  
19 that HQD would, for a year, reduce its vegetation  
20 control for, let's say, for one million dollars  
21 (\$1 M) in costs. Then, the impact from an ESM  
22 standpoint would be a fifty-fifty (50-50) share  
23 with consumers and the fifty (50) to HQ so five  
24 hundred thousand (500,000) each.

25 Let's say that some years later, three



1 years after that, for whatever reason, vegetation  
2 control costs are exploding because, well, there's  
3 a bigger need, then there's a new cost of one  
4 million dollars (\$1 M) so that one million (1 M)  
5 cost would be borne by the consumers. So, from that  
6 standpoint, does that sound legitimate?

7 A. Well, in the case here, if you apply it to the  
8 model as proposed, then in that case, because there  
9 is an asymmetric ESM today then the company would  
10 be, to the extent that those costs exceeded those  
11 that were allowed under an I-X formula, the company  
12 would absorb a hundred percent (100%) of them so it  
13 would have gained fifty percent (50%) of the gains  
14 in the first instance and absorb a hundred percent  
15 (100%) of the losses in the second instance. So, I  
16 don't think that would be a good strategy,  
17 certainly from a company management perspective.

18 Q. [100] Okay. Thank you. Then, I'm going to ask you,  
19 just to conclude, to go back, to take your  
20 presentation, PowerPoint presentation from  
21 yesterday. A couple of points of clarification. The  
22 question may be directed to you or maybe to Mr.  
23 Hébert. At page 4 of the PowerPoint where you did  
24 present some pies of the costs there, page 4, you  
25 explain that on the right low end of the page that

1 amortisation, taxes and corporate expenses would be  
2 added within the model.

3 I'm just now focussing on the taxes. I  
4 understand that there are several taxes that do  
5 exist in Quebec, we know that there are some, but  
6 does that include the Bureau d'efficacité  
7 énergétique? And I'm just... BEE, Bureau  
8 d'efficacité énergétique, we don't have this...

9 (10 h 17)

10 M. LUC DUBÉ :

11 R. Non. Comme indiqué dans la preuve, dans le fond,  
12 les... tout ce qui touche l'efficacité énergétique  
13 est exclu. Donc, dans les taxes, le Bureau,  
14 effectivement, est inclus dans les taxes, mais dans  
15 la proposition, il est exclu.

16 Q. [101] Juste pour être sûr, donc, dans le quatre-  
17 vingt-quatre millions (84 M) qu'on voit dans le  
18 tableau, ça inclut ou ça exclut?

19 R. Je pourrais pas vous dire pour le tableau qui est  
20 là, mais notre proposition exclut, dans le fond, le  
21 Bureau d'efficacité énergétique.

22 Q. [102] On pourrait juste vérifier, là, ça... peut-  
23 être vérifier... Bien, moi je veux m'assurer que,  
24 finalement, le quatre-vingt-quatre millions (84 M)  
25 qui est là est... Je prends pour acquis que c'est

1 exact, puis vous allez nous revenir si c'est...

2 R. On peut vérifier, sans problème.

3 Q. [103] D'accord. O.K. Alors, simplement, donc,  
4 engagement numéro 1... Vraiment? O.K. Donc, à la  
5 page 4 du PowerPoint des experts, sous la rubrique  
6 Taxes, vérifier si le quatre-vingt-quatre millions  
7 (84 M) inclut les coûts du Bureau d'efficacité  
8 énergétique.

9

10 E-1 : Vérifier si le 84 M inclut les coûts du  
11 Bureau d'efficacité énergétique  
12 (Demandé par FCEI)

13

14 Q. [104] And finally, gentlemen, I would ask you to go  
15 to the last page, page 16 of your PowerPoint  
16 presen... sorry. 15. So you offered some response  
17 to stakeholder concerns, and I think it was useful  
18 for you to do that in that form. So, with respect  
19 to concern number 3, which is about, well:

20 The HQD proposal does not provide a  
21 sufficient incentive to control  
22 capital costs.

23 Then you say that, well, the HQD proposal, you say  
24 that:

25 Rate base additions are conditional

1                   upon the Régie's prior authorization  
2                   and thus already thoroughly reviewed.  
3                   The HQD proposal includes amortization  
4                   within the I-X formula providing a  
5                   sufficient incentive.

6                   Just about those last words, on what basis are you  
7                   saying that? I just want to understand... Well,  
8                   give me more explanation, more meat about providing  
9                   a sufficient incentive here.

10                  Mr. JAMES M. COYNE:

11                  A. I think if I were to restate it today, I would say  
12                  to provide an incentive.

13                  Q. [105] An incentive.

14                  A. An incentive. And it's, if you look at the... if  
15                  you look at the amortization portion of the return,  
16                  if you go back to page 4, like we have it  
17                  delineated there...

18                  Q. [106] Yes?

19                  A. The amortization cost is six hundred and eleven  
20                  million (611 M), the return on rate base, which  
21                  would be the other element of capital charges as  
22                  the flow-through rates, is seven hundred and fifty-  
23                  two (752), so they're nominally of the same  
24                  magnitude.

25                                So it's a... it certainly is an incentive

1 for the company to manage its capital costs,  
2 because that'll flow directly through its I-X. And  
3 if I were managing HQD, I would have an eye on my  
4 capital costs with that in mind.

5 Q. [107] Okay.

6 A. Seeking to maximize that incentive. I think that's  
7 a logical approach to having it there. When it  
8 comes to sufficiency, I think, you know, the way we  
9 see this program evolving over time, is... and one  
10 of the reasons we've recommended a three-year MRI,  
11 is to test how these parameters have worked, and to  
12 test how the incentives have worked. And to see how  
13 the companies responded to them. So, we do see this  
14 as being a test period of sort. And quite frankly,  
15 I think this efficiency, the various incentives  
16 here, in the ongoing review processes, I would want  
17 to evaluate in three years.

18 Q. [108] Yes, because nobody is sure of...

19 A. I think that's quite honestly true.

20 Q. [109] Okay. Thank you very much. Merci beaucoup.

21 A. Yes.

22 LA PRÉSIDENTE :

23 Merci Maître Turmel. Nous allons maintenant prendre  
24 une pause de quinze minutes (15 min) et revenir  
25 avec OC. Merci.

1           SUSPENSION DE L'AUDIENCE

2           REPRISE DE L'AUDIENCE

3

4           (10 h 38)

5           LA PRÉSIDENTE :

6           Maître David?

7           CONTRE-INTERROGÉS PAR Me ÉRIC DAVID :

8           Q. [110] Oui, bonjour, Madame la Présidente; Madame,  
9           Monsieur le Régisseur. Éric David pour Option  
10          Consommateurs. Good morning to the panel. I had  
11          announced cross-examination of approximately one  
12          hour. I think it should be shorter than that, more  
13          likely in the half hour to forty-five- (45-) minute  
14          range.

15                        There's really three topics that I would  
16          like to address in the cross-examination. And my  
17          goal is to simply clarify certain issues that, on  
18          certain points, there seems to be a divergence of  
19          use between you and Pacific Economic Group. And I  
20          think that the Board will be interested in hearing  
21          you about these divergences. And that's really the  
22          crocks of the cross-examination.

23                        So, I'll start right away with what we  
24          perceive to be one of the major points of dispute  
25          between you and the Pacific Economic Group, and

1 that has to do the use of revenue decoupling under  
2 revenue cap mechanism. This is a topic that you do  
3 not address at all in your expert report, whereas  
4 PEG puts a lot of emphasis on revenue decoupling.  
5 And they say it's a very important element in this  
6 case.

7 Now, you do address it in a summary fashion  
8 in an answer to one of the Régie's IRs. So, I refer  
9 to the Régie... number is HQDT-0045...

10 Mr. JAMES M. COYNE:

11 A. Is it the first set or the second set?

12 Q. [111] This is the first set. So, this is Hydro-  
13 Québec 4, document 1.

14 A. And which question number, please?

15 Q. [112] Question number 7.2, so it's on page 16.

16 Would you like some time to read that answer or...

17 A. Yes, it might be useful to do so.

18 Q. [113] Alright?

19 A. Yes.

20 Q. [114] So, I note here in you answer that you  
21 mention that ratemaking tool is often used, that  
22 it's complementary to ratemaking, that it's a  
23 worthwhile item in the regulatory toolbox... I'm on  
24 page 17, line 3. Do you know... so, it is a common  
25 thing to use revenue decoupling when a revenue cap

1 approach is adopted?

2 Mr. ROBERT C. YARDLEY:

3 A. Yes, I don't... I don't know the answer to that.

4 So, I don't know how common or uncommon it is.

5 Q. [115] You don't know the answer to that.

6 A. I do not.

7 Q. [116] How common revenue decoupling is in the  
8 context of revenue cap.

9 A. No, it was our response when we saw the decoupling  
10 proposal, and we're responding to this request  
11 where focussed on whether or not there had been  
12 sufficient attention paid to revenue decoupling  
13 given the various complexities and alternatives to  
14 implement it. So, that was the primary reason for  
15 our reaction or our response here.

16 Mr. JAMES M. COYNE:

17 A. But our experience is that they're typically not  
18 treated simultaneously though because revenue  
19 decoupling is a complex enough topic in its own, as  
20 is development of a performance-based ratemaking  
21 mechanism. So, we see no need to treat them  
22 simultaneously. Both important topics but they are  
23 separable. We see revenue decoupling much more  
24 commonly for gas utilities than we do electric  
25 utilities, although it is growing to be more common



1 for electric utilities, is they start to see some  
2 of the same types of issues the gas distributors  
3 have seen with flattening and declining sales per  
4 customer.

5 Q. [117] Okay. I'll be addressing the issues of  
6 complexity shortly. I didn't want to hear you on  
7 that topic as well. But I'm a bit surprised by your  
8 answer because you do state at the beginning of the  
9 answer to 7.2 that, "Decoupling is a ratemaking  
10 tool that is often used." Do you know of how many  
11 jurisdictions use revenue decoupling?

12 Mr. ROBERT C. YARDLEY:

13 A. In the United States, if you look at a map, you  
14 would see quite a few. It may not be in combination  
15 with an MRI, however. That was really our... our  
16 concern is we're doing an MRI. We're not quite sure  
17 how that's... you know, let's take the first three  
18 years, see how that works, and then look at the  
19 issues of decoupling. It was doing two new things  
20 that are fairly complex at the same time that...

21 Q. [118] I understand.

22 A. ... motivated our recommendation.

23 Q. [119] So, it's within the context of an MRI.

24 A. Right. It's fairly common. Particular is energy  
25 efficiency programmes are rolled out over the last

1 decade or so.

2 Q. [120] Okay.

3 Mr. JAMES M. COYNE:

4 A. The interior distributors, as I recall, and I would  
5 say this is subject to check, have an... I know  
6 they have an awareness in place.

7 Q. [121] Yes.

8 A. And that serves... it's not full decoupling but it  
9 accounts for the non-weather normalization, helps  
10 to account for the non-weather normalization change  
11 in sales in a given year, and it makes it a  
12 passthrough, basically.

13 Q. [122] Okay. Have you ever, in one of your reports,  
14 recommended the use of a decoupling mechanism, and  
15 if so, in which cases?

16 A. In an MRI program?

17 Q. [123] Yes, number one.

18 A. No...

19 Q. [124] And then, number two, generally.

20 A. No, in my case. Let me let Mr. Yardley speak for  
21 his experience.

22 MR. ROBERT C. YARDLEY:

23 A. I've certainly discussed the advantages of  
24 decoupling with clients but I don't recall  
25 participating in a specific case that led to a

1 proposal in a rate case.

2 Q. [125] And are you speaking to MRI cases, or all  
3 types of cases?

4 A. No, just in general.

5 Q. [126] In general. So, despite the fact that it's a  
6 tool that's often used, and that it's a worthwhile  
7 item in the regulator toolbox, neither of you have  
8 ever recommended the use of a decoupling mechanism?

9 A. On our team, we have people that specify in the  
10 design of revenue to coupling mechanisms, and  
11 they're typically the expert witnesses that are  
12 testifying, because they have specific elements  
13 that they have worked on before, and they've done  
14 the analysis, the various rate design issues  
15 involved in decoupling. If I could add...

16 Q. [127] Yes, go ahead.

17 A. ... this, that I am aware that the distributor has  
18 proposed in its current rate filing, one of the  
19 goals of decoupling is to true-up for actual sales,  
20 to hold the company neutral from a revenue  
21 standpoint in terms of any difference between  
22 projected and actual sales. And my understanding is  
23 that the company has proposed such a mechanism in  
24 its current rate case, and... it's proposed, it's  
25 not yet implemented, but if it were accepted, then

1 I think that would certainly serve part of the  
2 function of what a revenue decoupling mechanism is  
3 designed to achieve.

4 Q. [128] Okay. Since you don't recommend a decoupling  
5 mechanism, does this mean that, during Hydro  
6 Quebec's MRI, Hydro Quebec's revenue requirements  
7 would be completely adjusted to sales volumes on a  
8 yearly basis?

9 A. My understanding of the way that would work would  
10 be that the company would reproject sales each  
11 year, so it would update with its compliance filing  
12 sales for the upcoming year. And contingent upon  
13 the outcome of this proposal that's been made in  
14 the current filing, it remains to be determined  
15 whether or not there would be a true-up for actual  
16 sales. And if there were such a mechanism, then  
17 that true-up would hold the company and customers  
18 neutral to the impact of actual sales in the prior  
19 year.

20 Q. [129] Okay.

21 A. Which, in effect, would be... would serve the same  
22 effective purpose of decoupling for all practical  
23 purposes.

24 Q. [130] All right, I'd like to get back to the issue  
25 that you raised yourself a short while ago, the

1 issue of complexity, because, if I understand well  
2 the reason that you don't recommend revenue  
3 decoupling in this particular case is that you are  
4 of the view that it is too complex, that these  
5 mechanisms are complex to design and implement, and  
6 you even go beyond that to say that it should be  
7 held in a separate hearing, a separate proceeding.

8           So, my question to you, the first question  
9 is, if it wasn't for its complexity, would you  
10 recommend using a decoupling mechanism in the  
11 current case? Or are there other reasons why you  
12 don't recommend it?

13 A. I see no reason for fluctuations and loads beyond  
14 the company's control to have an impact on its  
15 earnings, and for that matter reciprocally to have  
16 any negative impact on customer rates. So I think  
17 it's a desirable... one of the goals of PBR is to  
18 have those things that are within the company's  
19 control subject to the PBR incentives. And the  
20 difference between projected and actual sales is  
21 beyond the company's control. So holding them  
22 neutral in that regard I think is a positive thing.  
23 But we did not want to increase the complexity of  
24 this proposal by introducing a decoupling design  
25 per se, and as we mentioned, that is part of the

1 current rate case discussion, and an appropriate  
2 form, I think, for initiating the discussion around  
3 whether or not full decoupling is appropriate or  
4 not. The advantage, of course, is to hold the  
5 utility... if you hold the utility neutral with  
6 regards to its actual level of sales, then you put  
7 the... at least you put the utility in a position  
8 where it is better able to promote conservation and  
9 demand side management programs without the concern  
10 that it's going to impact its revenues or its  
11 earnings is it not the case that the decoupling  
12 mechanism would give even more incentive to Hydro-  
13 Québec to do energy efficiency?

14 Mr. JAMES M. COYNE :

15 A. I would say that we'd keep it at least neutral in  
16 that regard as opposed to incenting it to promote  
17 greater sales, because now its revenues would be  
18 held neutral with regards to its actual level of  
19 sales in a given year. And to the extent that  
20 promoting conservation demand side management is  
21 consistent with policies of the Government of  
22 Québec, then that's a desirable outcome.

23 Q. [131] Okay. I'd like to refer you to the PEG's  
24 report, so there are two versions that are  
25 circulating, one, the original version, is October

- 1 twenty-sixth (26th), two thousand fifteen (2015),  
2 there's a revised version dated February second  
3 (2nd), two thousand sixteen (2016); I worked with  
4 the first version, I don't know if you're more  
5 familiar with the first or second?
- 6 A. I have the revised in front of me, but let's see if  
7 we can...
- 8 Q. [132] So we're on the same page.
- 9 A. You're right.
- 10 Q. [133] Okay, so let's work with the initial report,  
11 which is C-AQCIE-0025, which is the Régie number. I  
12 refer you to page 110.
- 13 A. And this is where I may... oh! I get it, I have the  
14 revised version in front of me.
- 15 Q. [134] Well, in the revised version, it's page 112.
- 16 A. Okay.
- 17 Q. [135] I came prepared.
- 18 A. Thank you.
- 19 A. Is this one PDF?
- 20 Q. [136] No, these are, this is the numbering of the  
21 report itself.
- 22 A. Okay.
- 23 Q. [137] I never use PDF numbering. Okay. So I'm at  
24 Table 4, which is a "Summary of Incentive  
25 Regulation Recommendations." This page, this

1 particular table was revised on November three (3),  
2 two thousand and fifteen (2015), so I just want to  
3 make sure; if you have the revised report, you have  
4 the right version of the table.

5 A. Yes.

6 Q. [138] So I see under the third item, where we  
7 address "Relaxing the Revenue/Usage Link", so we're  
8 talking about decoupling here, that for the  
9 Distributor, PEG is recommending a revenue  
10 decoupling for small volume customers and an LRAM  
11 for large volume customers; are you of the view  
12 that both of these tools are too complex to be put  
13 into place in the current MRI, or just one of them,  
14 or neither of them?

15 Mr. ROBERT C. YARDLEY :

16 A. I mean, I would say they each have their own sets  
17 of complexities, and I believe at least they may  
18 have been discussed in the PEG report as well. So  
19 the LRAM would focus more narrowly on energy  
20 efficiency programs and the effect of this, of  
21 those programs, so that requires an examination of  
22 what the particular impacts of those programs had  
23 been, so sort of an after-the-fact quantitative  
24 analysis, an estimate, if you will, that's not  
25 precise, of what those impacts would be.



1           The decoupling complexity is not so much  
2           complexity in the analysis but complexity in the  
3           framework that you ultimately agree to, so that's  
4           why you might see a year-long proceeding in the  
5           regulatory, at a regulatory agency that's  
6           discussing whether decoupling is appropriate, and  
7           then how to design that framework.

8           So they are two different types of  
9           complexities, the LRAM is simple in framework and  
10          complex in the implementation, the decoupling would  
11          be complex in framework, but it would depend on how  
12          much sort of its own estimation that would be  
13          required before you could conclude whether it's  
14          difficult to implement or not. It could still  
15          require some computations that require analysis.

16        Q. [139] Okay. I thank you for your answer...

17        Mr. JAMES M. COYNE :

18        A. I might supplement that by adding that I think in  
19        Ontario, there was probably a year-long process to  
20        consider decoupling separate from implementation of  
21        fourth-generation PBR, so even though they had  
22        already had PBR in place for three different  
23        generations, the Ontario Board treated separately,  
24        and it was a quite long and involved process in  
25        terms of considering decoupling there.

1 Q. [140] Okay. Thank you.

2 A. I think it is more typical to separate them, that's  
3 what we're suggesting in our testimony.

4 Q. [141] I'd like to move on to my second topic, if  
5 you allow me, and it really is a methodological  
6 question, and it has to do with the criteria that  
7 you've used for determining which costs should be  
8 covered items, which should be Y-factored items,  
9 and which should be Z-factored items.

10 So basically, in Phase 3 of this case, it's  
11 the Régie who will have to decide which OPEX and  
12 CAPEX elements are to be divided between these  
13 three categories, but I see that in your  
14 presentation yesterday, on page 8, sorry page 14...  
15 Sorry, I'm confused, so it's page 8 - I was correct  
16 - that plus I would ask you to take out your  
17 report, your main report page 14. So, if you could  
18 have these two documents handy.

19 (10 h 54)

20 So, even though... Alright? So, basically,  
21 if I start with your initial report, in figure 8  
22 which is on page 14, I see that in the  
23 Distributor's proposed plan under "coverage", which  
24 are covered items, you have OPEX, corporate  
25 expenses, taxes, amortisation expenses. Lower down,

1 the fourth definition, exclusions, which is the Y  
2 factor. You have specifically tracked items, energy  
3 efficiency programmes, return on rate base. At the  
4 very bottom, unanticipated events, so Z factors,  
5 you don't go into much detail but then, I turned to  
6 your presentation yesterday, on page 8, and I see  
7 that you've added to the list of Y factored items  
8 so now they also include electricity purchases,  
9 transmission costs, variance on deferral accounts  
10 already recognised by the regulatory agency and,  
11 for the first time, you do pronounce yourself in  
12 more detail on the Z factor items which now include  
13 extreme weather events, significant equipment  
14 failure, change in law or tax code, government  
15 decrees, regulatory agency decisions.

16 So my question really is as to methodology.  
17 In these two documents, what guidelines or  
18 principles did you use to divide up costs between  
19 these three categories?

20 A. Y, Z and the third category being?

21 Q. [142] Covered items.

22 A. Covered items. Well, as we discussed yesterday,  
23 those that were included were deemed to be  
24 predictable and reasonably within management's  
25 control. So, outside that block, we divided them

1 into Y factors, those that are known categories but  
2 still deemed beyond management's control and those  
3 that were Z factors but, in this case, we gave a  
4 few more examples than we had provided in the  
5 initial report of things that are typically Z  
6 factors.

7 It's our anticipation that in phase 3 these  
8 would be defined in this level of detail - exactly  
9 what's in Y and exactly what's in Z - but we wanted  
10 to give a, because this is phase 1, we're trying to  
11 determine the characteristics of the programme, we  
12 felt it sufficient in our initial report to say  
13 "There should be a Y for these types of items and a  
14 Z for these types of items." Here, we're just  
15 trying to give a little bit more flavour as to what  
16 would typically be included. But the fundamental  
17 criteria were within management's reasonable  
18 control and also a predictable cost.

19 Q. [143] Okay, thank you. In your presentation as well  
20 yesterday, on page 4, at - I'll just wait - so at  
21 the third bullet, you state that CAPEX should be  
22 treated as a Y factor. My question is: does this  
23 mean that all CAPEX are to be treated as Y-  
24 factored?

25 A. Yes. And for the reasons we described earlier, the

1 existing processes are in place to review all CAPEX  
2 expended by the company and we felt as though those  
3 were appropriate procedures for examining the  
4 overall capital investment programme of the company  
5 through those two reviews of the sub ten million  
6 (10 M) and greater than ten million(10 M) cost  
7 categories.

8 Q. [144] Okay. On page of your presentation...

9 A. But...

10 Q. [145] Yes?

11 A. But amortisation, of course, when you say CAPEX,  
12 CAPEX doesn't flow through rates, it floats through  
13 two ways: the return on rate base, which is  
14 excluded; and the amortisation, which is included  
15 under the formula. So, a portion of the return on  
16 rate base, return of rate bases is in and a portion  
17 is out.

18 (11 h 00)

19 Q. [146] Okay. On that very topic, return on rate  
20 base, I see on page 8 of your presentation that you  
21 do include it in the list of Y-factored items. And  
22 yesterday, in your testimony... I'm on page 79 of  
23 yesterday's... I don't know if you have a copy of  
24 the transcript? So page 79, as of line 3, basically  
25 you provide one of the justifications of why you've

1 included it in the Y-factored elements, and that  
2 justification is interest rates. And you explain:

3                   Underscoring this point, had an MRI  
4                   been in place over the past 10 years  
5                   for HQD tracking capital costs to an  
6                   I-X formula, customers would have lost  
7                   the substantial benefit of the  
8                   declining interest costs which were  
9                   declining over the past decade while  
10                  I-X would have been increasing.

11                Would you agree that for the MRI period, three or  
12                four years, which is to be decided by the Board now  
13                being developed, that for the next three to four  
14                years, interest rates are forecast to be stable?

15                A. I would say, the next three years, more likely  
16                they're forecast to be increasing.

17                Q. [147] Do you know by how much?

18                A. It varies by forecast, but the current long bond is  
19                sub two (2), and expectations are that it's  
20                supposed to increase from there.

21                Q. [148] And that's over which time period?

22                A. Over the next three to five years. But I would also  
23                say that those expectations... It's difficult to  
24                forecast the actual path of interest rates, as we  
25                all know. They have continued to decline over the

1 last ten (10) years. They declined from four point  
2 two seven percent (4.27%) in two thousand and six  
3 (2006) to... The average year-to-date is one point  
4 nine percent (1.9%). So it really depends on the  
5 actions of both the Canadian Central Bank, as well  
6 as World Central Banks, in terms of the actual path  
7 of these interest rates.

8 So, whether they go up or down, we felt as  
9 though it was appropriate to reflect those actual  
10 costs, and not have that be an artificial windfall  
11 either to the shareholder or to the customers, or  
12 artificial costs to either, for that reason.

13 Q. [149] Okay. I'm back to your presentation now on  
14 page 10.

15 A. Hum, hum.

16 Q. [150] And there are three main bullets. I'm in the  
17 second bullet, and the last bullet within the  
18 second bullet, which is:

19 There is considerable precedent in  
20 Canada for the pass-through of Return  
21 on Rate Base.

22 And you mention these precedents in Quebec: Gaz  
23 Métro, Gazifère; in Ontario... in British Columbia:  
24 FBC, FEI; in Ontario: Enbridge. I'm not too  
25 familiar with the British Columbia companies that

1           you mentioned, but I do know all the others are gas  
2           companies. Do you know of any precedents for  
3           electricity distributors?

4           A. Well, FEI is an electric distributor.

5           Q. [151] It's an electric distributor. Okay.

6           A. Yes. FBC is the gas distributor.

7           Q. [152] Okay. And apart from FEI, do you know of any  
8           other precedents in Canada for electricity  
9           distributors?

10          A. With cost pass-throughs for cost capital?

11          Q. [153] Yes?

12          A. Well, in Ontario, each... What we're seeing there  
13          is an evolution of each company filing custom plans  
14          with various proposals for treatment of cost of  
15          capital. Some that track it, some that include it.  
16          And I would have to look at the two that have been  
17          approved so far. Well, Hydro One is under cost of  
18          service. So they have cost pass-through for actual  
19          cost. Cost of capital for the next two years.

20                    Toronto Hydro... Hum... I'd have to go back  
21          and check that decision. I know that they have...  
22          They have a hybrid model where capital is tracking  
23          with a forecast of capital costs that includes a  
24          forecast of capital... of cost of capital. And I  
25          just don't recall if there was a true-up around



1 that for any deviations from actual or not. So I'd  
2 have to go back and check that decision.

3 Alberta has cost of capital included under  
4 the formula, and I think those would probably be  
5 the only other relevant precedents right now, those  
6 I've listed.

7 Q. [154] Okay. Thanks for the clarification. So now  
8 I'd like to change topics - my last topic,  
9 basically - and it has to do with the debate  
10 between revenue cap and price cap. Concentric  
11 recommends a revenue cap for all customers, PEG  
12 recommends a revenue cap for small customers, but a  
13 price cap for industrial customers.

14 Now, I understand that one of the  
15 justifications for price cap for industrial  
16 customers is that there is great price sensitivity  
17 in that client category, and that there has been a  
18 loss of large industrial customers in the last few  
19 years for Hydro-Québec. But I note in the current  
20 rate case for Hydro-Québec, which is R-3980, that  
21 we see the same phenomenon now in the residential  
22 and small business markets. So, for example... and  
23 this is for the Régie's benefit, I'm referring in  
24 the R-3980 case to B-18, pages 7 and 9. So...

25 A. Is it beneficial for us to get this reference?

1 Q. [155] Not really. You can just take my word for it  
2 and I'm a lawyer, you can trust me. But I'm sure  
3 maître Hébert will be able to confirm or the other  
4 members of the panel, if ever I mislead you. But  
5 from the calculations made by my analyst,  
6 essentially, residential sales are forecast to grow  
7 by only zero point eight percent (0.8%) and small  
8 business sales are forecast to decline by zero  
9 point fifteen percent (0.15%). So, we seem to be  
10 seeing a generalized slow growth environment. It's  
11 true not only of the industrial categories, it's  
12 now also true of the small business category and of  
13 the residential market as well. So, my question: in  
14 your view, which of the price cap or revenue cap  
15 proposals is better suited to a low growth  
16 environment?

17 A. I would say the revenue cap and that is again  
18 consistent with the discussion we had around  
19 decoupling. That's an issue that gas distributors  
20 have faced in North America for the past decade,  
21 where the revenues or revenue per customer numbers  
22 are declining. And in order to hold the company  
23 neutral to that impact from an earning standpoint,  
24 and also to continue to encourage the utility to  
25 promote and implement conservation efforts, revenue

1 caps have been deemed to be a superior tool for  
2 that reason, because it encourages the right  
3 behaviour by the utility.

4 So, those circumstances exist here. We're  
5 seeing those circumstances in other electric  
6 jurisdictions as well. And I think, again, those  
7 clearly favour revenue cap over price cap...

8 Q. [156] Alright. I thank you...

9 A. ... to promote the same behaviours.

10 Q. [157] I thank you for your answers.

11 LA PRÉSIDENTE :

12 Merci beaucoup. Alors, j'inviterais maintenant  
13 maître Thibault-Bédard pour le RNCREQ.

14 CONTRE-INTERROGÉS PAR Me PRUNELLE THIBAUT-BÉDARD :

15 Q. [158] Prunelle Thibault-Bédard pour le RNCREQ.

16 Bonjour, Madame la Présidente; Madame, Monsieur le  
17 Régisseur, et bonjour aux témoins. I will start  
18 with a few questions for Mr. Coyne and Yardley. So,  
19 first, Mr. Coyne, we would like to know if this is  
20 the first time you have worked for HQD.

21 Mr. JAMES M. COYNE:

22 A. No. I've worked for the division in the past.

23 Q. [159] Okay. Have you also worked for other  
24 divisions of HQ?

25 A. Yes.

1 Q. [160] Okay. Thank you. Could you specify how many  
2 mandates you've conducted for the company as a  
3 whole, HQD and other divisions included?

4 A. From both a regulatory standpoint and a non-  
5 regulatory standpoint?

6 Q. [161] Let's focus on regulatory.

7 A. Okay. I worked on cost of capital for the company,  
8 I believe that was in two different proceedings.

9 Q. [162] Hmm, hmm.

10 A. And also... I believe those are the only... Well,  
11 also the earning sharing mechanism. There was a  
12 hearing on that where Mr. Yardley and I testified.

13 Q. [163] Okay.

14 A. And what I don't remember is if the... I actually  
15 testified once or twice in terms of cost of cost of  
16 capital. I'd have to go back and check that. But  
17 cost of capital, at least once, if not twice. And  
18 also the earnings sharing mechanism.

19 Q. [164] Okay. Actually, my first set of questions, I  
20 wish to ask the same questions to both Mr. Coyne  
21 and Mr. Yardley. So, I think it will be easier if  
22 you just take turns answering instead of me going  
23 through the question twice. So, Mr. Yardley, if you  
24 may.

25

1 Mr. ROBERT C. YARDLEY:

2 A. The earnings sharing mechanism is the only other  
3 mandate that I've worked on for HQD.

4 Q. [165] Okay. Thank you. And outside of the mandates,  
5 you worked for HQD or HQ...

6 Mr. JAMES M. COYNE:

7 A. Can I supplement my answer?

8 Q. [166] Of course.

9 A. I also worked for the division on the issue of  
10 remuneration of its deferral accounts.

11 Q. [167] Okay. Thank you.

12 (11 h 11)

13 And what other mandates have you carried  
14 out, so outside of the HQD scope, that you would  
15 deem relevant to the particularities of the present  
16 mandate given to you by HQD?

17 Mr. JAMES M. COYNE :

18 A. For HQD, what other work have we done for HQD?

19 Q. [168] No, in general, would you consider that  
20 you've worked on a number of mandates that are  
21 particularly relevant to the circumstances of this  
22 one here?

23 A. For HQD?

24 Q. [169] No, in general.

25 A. Okay, do you mean on the issue of MRI in general?

- 1 Q. [170] Yes, that are particularly relevant to the  
2 questions that were addressed to you in this case.
- 3 A. Okay, we answered an interrogatory on that issue,  
4 maybe we could cite that, if I understand your  
5 question -- so this is non-HQD specific for...
- 6 Q. [171] Uh-huh.
- 7 A. ... that brings us expertise to this matter?
- 8 Q. [172] Yes, yes.
- 9 A. Okay. It was...
- 10 Q. [173] You can only tell us where to find it, and we  
11 will, if you do not have it...
- 12 A. It was a response to AQICIE, and the answer was 1.1,  
13 where we both answered that question.
- 14 Q. [174] Thank you very much. Next set of questions --  
15 I understand that French is not a language that you  
16 master...
- 17 A. That is a fair statement, unfortunately.
- 18 Q. [175] Good guess, good guess. And were you given  
19 access to translations of documents in conducting  
20 your mandate?
- 21 A. We were given access to some English translations  
22 of documents that were available, others that we  
23 requested, and another member of our team, who is  
24 with us, Meredith Stone, also translated many  
25 documents for us. And we also used other tools

1 available to us to translate documents of lesser  
2 importance, online tools, Google Translate, things  
3 of that nature. So we used the combination of them  
4 all, depending upon the degree of precision we  
5 required in understanding the documents.

6 Q. [176] So would you say you were able to consult an  
7 English version of any and all documents that were  
8 relevant to your analysis?

9 A. Yes, any that we considered relevant to our  
10 analysis we required a translation of.

11 Q. [177] Okay. And, once again...

12 A. With the only exception, sometimes, we reviewed  
13 tables and charts with company personnel, and we  
14 did it live, where we looked at rows and tables of  
15 columns, for example, and we would ask for...

16 Q. [178] Okay. And were there...

17 A. ... translations as we discussed them.

18 Q. [179] Okay. And were there occasions where you did  
19 not have a direct translation of the a document  
20 that you deemed relevant but you were given an  
21 account of the content of that document by HQD?

22 A. I would say generally no, if it was a document,  
23 we're document people so if it was a document we  
24 wanted the understanding of, generally speaking,  
25 for example, the Act, we would ask for a copy of

1 the Act in English so that we could read it, and  
2 all the nuances that we would understand.

3 Q. [180] Okay. Mr. Yardley, do you agree with this  
4 answer?

5 Mr. ROBERT C. YARDLEY :

6 A. Yes, of course.

7 Mr. JAMES M. COYNE :

8 A. I'm relieved.

9 Q. [181] I just don't want, I don't want to...

10 Mr. ROBERT C. YARDLEY :

11 A. That wasn't a hard one to disagree with, so I  
12 thought I'd start with "yes" even if, I was just  
13 going to add that we actually had conversations  
14 over certain topics that weren't around documents.

15 Q. [182] Uh-huh.

16 A. They were, those conversations were in English,  
17 they were no different than conversations we would  
18 have with English as a first language with other  
19 clients, so...

20 Q. [183] Thank you.

21 A. But we certainly didn't, we weren't restrained, as  
22 Jim mentioned, our colleague Meredith Stone  
23 translated many things for us whenever we needed  
24 it.

25 Q. [184] Thank you. And lastly on that line of



1 questions, did you read previous decisions by the  
2 Régie in conducting your analysis?

3 Mr. JAMES M. COYNE :

4 A. Yes, and I have read, I mean over the course of the  
5 past five or six years, I've kept up in reading  
6 various rate decisions of, for the Distributor and  
7 for the Transmitter. So this is something we've  
8 done on an ongoing basis.

9 Q. [185] Okay. Same for you, Mr. Yardley, I'm  
10 assuming?

11 Mr. ROBERT C. YARDLEY :

12 A. Yes. I don't think I've read every one, but we've  
13 certainly read...

14 Q. [186] I have not read every one either.

15 A. Yes.

16 Q. [187] Okay. You filed a revised version of your  
17 report on February ten (10), two thousand sixteen  
18 (2016), we however saw no indication as to the  
19 extent of the changes that were made to the report,  
20 the new one; could you briefly indicate which  
21 sections, passages were revised, is it just a  
22 matter of correcting some typos or were there some  
23 more substantial changes?

24 Mr. JAMES M. COYNE :

25 A. The only change that I recall was to a specific

1 figure...

2 Q. [188] Okay.

3 A. ... where we had corrected data in Figure 10  
4 provided to us from the company, and I don't recall  
5 any other changes other than that change.

6 Q. [189] Okay, thank you.

7 (11 h 16)

8 My next set of questions will touch the  
9 parametric formula that was discussed yesterday.  
10 Mr. Coyne, you mentioned in your presentation that  
11 your proposal is a logical extension of the  
12 existing parametric formula. Were you familiar with  
13 that formula before undertaking the mandate?

14 A. Yes.

15 Q. [190] Yes, okay. What information were you provided  
16 with by HQD with respect to the parametric formula?

17 A. For this specific case, or do you mean in general?

18 Q. [191] For this specific case.

19 A. We looked at the calculations of the formula, so  
20 that we would understand it on a year-to-year  
21 basis. So we looked at four or five years of  
22 history, in terms of how it had changed. We also  
23 had discussions with the company about the  
24 efficiency factor that was built into the formula,  
25 and how that had evolved over time. And we just

1 wanted to understand what was in the envelope, what  
2 was outside of the envelope, what the exclusions  
3 were, how they were treated. So we basically wanted  
4 to understand what was in each of the elements of  
5 the formula and how they had evolved over time.

6 Q. [192] Okay. I will turn to Mr. Hébert shortly for a  
7 question. Maître Hébert, dans votre mémoire, il n'y  
8 a pas un énoncé précis de cette formule qui est en  
9 vigueur. Est-ce qu'il existe une référence que vous  
10 pourriez nous fournir, soit à un document de HQD ou  
11 une décision de la Régie qui présente cette  
12 formule-là de façon concise et précise?

13 M. FRANÇOIS G. HÉBERT :

14 R. Ma collègue Mettelet va y répondre.

15 Q. [193] Oui.

16 Mme FRANÇOISE METTELET :

17 R. Oui. Vous pouvez trouver la formule, ça fait  
18 plusieurs années qu'elle se trouve en annexe A de  
19 la pièce HQD-8, document 1, de nos dossiers  
20 tarifaires.

21 Q. [194] D'accord.

22 R. Donc, ça explique exactement de quelle façon elle  
23 est établie.

24 Q. [195] D'accord. Je vous remercie. Now for  
25 Mr. Yardley. You spoke yesterday of service quality

1 indicators. Are they the same as performance  
2 incentive mechanisms? If you can enlighten me,  
3 please.

4 Mr. ROBERT C. YARDLEY:

5 A. Yes. I think, not necessarily. It depends on... I  
6 mean, you can't look up performance PIMs in a  
7 dictionary and get a definition, so... I tried to  
8 make a distinction in the presentation for this  
9 purpose, that I was referring really to service  
10 quality indicators, and not financial metrics  
11 benchmarking data. I would distinguish between the  
12 two. So that's... that's why I made that  
13 clarification during the oral presentation.

14 Q. [196] Okay. So in establishing that distinction,  
15 that difference, do you mean that you do not  
16 recommend the use of PIMs? And if so, why not?

17 A. I do not recommend, without commenting on PIMs,  
18 because I think people may define them differently,  
19 so that would just confuse us.

20 Q. [197] Okay?

21 A. So without commenting on that, I do not recommend  
22 benchmarking, broad benchmarking metrics, financial  
23 metrics, because other than... They should continue  
24 to be gathered, and reported, and inform  
25 management, and shared publicly, but in terms of

1 the execution of the MRI, the purpose of the MRI is  
2 to really drive incentives in those very same  
3 areas. So it would be duplicative to have... to  
4 have both. We want... With respect to the expenses  
5 subject, to the I-X formula, we want the company to  
6 make decisions that are efficient across that  
7 entire group, and not be focussed on maybe some  
8 individual element of a cost item that's already  
9 covered by the I-X formula.

10 Q. [198] Okay. You spoke of the transition from the  
11 performance indicators in use today to your  
12 proposed service quality indicators. Would the  
13 difference be that service qualities... service  
14 quality indicators would affect rates? Is that  
15 correct?

16 A. Yes...

17 Q. [199] In transitioning from performance indicators  
18 to SQIs?

19 A. Yes. I didn't... I was using the term scorecard to  
20 refer to simply that report, but not something that  
21 has financial implications.

22 Q. [200] Hum, hum.

23 A. I didn't comment on the specific metrics. I gave  
24 some examples of data that's already gathered. But  
25 that is the key change, when we go to an MRI, now

1 we will link formally the ESM to financial... to  
2 service quality metrics in a financial way. So  
3 that's a much different exercise, because we need  
4 to make sure we're clear and comfortable with the  
5 definition, but more importantly come up with a  
6 benchmark or a reference point to be measured  
7 against, and then the specifics of the formula that  
8 would calculate the actual reward or penalty. So  
9 there are some extra steps involved.

10 Q. [201] Hum, hum. You had spoken of the scorecard  
11 yesterday also, and so if I understand correctly,  
12 you believe that we should start with the  
13 scorecard, and then refine it to determine the  
14 SQIs? Is that correct?

15 A. I think the... If you're going to now apply  
16 financial consequences, you would want to start  
17 with metrics that are well-defined, have been  
18 collected for some time, and the reason for that  
19 is, if you have three (3), four (4), five (5) years  
20 experience with a metric, then coming up with the  
21 bench-mark to be used in the financial calculation  
22 is informed by actual data that... so it just gives  
23 you a much better starting point, as you gather  
24 data on new metrics that might be important to you,  
25 at some point, you might decide, or it would be

1 common to start with a scorecard approach, gather  
2 the data, look at it, make sure people are  
3 comfortable with the definition, how the data's  
4 being collected, we have four (4), five (5) years  
5 experience, and then, at that point, I think all  
6 stakeholders might be comfortable saying, okay, we  
7 know enough, we can now set a bench-mark that's  
8 reasonable, and apply financial consequences.

9 Q. [202] Okay. Have you followed the evolution of the  
10 existing scorecard over the years?

11 A. As part of the ESM case, I looked at the history of  
12 the performance, and I'm generally familiar with  
13 the fact that it was, you know, began through  
14 orders of the Régie in maybe the mid two thousands  
15 (2000s), two thousand and six (2006), somewhere,  
16 you know, in the mid two thousands (2000s), and  
17 since that time, that data's been collected.

18 Q. [203] Okay. Do you also know which criteria have  
19 been used to determine the indicators to track over  
20 the years? Are you familiar with the criteria?

21 A. I know the categories, and I've looked at the  
22 categories and the results, the sub-categories. I  
23 don't know the criteria that was used at the very  
24 beginning, but they were... certainly the metrics  
25 that are being collected are fairly common. I

1 didn't see anything really unusual compared to what  
2 you would see for other utilities.

3 Q. [204] You explain how, starting from the scorecard  
4 and then evolving while keeping an eye on  
5 everything appears to be the appropriate approach,  
6 in your opinion. Do you mean that it would... we  
7 should not consider any parameter that is not  
8 currently on the scoreboard as an indicator to  
9 start off in the SQIs?

10 A. No... oh, for the start-up? I think it would be  
11 challenging to have data. I think we provided some  
12 criteria in the slide yesterday in terms of what  
13 you would want in a metric that was going to be  
14 subject to financial consequences, so reasonably  
15 within the control, ability to measure, I can refer  
16 to the slide, I think there were three (3) or four  
17 (4) that I referenced. So you would want it to have  
18 those attributes before you subjected it to  
19 financial implications. You might continue to  
20 collect scorecard information, but make a decision  
21 that... not to apply financial consequences with  
22 that scorecard metric, but it's something that  
23 would just inform people broadly. You know, you  
24 might be interested in how progress was being made  
25 on some important policy issue. It wouldn't be



1 within the control of HQD, so you would not,  
2 subject to a financial metric, but it may still be  
3 interesting, so you could add... you might add  
4 scorecard measures over time...

5 Q. [205] M'hm.

6 A. ... if it didn't meet the criteria within the  
7 control, but was of interest to the Régie and  
8 stakeholders. I could certainly see that. But you  
9 wouldn't apply financial metrics to those. You  
10 would apply the criteria I discussed yesterday.

11 Q. [206] Okay. Thank you.

12 Moving on now to the question of supply  
13 plans, Mr. Coyne, in your exchange yesterday with  
14 Maître Sarault, you said, and I will quote you from  
15 page 116 of the transcript, that:

16 It is also worth noting that there  
17 will be annual updates to the supply  
18 plan, so both the Régie and  
19 stakeholders will have an opportunity  
20 to review the efficacy of those plans,  
21 and whether or not they deem them to  
22 be in the public interest.

23 What do you mean by review in that statement, in  
24 that quote, when you say there is opportunity to  
25 review the efficacy of those plans?

1 MR. JAMES M. COYNE:

2 A. Thank you, I was just reviewing the reference.

3 Q. [207] Of course.

4 A. The... by review, it would... as we discussed  
5 earlier this morning, I would anticipate that the  
6 company would provide a balance, a report of what  
7 its actual supply purchases were versus those that  
8 it had forecast the sources, costs and price,  
9 basically a variance analysis of what it had  
10 projected versus what it had actually done, and  
11 then a reconciliation based on changes,  
12 fluctuations and demand, to the extent that it had  
13 purchased more or less in the short-term bracket  
14 versus that which it had forecast, a reconciliation  
15 of that. And a reconciliation of the price  
16 differences in any of the categories. We know we  
17 won't see that for the long-term contracts, and we  
18 won't see that for the heritage supplies, I think,  
19 probably the most volatile element of their supply  
20 plan has to be the short-term purchases because, by  
21 definition, there has to be something in response  
22 to short-term market circumstances and short-term  
23 demand.

24 So, I would anticipate the Régie would want  
25 to understand how the company responded to the

1           circumstances it actually faced in the market over  
2           the course of the year, because that's a year-long  
3           plan and then have an opportunity to question the  
4           company's personnel, how they acted, and to offer  
5           their opinions in terms of whether or not they were  
6           acting in an optimal fashion to manage those  
7           resources in the lowest possible costs for  
8           customers.

9                         And that's the typical type of relationship  
10           that we see in jurisdictions where staff is  
11           interacting very directly with the company to  
12           understand what's going on because the costs are  
13           high and this gives the staff exposure to the types  
14           of decisions that the company is forced to make in  
15           a responsive way as well as those that it's making  
16           in a contractual way.

17                         So, I think that's a healthy approach to  
18           take. We've seen that approach in New York State, I  
19           have a feeling it's working pretty well there and,  
20           as you know, that's a very dynamic power market.

21         Q. [208] Okay. What you just described is the typical  
22           approach, the approach you would anticipate to see  
23           at the Régie? Are you able to actually describe the  
24           way this review is taking place in the specific  
25           case of the annual review at la Régie?

1 A. No. I would defer to the company...

2 Q. [209] Okay.

3 A. ... or to the Régie. I don't have that knowledge.

4 Q. [210] Maître Hébert, est-ce que vous pourriez nous  
5 décrire de façon un peu plus détaillée comment ce  
6 processus annuel a lieu pour la mise à jour par  
7 l'approvisionnement.

8 (11 h 30)

9 Me FRANÇOIS G. HÉBERT :

10 Oui. À l'heure actuelle, c'est un suivi  
11 administratif qui est fait par la Régie. Alors, une  
12 fois l'an, évidemment dans les intervalles dont on  
13 parle puisqu'on dépose le plan aux trois ans. Comme  
14 cette année, on le fera le premier (1er) novembre.  
15 C'est un suivi administratif qui est fait par la  
16 Régie. Alors, toute l'information qui est souhaitée  
17 par la Régie est intégrée à ce suivi du plan  
18 d'approvisionnement-là. Et le personnel technique  
19 de la Régie revoit le suivi qui est déposé par le  
20 Distributeur.

21 Évidemment, des questions sont parfois  
22 posées par le personnel technique, des demandes de  
23 renseignements, pour reprendre une expression qu'on  
24 connaît bien, et le Distributeur y fait suite.

25 Q. [211] Merci. Mr. Coyne or Mr. Yardley, I address

1 the question to both of you: would you say that the  
2 process that was just described by Mr. Hébert  
3 constitutes public review?

4 Mr. JAMES M. COYNE:

5 A. I apologize because my translator wasn't working  
6 for the first half of the response.

7 Q. [212] Oh? Maybe Mr. Hébert could...

8 A. My battery seems... either my battery is dying or  
9 its batteries died. But...

10 Q. [213] Could we repeat the answer just to make sure  
11 that the...

12 A. Thank you.

13 Q. [214] ... the witness got the whole thing?

14 A. Would you mind just repeating?

15 Me FRANÇOIS G. HÉBERT:

16 Q. [215] Just repeating?

17 A. Yes.

18 LA PRÉSIDENTE :

19 Q. [216] In French? Or do you want...

20 Me PRUNELLE THIBAUT-BÉDARD:

21 Q. [217] Which ever way...

22 A. Can we just go offline for a moment?

23 Q. [218] Of course.

24 Mr. JAMES M. COYNE:

25 A. Thank you, I'm prepared to continue the discussion.

1 Would you mind repeating your question?

2 Q. [219] Yes, of course. Actually, I will ask you to  
3 please first summarize your understanding of what  
4 Mr. Hébert just told you, as far as the annual  
5 review process that is taking place for the supply  
6 plans. And my question was: would you consider this  
7 process to be one of public review?

8 A. The understanding we have is... I think as we've  
9 conveyed elsewhere in our written and verbal  
10 discussions is that the company submits a three-  
11 year... every three years, it submits a three-year  
12 supply plan. And every year, it submits a report to  
13 the Régie pertaining the results of that supply  
14 plan in terms of its supply acquisition, costs,  
15 it's supplies. And then, that entails a discussion  
16 between the Régie staff and the company, as far as  
17 its supply plan is concerned. So, the public review  
18 process is every three years. The annual review is  
19 between the company and Régie staff.

20 Q. [220] Okay. I didn't want to interrupt you. Are you  
21 done with your answer?

22 A. Did I answer both of your questions?

23 Q. [221] Yes, you did.

24 A. Okay.

25 Q. [222] So, we can say that there is no actual annual

1 public review of the supply plan update.

2 A. That's correct...

3 Q. [223] Thank you.

4 A. ... today, yes.

5 Me FRANÇOIS G. HÉBERT :

6 J'aimerais ajouter juste un point, si vous me  
7 permettez. À tous les trois ans, bien que ce ne  
8 soit pas requis par la loi sur la Régie de  
9 l'énergie, il faut comprendre que la Régie décrète  
10 des audiences publiques dans le cadre de l'analyse  
11 du plan d'approvisionnement. Ce n'est pas visé par  
12 l'article 25, mais la Régie a discrétion évidemment  
13 de commander des audiences publiques lorsqu'elle le  
14 souhaite. Alors, c'est un point important. C'est  
15 que c'est discuté de fond en comble avec tous les  
16 intervenants une fois l'an en audience, vous le  
17 savez. Et, par ailleurs, il y a certaines questions  
18 qui sont régulièrement posées par les intervenants  
19 dans le cadre des dossiers tarifaires annuels.

20 Q. [224] Merci. Mr. Coyne, you referred earlier today  
21 to ongoing CAPEX review. I believe your point was  
22 that CAPEX should be excluded from the MRI because  
23 the CAPEX review process is adequate. In your  
24 experience, are utilities required to look at  
25 alternatives to their proposals and justifying

1 their plans in a CAPEX review?

2 A. Two answers. One is the... one justification for  
3 the exclusion is that they're also beyond the  
4 company's direct control because it's responding to  
5 conditions on its system; customer demand,  
6 equipment failures and things of that nature, so is  
7 another reason. So, it's the review process and the  
8 fact that these capital expenditures aren't within  
9 the company's direct control as much as other  
10 expenditures are.

11 And the second part of your question though  
12 was... I'm sorry, would you mind repeating it?

13 Q. [225] Of course: whether utilities are required to  
14 look at alternatives to their proposals and  
15 justifying their plans in a CAPEX review.

16 A. Are they typically required to...

17 Q. [226] Uh-huh.

18 A. ... present alternative proposals?

19 Q. [227] Uh-huh.

20 A. For large projects, my experience is that that is  
21 typically the case that a company will identify a  
22 problem and it'll identify alternative solutions to  
23 that problem. It could be solved through APEX,  
24 through CAPEX, through delay, through a  
25 transmission line, through other re-configurations



1 of the system that might address it, and this is  
2 specifically the case for large projects. Smaller  
3 projects are typically budgeted in an aggregate  
4 basis, as they are here, and it would be cumbersome  
5 to identify alternatives to each and every smaller  
6 project, but the expectation is that there's an  
7 asset management program in place to assist the  
8 company in making those determinations. Both...  
9 especially for small projects, but large projects  
10 are typically studied on a more discreet basis. And  
11 the company may present those as part of its  
12 original filing, or they may be asked to do so by  
13 the regulator, or by interveners if they have  
14 concerns about it being an optimal project vis-à-  
15 vis other alternatives.

16 Q. [228] Okay. In your experience, in the case of  
17 major projects, have you seen cases where  
18 alternatives were also suggested by intervening  
19 parties if they had not been suggested by the  
20 company, by the utility?

21 A. Either suggested or questioned as to what the  
22 alternatives are. We see this especially with  
23 transmission projects because transmission projects  
24 are increasingly controversial because of the  
25 siding circumstances surrounding them, so

1 oftentimes, interveners will be property owners and  
2 abutters that will be concerned about whether or  
3 not that transmission project is required. We don't  
4 see quite as much of that type of intervention  
5 activity for distribution projects. That's not to  
6 say that they don't also have impacts on property  
7 owners and abutters.

8 But if it's a costly project, we typically  
9 do see interveners coming before the regulator in  
10 order to ensure that the alternatives have been  
11 studied. So that's fairly common practice.

12 Q. [229] Thank you. And is it also possible, or have  
13 you seen cases where the regulator would ask for  
14 other... for alternatives to be considered that  
15 have not been mentioned by the utility?

16 A. Depends on the type of project, but typically, yes,  
17 that's a... a reasonable line of questioning.

18 Q. [230] Okay, thank you. You've mentioned a few  
19 minutes ago the control criteria, the direct  
20 control criteria that allows you to decide whether  
21 something is going to be excluded or included in  
22 the MRI, or treated as a Y factor. In your  
23 presentation yesterday, you spoke of that notion of  
24 control in a number of different ways. Sometimes  
25 you said direct control. You also spoke of costs

1 that are clearly beyond management's control. We  
2 also heard costs deemed beyond management's direct  
3 control. We use a concept of reasonable control,  
4 the concept of predictability, also that of a  
5 stronger influence of HQD on costs. Could you help  
6 me in understanding, maybe in a more precise way,  
7 how exactly the criteria of control applies? Can  
8 you give me a definition?

9 A. Control would typically be defined or thought of as  
10 a circumstance where the company has the ability to  
11 make a determination specifically pertaining to  
12 capital. Whether or not that project is necessary,  
13 and whether or not that project... and the timing  
14 of that project -- does it need to be done now, or  
15 can it be deferred -- those would be examples of  
16 control. It's oftentimes better to find through  
17 example than it is through precise definition. In  
18 cases where capital projects are concerned, the  
19 exclusions for control get defined in terms of  
20 circumstances beyond management's direct control in  
21 the way that I just described, and also invites  
22 outside influences, such as acts of the regulator  
23 or acts of the government, it would dictate that  
24 something has to be done that the company has no  
25 control over.

1                   Those are, I guess, examples of where  
2                   control is deemed to exist or not. Pension fund  
3                   obligations are typically not deemed within a  
4                   company's control because that depends on an  
5                   actuarial analysis on what the company has to  
6                   contribute to its pensions or not. So, some are  
7                   easier to define as within and outside, and others  
8                   are much more judgmental.

9           Q. [231] M'hm. If a utility has a direct control over  
10           something but that control is partial, meaning it  
11           has direct control over some components of a cost,  
12           but not all components of a given cost; couldn't it  
13           still be useful to include these costs in an MRI,  
14           for example, as for amortisation, corporate  
15           expenses, and taxes?

16           (11 h 40)

17           A. Yes, and it has the added advantage of it being  
18           predictable. So capital expenditures can be lumpy,  
19           but amortization is typically not going to be as  
20           lumpy, unless you have something like a change in  
21           accounting policy and gap, as the company did  
22           several years ago, in which case you get a big  
23           change in amortization. Well, in that case, one  
24           would argue that that probably would be a Z factor,  
25           so that would be an appropriate way for control the

1 Z factor to work together.

2 Q. [232] Okay, just to make sure I understand your  
3 position correctly, in a case where partial control  
4 is held over something, you would then also take  
5 into account the predictability factor to make a  
6 decision on whether it's a good opportunity to  
7 include it in the MRI or not?

8 A. Yes, because that would make for an effective  
9 incentive in that case.

10 Q. [233] Okay, thank you. Another approach to the  
11 notion of control that you mentioned yesterday was  
12 to deem that a given outside is outside the direct  
13 control of HQD when it is under Régie oversight,  
14 does your answer depend on the degree to which this  
15 oversight is actually exercised?

16 A. No, if it has control, then it is, that should be  
17 sufficient. Whether or not it exercises that  
18 control in that case, then it's up to the company.  
19 So if it has the ability to control it, then it is  
20 then up to the company whether or not it exercises  
21 or not, but you're looking for the ability to  
22 control it.

23 Q. [234] I'm not sure I follow. So if the utility has  
24 the ability to control one factor, and that factor  
25 is also under the Régie oversight...

1 A. Uh-huh.

2 Q. [235] ... then we would deem that it has control,  
3 to start with. How would you factor in the  
4 oversight of the Régie with the control?

5 A. Well, it factors into it, because if the, take  
6 operating expenditures, I mean, you could argue  
7 that the Régie has control over everything that HQD  
8 does at the end of the day, but it's not a  
9 typically exercising day-to-day control over how  
10 many employees the company has on staff. So hiring  
11 and firing, work force staffing determinations are  
12 arguably within the company's control, although  
13 ultimately, the Régie make determinations as to  
14 whether or not its costs are reasonable or not in  
15 the cost of service model.

16 Q. [236] Uh-huh.

17 A. So the Régie has control on the background, but the  
18 company has day-to-day operational control, and  
19 therefore, that's deemed to be sufficient from an  
20 MRI standpoint to consider for inclusion under a  
21 formula or revenue cap.

22 In the case of a large capital project, the  
23 company may come forward with a large project that  
24 it deems to be necessary, and the Régie may ask it  
25 to go study it further, or it may question whether

1 or not it's the, as we were just discussing,  
2 whether or not it's the best solution for the  
3 problem.

4 So there, it's a dialogue back and forth  
5 with the Régie, and the Régie is in a much more  
6 position to exercise discrete control over that  
7 cost path, and the company is in partnership, so to  
8 speak, with the Régie but ultimately, the Régie  
9 will decide whether or not the project is  
10 reasonable or not, and then the company will be  
11 responsible for implementing it. So there's less  
12 direct control there than there is in the case of  
13 day-to-day operating expenditures.

14 Me PRUNELLE THIBAUT-BÉDARD :

15 Okay, thank you. Madame la Présidente, il me reste  
16 encore un bon nombre de questions, je veux  
17 simplement ouvrir la porte à la possibilité de  
18 prendre la pause lunch et continuer par la suite?

19 LA PRÉSIDENTE :

20 Vous prévoyez combien de temps environ?

21 Me PRUNELLE THIBAUT-BÉDARD :

22 Je dirais un bon trente (30) minutes, minimum,  
23 dépendant de la longueur des questions, là, je n'ai  
24 pas le contrôle sur tout ça.

25

1 LA PRÉSIDENTE :

2 On va poursuivre encore quelques minutes.

3 Me PRUNELLE THIBAULT-BÉDARD :

4 Encore un peu? Parfait.

5 Q. [237] I'm back to English now. I presume you are  
6 familiar with the patrimonial contract and how it  
7 works, just basic?

8 A. Yes.

9 Q. [238] Are you aware that HQD is entitled to up to  
10 one hundred and sixty-five terawatthours (165 TWh)?

11 A. Yes.

12 Q. [239] For a year of patrimonial energy, at under  
13 three cents/kilowatthour (3¢/kWh)?

14 A. Yes.

15 Q. [240] Are you also aware that HQD does not always  
16 use all of the patrimonial energy to which it is  
17 entitled?

18 A. Yes.

19 Q. [241] Do you know how much patrimonial energy is  
20 left on the table each year, approximately?

21 A. Uh...

22 Q. [242] I can help you with two thousand fifteen  
23 (2015).

24 A. I do not know that number, so we would appreciate  
25 the help.



1 Q. [243] The number in two thousand fifteen (2015) was  
2 almost twelve terawatthours (12TWh), and in fact,  
3 these amounts are increasing rapidly; just a year  
4 ago, HQD expected the quantity of unused  
5 patrimonial electricity in two thousand fifteen  
6 (2015) to be just seven point three terawatthours  
7 (7.3TWh), and it ended up being twelve (12TWh), so  
8 almost double. Were you aware of the extent, the  
9 range of these numbers?  
10 (11 h 46)

11 A. I was aware of the concept but not of the specific  
12 numbers of terawatthours that couldn't be used.

13 Q. [244] Okay.

14 A. But it stands to reason because if the company is  
15 required to take the non-heritage supply,  
16 contractual obligations for wind, biomass, et  
17 cetera first so it's the residual that has to be  
18 turned back to HQP.

19 Q. [245] Uh, huh.

20 A. So, we're aware of the concept but not the specific  
21 numbers.

22 Q. [246] Okay. Had you been more aware of the specific  
23 numbers, would your recommendation for the MRI have  
24 been the same, especially regarding the exclusion  
25 of supply costs?

1 A. It's again a control issue because our  
2 understanding is that the company is exercising  
3 these contracts for alternative resources as a  
4 matter of public policy in Quebec and those  
5 contracts are also reviewed by the Régie when it  
6 does so under its supply plan.

7 So, I don't see the... HQD having the  
8 ability to exercise control over how much of that  
9 patrimonial supply is turned back to HQP so we were  
10 aware of that circumstance when we made that  
11 recommendation. The specific number would not  
12 change it.

13 Q. [247] Okay. You said yesterday that HQD has no  
14 incentive to oversupply. With respect to its short-  
15 term purchases, are you aware that a large  
16 percentage of HQD's short-term purchases are from  
17 HQP?

18 A. Yes, we know that they go out to tender for the  
19 short-term purchases and sometimes HQP wins in  
20 those tenders and, in other cases, they're in the  
21 best position to provide it. But yes, we are aware  
22 that they provide a substantial portion of them.

23 Q. [248] Okay. Are you also aware that, as an  
24 integrated company, most of HQ's profit comes from  
25 HQP?

1 A. I don't know the relative profit numbers between  
2 the three divisions.

3 Q. [249] Okay. It is actually about seventy-seven  
4 point seven percent (77.7%) of the annual profit in  
5 two thousand fifteen (2015) that came from HQP. Did  
6 I not say sixty-seven (67)? Sixty-seven (67).

7 A. Yes. I presume that the vast majority of that is  
8 exports but I don't know that breakdown.

9 Q. [250] Well, actually the sale of, the short-term  
10 sales of HQP to HQD are also quite profitable. As  
11 another example, in two thousand fifteen (2015), at  
12 the same time as twelve (12) terawatthour was left  
13 on the table, twelve (12) terawatthour of three  
14 cents (3¢) patrimonial energy, HQD purchased three  
15 (3) terawatthour of energy on the short-term market  
16 of which more than half was provided by HQP at an  
17 average price of more than seven cents (7¢) so  
18 there is a significant margin here.

19 Would you agree that HQ as a company might  
20 well benefit from a situation where HQD fails to  
21 use all of the three cents (3¢) HQP energy to which  
22 it is entitled and instead makes substantial  
23 purchases from HQP at a much higher price?

24 A. And in the question, I'm sorry, is your question:  
25 would the company be incented to do so?

1 Q. [251] Would the company benefit from a situation  
2 where it could do that.

3 A. I think the math suggests yes, that from a  
4 corporate standpoint they would benefit. There  
5 would need to be a check and balance on that and  
6 the check and balance that I would see would be a  
7 standard check and balance that you have whenever  
8 you have an intercompany transfer of value like  
9 that, that there would be standards and measures in  
10 place that determine when and how the company uses  
11 those resources, how it goes out to tender for them  
12 and then, and then an after the fact determination  
13 of did it act prudently when it did so.

14 Q. [252] Okay.

15 A. And again, I see that as being part of the supply  
16 plan review process that the company goes through  
17 with the Régie when it submits its plan on a three-  
18 year basis and it also reports on an annual basis,  
19 as we discussed.

20 Q. [253] Okay. So that check and balance, in your  
21 opinion, should be entirely up to the Régie and no  
22 incentive regulation has a role to play here  
23 whatsoever.

24 A. I guess I'm not aware of the design... Every  
25 utility faces the same circumstance. In this case,

1           there is a corporate subsidiary that's sitting in  
2           that role that can provide those services but every  
3           electric distributor requires access to expensive  
4           short-term supplies.

5                        If you are a US distributor that's relying  
6           on gas combustion turbines, you're spending ten  
7           (10), fifteen (15), twenty cents (20¢), sometimes  
8           you're spending a hundred dollars (\$100) and up per  
9           megawatthour in the spot market to acquire those  
10          short-term kilowatthour that you need to satisfy  
11          load variations. So, it's always more expensive  
12          than your base resources, that's not a surprise.  
13          But the supply plan itself should be thoroughly  
14          vetted with both stakeholders and with the Régie  
15          and again the reporting requirements provide an  
16          opportunity for the staff to question the company  
17          as to whether or not they were implemented  
18          properly, but... I don't mean to talk around your  
19          question. Your question was, should there be an  
20          incentive in place to make sure that that's  
21          optimized.

22        Q. [254] Uh-huh.

23        A. I don't know how you would design that incentive  
24          without anticipating what the market circumstances  
25          were going to be at the time. The company should be

1 taking the lowest cost short-term resources it can,  
2 and it should also be taking the largest amount of  
3 lower cost long-term resources it can in its plan.  
4 And those are legitimate questions in the supply  
5 plan review, to make sure that the planning process  
6 is in place and the procedures that are executing  
7 after the fact have been done in a prudent manner.

8 It would... I'm not aware of any electric  
9 utility that has an incentive designed around how  
10 it acquires those resources for those practical  
11 reasons. But Mr. Yardley is dying to chime in right  
12 now.

13 Mr. ROBERT C. YARDLEY:

14 A. I am. The issue of favouring an affiliate is a very  
15 serious concern. In this case, I don't think it  
16 would be difficult to see what was going on, and so  
17 we have that benefit. It's not some hidden contract  
18 somewhere. We can see the dispatch, we could see  
19 the decisions to make, to take a higher cost  
20 resource over a lower cost resource. That would be  
21 fairly transparent.

22 But if I had to choose a regulatory tool to  
23 address that problem, I would... I would use  
24 affiliate rules, I would use, and maybe my age is  
25 showing, but I would use more traditional

1 mechanisms to make sure that that was not taking  
2 place, than relying on some mechanism, some  
3 formula, where actually it would be potential under  
4 the formula, because there'd be some financial  
5 incentive to actually favour the affiliate. I'd  
6 rather just go right to the heart of the problem  
7 and take care of it.

8 Q. [255] Okay.

9 M. FRANÇOIS HÉBERT :

10 Et ces outils-là existent, hein? On connaît les  
11 codes de conduite qui... auxquels le Distributeur  
12 sont assujettis.

13 Mr. JAMES M. COYNE:

14 A. I can give you one example. We were asked to come  
15 in to design an incentive by the B.C. regulator for  
16 FortisBC Energy. So we worked with stakeholders, we  
17 worked with the regulator, and we worked with the  
18 gas distributor. And the idea there was that the  
19 gas distributor required sufficient long-term  
20 capacity on interstate pipelines to serve its peak  
21 loads. And then, when it acquired, inevitably, gas  
22 utilities, like electric utilities, need to acquire  
23 more resources than they actually are going to use,  
24 but they need to be prepared for the coldest day.  
25 Typically it's a hundred (100) day year. It's the

1 coldest day in a hundred (100) year standard that a  
2 gas utility plans for. And the question is, when a  
3 company acquires more resources than it will  
4 actually need, what is it doing to sell those  
5 resources back to the market at the highest  
6 possible price to offset the impact to customers?

7 So we were asked to come in and look at the  
8 situation, and design an incentive for the company  
9 that would make sure that they were acting in the  
10 customers' best interest. And we designed an  
11 incentive, in that case, because we had market  
12 indices on these interstate pipelines that we could  
13 track and monitor, that would determine whether or  
14 not the company achieved a price that was  
15 comparable to those market incentives. And if they  
16 did, then they would be rewarded for doing so. And  
17 so that created a positive incentive for them to  
18 act in the best interest of customers. We designed  
19 something years ago that was similar to that for  
20 Vermont Gas. That was an incentivized gas purchase  
21 system.

22 So, we've seen them in a few examples like  
23 that in the gas industry, and the benefit of the  
24 gas industry is you have these very liquid market  
25 indicators that you can use to evaluate. But I'm



1 not aware of examples where it's been used in the  
2 electric industry in the same way. Because the  
3 circumstances are different, you have multiple  
4 sources of supply, and you don't have the same  
5 instantaneous liquid market index that you can use  
6 as a reference point. So it's work to be done, but  
7 I'm not aware that it's been accomplished  
8 successfully, and it would require quite a bit of  
9 thought to do so.

10 Q. [256] Thank you. On continue?

11 LA PRÉSIDENTE :

12 Si vous en avez pour quinze minutes (15 min), oui.

13 Me PRUNELLE THIBAULT-BÉDARD :

14 C'est un peu difficile à dire. Étant donné la  
15 longueur des réponses que je reçois, je serais  
16 surprise que ça ne prenne que quinze minutes  
17 (15 min).

18 Me ÉRIC FRASER :

19 Personnellement aussi, je favoriserais peut-être  
20 qu'on prenne la pause tout de suite, là.

21 LA PRÉSIDENTE :

22 Se reposer.

23 Me ÉRIC FRASER :

24 Oui.

25

1 LA PRÉSIDENTE :

2 D'accord. Alors on va prendre une pause, on reprend  
3 à une heure (13 h 00).

4 Me PRUNELLE THIBAULT-BÉDARD :

5 Merci beaucoup.

6 Me ÉRIC FRASER :

7 Je vous remercie, Madame la Présidente.

8 SUSPENSION DE L'AUDIENCE

9 REPRISE DE L'AUDIENCE

10

11 (13 h 00)

12 LA PRÉSIDENTE :

13 Alors, Maître Fraser.

14 Me ÉRIC FRASER :

15 Oui. Bonjour, Madame la Présidente. Pendant que ma  
16 consœur s'avance, si vous me permettez, j'ai la  
17 réponse à l'engagement numéro 1 que monsieur Dubé  
18 pourrait nous donner de vive voix sur... sur le  
19 banc.

20 LA PRÉSIDENTE :

21 Bon. Bien, alors...

22 Me ÉRIC FRASER :

23 Q. [257] Alors, Monsieur Dubé.

24 M. LUC DUBÉ :

25 R. Oui. En fait, concernant... c'est l'acétate 4, je

1        crois, de la présentation de Concentric au niveau  
2        de la tarte inférieure, on parlait des taxes au  
3        montant de quatre-vingt-quatre millions (84 M\$).

4        LA PRÉSIDENTE :

5        Hum, hum.

6        R. Effectivement, après vérification, si on exclut les  
7        coûts liés au programme du Bureau en efficacité  
8        énergétique, on parle plus d'un montant de  
9        cinquante-neuf millions (59 M\$) qui devrait  
10       apparaître là au lieu de quatre-vingt-quatre  
11       (84 M\$). On demeure quand même de l'ordre de  
12       soixante pour cent (60 %) au niveau de la  
13       couverture de notre formule paramétrique proposée.

14       Q. [258] Ça complète votre réponse?

15       R. Oui.

16       (13 h 02)

17       Q. [259] Merci. Alors, Maître Thibault-Bédard.

18       Me PRUNELLE THIBAULT-BÉDARD :

19       Oui. Je vais m'efforcer d'être la plus concise  
20       possible. Il me reste trois sujets à aborder. Bien  
21       sûr, je souhaite des réponses complètes de la part  
22       des témoins, mais si vous pouvez également faire un  
23       effort de concision, je crois que tout le monde ne  
24       s'en portera que mieux.

25       Q. [260] I would like to go back to something we

1 addressed... something that was mentioned before  
2 the break. You alluded to the fact that short-term  
3 purchases were made following a call for tender,  
4 and that purchases were made from HQP when they  
5 offered the lowest price in that call. There is on  
6 that topic one information I would like to bring to  
7 your attention that was discussed in last year's  
8 rate case for the Distributor. During cross-  
9 examination, one of HQD's witnesses testified that  
10 when HQD is considering the purchase of non-  
11 standard blocks, it will not contact at minimum of  
12 two suppliers, but will purchase directly from HQP.  
13 If you want further information on that, I can  
14 refer you to the transcript of last year's rate  
15 case, more specifically volume 3, page 224, and  
16 volume 4, page 66.

17 Study of the evidence filed in the case,  
18 more specifically HQD-6, document 7.1 show that  
19 such transactions, so when no other suppliers are  
20 contacted... so such transactions amounted for  
21 about forty percent (40%) of all bilateral short-  
22 term supply purchases in two thousand fourteen  
23 (2014).

24 In light of this information, is there  
25 anything you would like to add to your earlier

1           comments about the importance of inter-affiliate  
2           transactions.

3           Mr. ROBERT C. YARDLEY:

4           A. It doesn't change the importance of inter-  
5           affiliated transactions, the need for them, as I  
6           suggested, to be reviewed. So, it's certainly  
7           unfortunate that there's only one offer. I mean  
8           that is not desirable. I don't know enough about  
9           the market to understand, you know, why there's one  
10          supplier, and not others, and so forth, or... But I  
11          presume that the tender has been designed in a way  
12          to attract as many offers as possible. You can't  
13          guarantee that supplies will show up to  
14          participate. So, that's the purpose of having the  
15          review. The regulatory review, would be more  
16          important, or as important, or as or more important  
17          under those circumstances so that the Régie could  
18          take a look at those transactions and provide  
19          comfort to the themselves that that was an  
20          appropriate transaction.

21          Q. [261] I don't want to go into too much details on  
22          that specific example, but actually the case was  
23          not that only one supplier answered the call but  
24          that only one supplier was contacted, since it was  
25          non-standard block. Was the knowledge of the market

1 led HQD to assume that only HQP could provide that  
2 non-standard block and, hence, did not contact any  
3 other supplier with the request?

4 A. So, that's a question for HQP... or HQD, I mean,  
5 I'm sorry... for HQD. I assume they were asked that  
6 question.

7 Me FRANÇOIS G. HÉBERT :

8 Oui, bien, écoutez, si je peux me permettre  
9 d'ajouter, l'année dernière sur cette question-là,  
10 et je me répète, je m'en excuse, il y a eu de longs  
11 débats. C'était des transactions particulières dans  
12 des contextes très particuliers. Nos témoins sont  
13 venus expliquer le fin détail de l'ensemble des  
14 transactions. Pour certaines d'entre elles, elles  
15 ont été détaillées une par une. Et le contexte a  
16 été expliqué à l'ensemble des intervenants et à la  
17 Régie. Et la Régie est arrivée à la conclusion, de  
18 toute évidence, que nous avons bien fait. Les  
19 coûts ont été entièrement reconnus. Alors, il y a  
20 eu une grande transparence de la part du  
21 Distributeur dans l'explication de toutes ces  
22 transactions-là.

23 Il faut se rappeler qu'il y a des hivers  
24 qui sont plus froids que d'autres. Il peut y avoir  
25 des circonstances exceptionnelles sur le réseau, et

1 je ne fais pas référence à une transaction  
2 spécifique, mais il peut y avoir des incidents sur  
3 des réseaux qui militent en faveur de faire des  
4 transactions de produits très fins, et que seul le  
5 Producteur peut offrir.

6 Alors, tout ça a été expliqué, encore une  
7 fois, et la Régie, je crois, et je ne veux pas  
8 présumer, mais j'ai bien lu la décision, s'en est  
9 déclarée satisfaite des ces explications-là. Alors,  
10 le système fonctionne. Les intervenants ont soulevé  
11 certaines transactions. Nous nous sommes expliqué,  
12 et la Régie a retranché en bout de ligne. Alors, ça  
13 fonctionne bien.

14 Q. [262] Merci. Mr. Yardley, in your comments this  
15 morning, you mentioned that American regulators  
16 would typically use inquiries in the event that a  
17 party suggested there was a prudence issue  
18 regarding short-term purchases or similar matters.  
19 Could you describe to me what this inquiry process  
20 looks like, in your experience?

21 Mr. JAMES M. COYNE:

22 A. Was that directed to me or Mr. Yardley?

23 Q. [263] I mentioned Mr. Yardley but I would be happy  
24 to hear from both of you.

25 (13 h 08)

1 Mr. ROBERT C. YARDLEY:

2 A. Yes, I mean... so prudence reviews are... I'll  
3 respond generically, not narrowly to the supply  
4 question. I mean, generically, the question of a  
5 prudence review arises out of some other enquiry,  
6 and there's a question as to whether or not, based  
7 on the facts, there's a very specific standard  
8 established by law, which is based on what the  
9 company could have reasonably known, expected to  
10 know at that time that they act prudently. So it's  
11 based on the facts and circumstances at the time.

12 So if an issue arises, it could be brought  
13 to the attention of the regulator by a party, more  
14 often staff or the regulator is already aware of  
15 it, it tends to be something that's fairly  
16 significant in size, fairly well known, it could be  
17 an investment that they've made, it could be their  
18 storm restoration after a particular storm, I've  
19 conducted one of those myself.

20 And, so it tends to be something fairly  
21 significant, and the case proceeds as a standard  
22 case, it could be within a rate case, it could be  
23 one issue within a rate case, that may be the most  
24 efficient way. It could be a separate docket,  
25 depending on the circumstances, it could be, you



1 know, it could be within a convenient case where  
2 all the parties and the issues are the same.

3 But in general, it's a standard enquiry,  
4 the company would be expected to explain what they  
5 did, why they did it, how it matched the  
6 circumstances that they faced at the time, and it  
7 would be a standard judicial review, and parties  
8 would comment, they may sponsor a witness as well.  
9 And at the end of the day, the Commission would  
10 apply the standard, apply its precedent and issue a  
11 ruling. So it's nothing really extraordinary.

12 Q. [264] Okay, okay. And, as you mentioned, it can  
13 take place within a regular rate case, or it could  
14 be brought up separately because somebody has an  
15 issue they would like to discuss, they want to ask  
16 a question basically to the regulator about the  
17 prudence of such and such action or decision?

18 A. Right, frequently, it's in a rate case because  
19 that's when the company is seeking recovery of the  
20 costs, so it could be within a rate case, but it  
21 could be outside.

22 Q. [265] Do you know if, going back to the specifics  
23 of this case, do you know if the Régie has ever  
24 applied something similar as a, as the legal basis  
25 to conduct such a process of enquiry, has it ever

1 done it, to your knowledge?

2 A. I did hear reference in some of our conversations  
3 to a supply issue.

4 Me FRANÇOIS G. HÉBERT :

5 R. L'année dernière, c'était une forme d'enquête que  
6 la Régie a conduite, a conduit plutôt, relativement  
7 à ces transactions-là; quelques transactions, là,  
8 il n'y en a pas plusieurs. Alors, c'est une forme  
9 d'enquête, qui a été longuement questionnée, alors  
10 on s'est expliqué, et il y avait des motifs très  
11 valables pour lesquels ces transactions-là avaient  
12 été faites, au moment où elles ont été faites et au  
13 prix auquel elles ont été payées.

14 Puis je vous rappellerais également que  
15 dans la Loi, la Régie a un pouvoir d'enquête; si  
16 elle-même décidait de... voyait qu'il y avait des  
17 irrégularités, elle a un pouvoir d'enquête. Alors  
18 c'est un quatrième forum, je parlais de trois  
19 forums ce matin pour le court terme, c'est le suivi  
20 administratif trimestriel, c'est le rapport annuel,  
21 et c'est fait sous dispense, il y a le pouvoir  
22 d'enquête de la Régie, alors il y a toute une  
23 fourchette de moyens pour s'assurer que les  
24 transactions qui sont faites, sont faites à juste  
25 prix puis sont transparentes.

1                   Puis la Régie, puis je termine là-dessus  
2           parce que je me répète encore, a déjà mentionné que  
3           le processus actuel était transparent et équitable.

4    Q. [266] Vous m'excuserez ma jeune expérience avec la  
5           Régie, mais est-ce que ce pouvoir d'enquête a déjà  
6           été utilisé, avez-vous un exemple?

7    R. À ma connaissance, non.

8    Q. [267] O.K.

9    R. Mais elle peut le faire à tout moment.

10   Q. [268] D'accord. I have, I'm going back to English  
11           now, I have another vocabulary question. You also  
12           made reference to the use of "discovery", a  
13           discovery process; can you describe to me what  
14           discovery looks like in a regulatory context, based  
15           on your experience, Mr. Yardley or Mr. Coyne?

16           Mr. ROBERT C. YARDLEY :

17   A. Yes. I don't know that it's any different than it  
18           is here at this body, but the parties and staff  
19           will frequently ask a number of questions, and  
20           perhaps more than one round of questions, in order  
21           to seek more data, seek explanations, ask questions  
22           like, "Why do you have this data, we'd like to see  
23           this...", so that's, I don't know, I've seen it,  
24           you know, on hundreds of occasions, it all seems to  
25           look the same.

1 Q. [269] Maybe a more specific question -- in your  
2 experience, when discovery is used, is it a two-  
3 step process where first, we obtain the documents  
4 through the discovery, then we analyze them, and  
5 then we decided which documents will be filed in  
6 the regulatory process, or do they kind of all  
7 happen at the same time?

8 (13 h 13)

9 Me ÉRIC FRASER :

10 Madame la Présidente, à ce stade-ci, je  
11 m'objecterais parce que, de plus en plus, on semble  
12 vouloir faire un procès du processus de fixation  
13 des tarifs. On demande des détails. On demande à  
14 nos experts, qui sont ici pour témoigner sur leur  
15 rapport, qui sont ici pour témoigner sur des  
16 questions de réglementation incitative, on leur  
17 demande de porter un jugement sur le processus  
18 actuel de façon assez détaillée. Je pourrais  
19 laisser aller les questions où on leur demande des  
20 questions sur les incitatifs à ajouter, tout ça.  
21 Mais, là, on leur demande des questions, ma foi,  
22 assez détaillées. Et on leur demande de porter un  
23 jugement sur le processus d'examen des coûts du  
24 Distributeur qui, d'une part, me semble... je  
25 m'objecte pour une question de pertinence parce

1 qu'on va trop loin dans le débat ou le procès des  
2 dossiers tarifaires. Et, deuxièmement, ils ne sont  
3 pas experts nécessairement en processus juridique  
4 d'enquête.

5 Alors, je m'objecte à la question, puis à  
6 cette ligne de questions pour qu'on puisse passer à  
7 une autre ligne de questions, s'il vous plaît.

8 Me PRUNELLE THIBAULT-BÉDARD :

9 Ma ligne de questions était terminée, mais je vais  
10 néanmoins répondre à maître Fraser. L'un des  
11 arguments qui est mis de l'avant par Hydro-Québec  
12 Distribution, et monsieur Hébert l'a répété à  
13 quelques reprises, ce sont les différents  
14 mécanismes qui sont déjà en place pour contrôler  
15 certains coûts, certaines dépenses. Parmi ces  
16 mécanismes-là, les affaires tarifaires ont été  
17 mentionnées. Les experts se sont... Les témoins se  
18 sont également prononcés sur le fait que le  
19 contrôle par un organisme externe peut assurer un  
20 moyen de contrôler certains coûts. Et dans cette  
21 opinion-là, ils ont mentionné différents procédés  
22 qu'ils jugeaient faisant partie du contrôle exercé  
23 par un organisme externe Inquiry Discovery.

24 Donc, mon objectif était de voir si les  
25 mesures en place du côté réglementaire au Québec,

1           telles que soulevées par monsieur Hébert... par  
2           maître Hébert, désolée, rencontraient l'opinion des  
3           experts quant à un contrôle efficace en la matière.  
4           Ceci dit, je n'ai pas d'autres questions sur le  
5           sujet.

6           LA PRÉSIDENTE :

7           Merci beaucoup.

8           (13 h 15)

9           Me PRUNELLE THIBAUT-BÉDARD :

10          Q. [270] Continuing, earlier today, I believe one of  
11           you mentioned HQD's demand charges in relation to  
12           transmission service. Was your point that HQD can  
13           affect its transaction costs simply by reducing its  
14           peak demand, whether through interruptible rates or  
15           through other means?

16          Mr. JAMES M. COYNE:

17          A. Our understanding is that there is a demand...  
18           there is a peak load forecast that HQD makes, and  
19           that peak load forecast is taken in by HQT, and  
20           that is the basis upon which it makes, it develops  
21           the percentage of the cost it'll allocate to HQD  
22           for a given year, under current rate-making  
23           practices.

24                        So if its projection of that load  
25           requirement were to be reduced, then that would

1       reduce the allocation... I guess it would reduce  
2       the allocation of its total tariff. It's going to  
3       still need a recoupage total tariff. So they  
4       would... Unless other customers are picking it up,  
5       it wouldn't be a precise reduction, but I suppose  
6       you could say their share of it might come down.

7       Q. [271] Thank you. Maître Hébert, vous avez à  
8       quelques reprises, et je l'ai moi-même mentionné,  
9       fait référence aux trois éléments qui assurent un  
10       contrôle de certaines dépenses. Vous venez tout  
11       juste de nous le rappeler, donc les suivis... les  
12       suivis administratifs, le dépôt des rapports  
13       annuels et les affaires tarifaires. Je ne m'éti...

14       M. FRANÇOIS G. HÉBERT :

15       R. Les demandes tarifaires?

16       Q. [272] Les demandes tarifaires, oui. Je ne  
17       m'étirerai pas trop sur le sujet, mais j'aimerais  
18       brièvement que vous me donniez un peu plus  
19       d'information sur la façon dont fonctionnent les  
20       suivis administratifs et le dépôt de la déclaration  
21       annuelle. De façon plus précise par rapport aux  
22       suivis administratifs, si vous pouvez brièvement me  
23       décrire le processus : est-ce qu'il y a des  
24       réunions tenues avec la Régie, un échange de  
25       documents, des questions?

1 R. Alors, prenons l'exemple du rapport annuel. Nous  
2 avons, depuis la réglementation du Distributeur,  
3 nous avons déposé à la Régie quinze (15) rapports  
4 annuels. Ces rapports-là sont très volumineux.  
5 D'ailleurs, ils respectent en grande partie, en  
6 tous points, le Guide de dépôt qui a été émis par  
7 la Régie, alors il y a une série d'informations qui  
8 sont exigées de la part de la Régie, auxquelles le  
9 Distributeur se soumet. Alors donc, je n'ai pas la  
10 table des matières, mais ça couvre un ensemble de  
11 résultats, et c'est déposé à la Régie une fois  
12 l'an, comme je le mentionnais, soixante (60) jours  
13 après le dépôt du rapport annuel de l'entreprise au  
14 gouvernement, et il y a une... Ma compréhension, et  
15 évidemment je suis... je ne suis pas de la Régie,  
16 mais ma compréhension, c'est qu'il y a un examen  
17 exhaustif qui est fait par le personnel technique  
18 de la Régie de ce rapport annuel-là. Il est  
19 fréquent que nous recevions des demandes de  
20 renseignements sur l'information qui a été soumise  
21 dans ce rapport annuel-là, et évidemment on y  
22 répond. Si la Régie se déclare satisfaite de nos  
23 réponses, elle émet une lettre confirmant que tout  
24 est conforme, et si elle n'est pas satisfaite, elle  
25 demande des informations additionnelles.



1                   Et j'aimerais aussi ajouter, en terminant,  
2 que l'ensemble des informations - et le bureau du  
3 contrôleur, mes collègues pourront le confirmer -  
4 mais toutes les données sont vérifiées par les  
5 vérificateurs externes d'Hydro-Québec lorsque c'est  
6 déposé auprès de la Régie. Alors ça c'est le  
7 mécanisme, là, j'ai... j'ai pris l'exemple du  
8 rapport annuel, mais c'est la façon dont ça se  
9 déroule.

10    Q. [273] Donc, le mécanisme serait le même pour les  
11 suivis administratifs? Vous m'avez dit prendre  
12 l'exemple du rapport annuel, ma question touchait à  
13 la fois le suivi administratif et le rapport  
14 annuel. Est-ce que c'est exactement le même  
15 mécanisme?

16    R. Bien, pour... Chaque cas peut être un cas d'espèce,  
17 mais dans le cadre des suivis administratifs,  
18 généralement c'est le personnel technique qui a la  
19 responsabilité, j'imagine, d'analyser la conformité  
20 des suivis que le Distributeur fera suite... fera  
21 suite à une demande de la Régie. Alors c'est ma  
22 compréhension, oui.

23                   (13 h 20)

24    Q. [274] O.K. Est-ce qu'il y a des DDR qui peuvent  
25 être adressées de la part de la Régie dans le cas

1 du suivi aussi?

2 R. La Régie a beaucoup de pouvoirs, vous savez,  
3 alors... Et puis on répond à plusieurs demandes de  
4 renseignements par année alors oui, ça peut  
5 arriver.

6 Q. [275] C'est possible.

7 R. Tout à fait.

8 Q. [276] Et est-ce que vous recevez également une  
9 espèce de lettre de confirmation comme quoi le tout  
10 est à la satisfaction suite au suivi administratif  
11 ou si c'est juste pour le rapport annuel?

12 R. Dans le cadre des suivis administratifs, il se peut  
13 qu'on en reçoive - j'y vais de mémoire - mais  
14 parfois on n'en reçoit pas. J'ai en tête, par  
15 exemple, les suivis que nous faisons dans le  
16 dossier du déploiement des compteurs intelligents.  
17 Je ne crois pas que nous recevions de confirmation  
18 à l'effet que ces suivis-là sont adéquats mais,  
19 chose certaine, c'est lorsqu'ils ne sont pas  
20 adéquats, la Régie nous le mentionne.

21 Q. [277] D'accord. Et est-ce que ces deux processus  
22 laissent des traces? Est-ce qu'il y a des traces  
23 publiques par rapport, pour les suivis  
24 administratifs, par exemple, pour les suivis  
25 administratifs de questions qui auraient été

1           soulevées par la Régie ou si des parties  
2           intéressées voulaient en apprendre un peu plus sur  
3           ce mécanisme-là?

4   R.   Écoutez, à ma connaissance, c'est sur le site  
5       Internet de la Régie...

6   Q.   [278] Hum, hum.

7   R.   ... dans chacun des dossiers. Je sais que les  
8       suivis administratifs sont aussi dans le, on  
9       reprend l'exemple du déploiement des compteurs  
10      intelligents, ils sont systématiquement mis sur le  
11      site Internet de la Régie alors est-ce que c'est le  
12      cas de tous les suivis administratifs qui sont  
13      faits? Je ne voudrais pas vous induire en erreur.

14   Q.   [279] O.K. Parfait, merci. Donc, on vient de  
15      discuter suivi administratif, rapport annuel. Il  
16      n'y a pas une étape dans le processus où,  
17      clairement, les parties intéressées peuvent  
18      intervenir. Ce n'est pas le cas de l'affaire  
19      tarifaire, on le sait bien, les intervenants s'y  
20      expriment. Toutefois, selon votre proposition de  
21      MRI, les dossiers tarifaires seraient réduits à des  
22      « compliance reviews » sur un nombre plus limité de  
23      questions, le tout par écrit uniquement.

24                   Donc, je pense qu'on peut s'entendre pour  
25      dire que ce moyen de contrôle là, parmi les trois

1 que vous avez énumérés, est appelé à changer si on  
2 met en place le MRI tel que proposé par Hydro-  
3 Québec Distribution.

4 R. Excusez, je n'ai pas compris la question. Quel  
5 moyen changera?

6 Q. [280] Les affaires tarifaires.

7 R. Le dossier tarifaire.

8 Q. [281] Le dossier tarifaire.

9 R. Oui.

10 Q. [282] Oui, que vous mentionnez comme un des trois  
11 moyens de contrôle...

12 R. Oui.

13 Q. [283] ... - je m'éloigne du micro, je ne sais pas  
14 si on m'entend bien - que vous mentionnez comme un  
15 des trois moyens de contrôle...

16 R. Oui.

17 Q. [284] ... et parmi les trois moyens, c'est le seul  
18 où je vois une intervention réelle des parties  
19 intéressées de façon structurée. Toutefois, dans la  
20 proposition de MRI qu'il y a dans votre preuve,  
21 vous proposez de réduire les affaires tarifaires  
22 plutôt que d'avoir un gros dossier chaque année  
23 puis de remplacer ça par des « compliance reviews »  
24 sur une base annuelle.

25 R. Oui.

1 Q. [285] Donc, êtes-vous d'accord avec l'affirmation  
2 consistant à dire que ce moyen de contrôle, à  
3 l'avenir, est appelé à changer si on met en place  
4 le MRI tel que proposé par le Distributeur.

5 R. Bien, c'est que plutôt qu'avoir... Ce que le  
6 Distributeur suggère, c'est que plutôt d'avoir une  
7 demande tarifaire ou l'examen d'une demande  
8 tarifaire pour l'ensemble du revenu requis,  
9 évidemment, il y a une portion du revenu requis  
10 importante - on parle d'un milliard sept cent  
11 vingt-cinq millions (1,725 M) qui serait finalement  
12 cristallisé suite à l'application de la formule.

13 Il y a certains éléments qui seront révisés  
14 annuellement et ce que nous suggérons, à l'instar  
15 de la pratique qui est maintenant, je pense,  
16 généralisée dans l'industrie, on suggère une  
17 procédure par écrit qui est beaucoup plus allégée  
18 et ça rencontre parfaitement les prescriptions de  
19 l'article 48.1, la troisième exigence.

20 Alors, ça ne veut pas dire que les  
21 intervenants sont muselés, au contraire. Il peut y  
22 avoir une, deux, trois demandes de renseignements  
23 qui pourront être décrétées par la Régie suite à  
24 ces indications mais les audiences, comme on les  
25 connaît au Québec, verbales à chaque année, on voit

1           ça de moins en moins et il y a des raisons  
2           évidentes qui sous-tendent cette pratique-là, c'est  
3           que c'est très coûteux pour l'ensemble des parties.  
4           (13 h 24)

5       Q. [286] Merci. J'aborde maintenant mon dernier sujet,  
6           my last topic I will switch back to English. Mr.  
7           Yardley said yesterday that the reason not to  
8           include transmission deferrals, included in the  
9           MRI, of course... so, the reason not to include  
10          transmission deferrals, despite your statement in  
11          response to AQCIE's DDR, is because there are no  
12          short-term cost reductions, giving the long  
13          planning and construction time for T&D assets.  
14          However, a few minutes after, Mr. Coyne said that  
15          it is appropriate to include amortization in the  
16          MRI, because over long periods of time, the utility  
17          can control them by limiting its capital budget.  
18          You seem to have two contradicting opinions here.  
19          Mr. Yardley, why wouldn't it be appropriate to  
20          apply to T&D assets the logic that Mr. Coyne  
21          described to justify including amortization in the  
22          MRI?

23       Mr. ROBERT C. YARDLEY:

24       A. I think we were addressing two separate questions,  
25       although you... I was addressing the question of

1 the impact of some type of peak load management and  
2 just pointing out that we shouldn't expect to see  
3 immediate or even near-term or mid-term changes in  
4 the capital plan as it affects transmission because  
5 they're planned so far in advance. That's, I think,  
6 somewhat different from what Mr. Coyne was  
7 describing where there's still capital being spent  
8 every year. And the amortization within the formula  
9 relates to the decisions that are made and the  
10 capital being spent year to year.

11 Mr. JAMES M. COYNE:

12 A. Yes, that's right. I mean, over time, the capital  
13 decisions that accumulate that the company is  
14 making roll into its amortization charges, and  
15 those are the ones that are being included in the  
16 formula. So, the argument is that the company can  
17 exercise some degree of control and some degree of  
18 predictability associated with them. Hence,  
19 appropriately... therefore appropriate to include  
20 amortization.

21 In the case of transmission, as we've said,  
22 there's much more limited ability that the company  
23 has to control. What HQD's expenditures are and  
24 capital plans are, we felt as though that was more  
25 appropriately included in HQT's MRI, and not HQD's

1 MRI.

2 Q. [287] Thank you. I would now like to refer to a  
3 quote in... excuse-me, in HQDT-3, document 1. C'est  
4 la cote 0028, le mémoire du Distributeur. Je vais  
5 lire la citation au bas de la page, si je ne me  
6 trompe pas, à la page 10. Donc, sous le sous-titre  
7 « Vecteurs de coûts » on dit :

8 Les coûts liés aux achats  
9 d'électricité, au service de transport  
10 et aux achats de combustible,  
11 représentent à eux seuls environ 77 %  
12 des revenus requis du Distributeur.  
13 Ces coûts ne sont pas sous le contrôle  
14 direct du Distributeur.

15 Ma question s'adresse à maître Hébert...

16 Me FRANÇOIS G. HÉBERT :

17 R. Excusez-moi, pouvez-vous me rappeler la page?

18 Q. [288] Oui, avec plaisir. C'est la page 10.

19 R. Juste un instant, je vais la récupérer. Alors, j'ai  
20 lu le passage, je vous remercie.

21 Q. [289] Ça va? Parfait. Merci. Donc, vous dites dans  
22 votre mémoire exclure, entre autres, les coûts liés  
23 au service de transport étant donné qu'ils ne sont  
24 pas sous le contrôle direct du Distributeur. Je  
25 comprends toutefois que le Distributeur joue un



1 rôle important dans le processus de planification  
2 des ajouts d'équipement au réseau de transport pour  
3 répondre aux besoins croissants de la charge  
4 locale. Pouvez-vous me décrire l'interrelation qui  
5 a lieu ici? Le rôle du Distributeur dans la  
6 planification des ajouts pour répondre aux besoins  
7 de la charge locale?

8 R. Juste un instant, on va... C'est parce qu'on a  
9 répondu à certaines questions.

10 Q. [290] Oui.

11 R. Je veux juste les consulter. Ce ne sera pas bien  
12 long, Maître. Alors, pour l'essentiel et ma  
13 collègue, Madame Mettelet, complétera mais,  
14 évidemment, à chaque dossier tarifaire, le  
15 Transporteur... le Distributeur met à jour la  
16 prévision de sa demande dans le cadre de son  
17 dossier tarifaire. Et c'est d'ailleurs exigé dans  
18 le guide de dépôt auquel je faisais référence plus  
19 tôt. Alors, il y a toujours une pièce du dossier  
20 tarifaire qui vient actualiser plusieurs des  
21 paramètres de la prévision de la demande.

22 (13 h 30)

23 Évidemment, ça, c'est transmis au  
24 Transporteur. Et je laisserai ma collègue  
25 compléter.

1 Mme FRANÇOISE METTELET :

2 R. Donc, tel que monsieur Hébert vous l'a dit, donc, à  
3 partir du moment où on envoie nos besoins pour  
4 répondre à nos besoins, finalement, pour les  
5 clients du Distributeur, ce que l'on sait, c'est  
6 que le Transporteur fait sa propre planification,  
7 évalue si notre demande peut être répondue à  
8 l'intérieur des équipements dont dispose le  
9 Transporteur ou non. Et de là découlent les besoins  
10 du Transporteur.

11 Donc, essentiellement, c'est sur la base de  
12 la prévision de nos besoins que sont établis, pour  
13 ce qui est des besoins du Distributeur de la charge  
14 locale, que sont établis les besoins du  
15 Transporteur pour développer ses investissements  
16 sur son propre réseau.

17 Me FRANÇOIS G. HÉBERT :

18 R. Et cette prévision-là, de mémoire, elle est  
19 fractionnée poste par poste. Alors, c'est une  
20 prévision qui est très détaillée que nous  
21 fournissons au Transporteur année après année.

22 Q. [291] Oui, effectivement, j'ai consulté dans la  
23 demande tarifaire du Transporteur de l'année à  
24 venir. Il y a effectivement un tableau que j'aurais  
25 vous passer, mais que je ne vous passerai pas pour

1           garder ça un peu plus court. Et, effectivement, on  
2           mentionne les différents postes. On mentionne aussi  
3           des investissements totaux de trois milliards de  
4           dollars (3 G\$) sur dix ans. Ce qui équivaut à  
5           environ deux cent millions de dollars (200 M\$) par  
6           année. Si vous voulez vous y référer plus tard,  
7           c'est le document du dossier 3981-2016, document  
8           HQT-9, Document 1, à la page 28. Donc, voilà, on  
9           parle de, en moyenne, deux cents millions (200 M\$)  
10          d'investissements par année. Étant donné l'ampleur  
11          de ces investissements sur lesquels le Distributeur  
12          exerce à tout le moins un contrôle indirect,  
13          pourquoi est-ce qu'on ne devrait pas donner un  
14          incitatif pour les diminuer?

15          Me FRANÇOIS G. HÉBERT :

16          R. Je ne parlerai pas pour le Transporteur, Maître.  
17          Mais évidemment si vous parlez de deux cents  
18          millions (200 M\$) d'investissements, ils sont  
19          autorisés ces deux cents millions-là (200 M\$) suite  
20          à un examen exhaustif de la part de la Régie. Vous  
21          connaissez comme moi le cadre réglementaire. On y a  
22          fait référence plus tôt. Il y a une série  
23          d'exigences que doit rencontrer, que ce soit le  
24          Transporteur dans ce cas-ci ou le Distributeur, que  
25          nous devons rencontrer pour établir notre fardeau

1 de preuve.

2 Alors, vous savez, c'est des dossiers qui  
3 sont très volumineux généralement, qui sont étudiés  
4 de façon détaillée par la Régie. On en rencontre  
5 pendant... Dans le cas du Transporteur, de mémoire,  
6 pour y avoir été, pendant plusieurs années il y a  
7 des suivis de chacun de ces projets-là dans le  
8 cadre des rapports annuels. C'est la même chose  
9 pour le Distributeur pour la plupart de ses  
10 dossiers. Alors, je pense que cet examen-là est  
11 fait de façon détaillée dans le cadre réglementaire  
12 qui est en place.

13 Mme FRANÇOISE METTELET :

14 R. Me permettez-vous d'ajouter que, c'est sûr que vous  
15 avez retrouvé dans le dossier tarifaire du  
16 Transporteur les informations qu'on lui a  
17 transmises quant à nos besoins. Ce dossier-là fait  
18 l'objet d'un examen par la Régie, mais aussi les  
19 intervenants puisque c'est leur propre dossier  
20 tarifaire.

21 Donc, le Distributeur intègre les coûts de  
22 la charge locale dans son propre dossier, vous vous  
23 souviendrez, une fois que la Régie a rendu sa  
24 décision à l'intérieur du dossier du Transporteur.

25 Donc, on pense que l'ensemble des coûts,

1 par l'exercice fait par la Régie et les  
2 intervenants, du Transporteur, les coûts du  
3 Transporteur sont déjà bel et bien revus, examinés,  
4 triturés. Et une décision s'en suit.

5 Par ailleurs, à l'intérieur même du MRI,  
6 comment pourrions-nous avoir un incitatif meilleur  
7 que le MRI du Transporteur? Donc, actuellement, on  
8 est déjà incité et, demain, on le sera encore aussi  
9 incité. Donc, je pense qu'il n'y a pas besoin  
10 d'avoir d'autres incitatifs pour le transport.

11 Q. [292] Vous me dites donc, les chiffres d'HQT que  
12 j'ai mentionnés ici, donc le plan d'investissement  
13 est approuvé dans le dossier tarifaire HQT, est-ce  
14 qu'il y a un processus similaire à l'approbation du  
15 plan d'approvisionnement du Distributeur pour HQT  
16 ou c'est uniquement via le dossier tarifaire que  
17 ces chiffres-là sont vus, est-ce qu'il existe, pour  
18 les investissements d'HQT, un processus comparable,  
19 similaire à l'approbation des plans  
20 d'approvisionnement d'Hydro-Québec Distribution?

21 R. Bien, c'est sûr et certain qu'il y a un processus  
22 qui est distinct au niveau de l'autorisation des  
23 investissements qui pourraient rejaillir du dossier  
24 tarifaire, et ça, c'est fait dans un examen à part  
25 par le Transporteur. Et, bien entendu, dès lors où

1 ce sont des projets de plus de vingt-cinq millions  
2 (25 M\$), il y a un examen qui est fait, par la  
3 Régie et parfois les intervenants, sur les dossiers  
4 de nouveaux postes ou autres qui sont requis pour  
5 améliorer ou répondre à des besoins additionnels  
6 qui auraient été occasionnés par éventuellement les  
7 besoins du Distributeur.

8 Q. [293] D'accord. And this is my last question -- we  
9 have been discussing, for the past few minutes, the  
10 fact that about two hundred million dollars (\$200M)  
11 are being invested each year by HQT in order to  
12 meet, and I do not know how to say this in English,  
13 la charge locale, somebody help me... native load;  
14 Mr. Yardley, is it common for U.S. utilities to  
15 spend this much, so over two hundred million  
16 (\$200M) a year, on transmission improvement to  
17 serve the native load?

18 Mr. ROBERT C. YARDLEY :

19 A. That's really a fact specific question, I mean,  
20 there are utilities that spend probably much more  
21 than that, but it would depend on the size of their  
22 network, the number of customers they serve. I  
23 mean, so let's say I can't... I can't really render  
24 an opinion.

25 Q. [294] It could be, think of a network that serves

1 more or less the same number of clients as HQD  
2 does?

3 A. Even if there were such a network, and there may be  
4 just the circumstances of the, so, for example,  
5 I'll just give you an example, if I want to build a  
6 transmission line through Oklahoma, that's not a  
7 very difficult thing to do necessarily, there are  
8 environmental concerns, so I won't go into those in  
9 any detail, it might be a little more interesting;  
10 but if you were to build one through Massachusetts,  
11 where I live, it's an entirely different matter, or  
12 in New York. So, I mean, it's really, that's an  
13 extreme example, and you have your own, here in  
14 Quebec, there are unique circumstances,  
15 constructing in different climates. So, you know,  
16 there is no answer to that question.

17 Me PRUNELLE THIBAUT-BÉDARD :

18 Thank you very much. Merci à tous pour la patience.

19 Me FRANÇOIS G. HÉBERT :

20 J'aimerais simplement ajouter que les chiffres que  
21 vous avez mentionnés, évidemment, on ne les a pas  
22 vérifiés alors ce sont vos chiffres.

23 Q. [295] Tout à fait.

24 R. Alors on ne les admet pas d'emblée.

25 Q. [296] Je vous ai donné la référence...

1 R. D'accord.

2 Q. [297] ... donc vous pourrez faire la vérification.

3 R. Merci.

4 Me PRUNELLE THIBAULT-BÉDARD :

5 Merci.

6 LA PRÉSIDENTE :

7 Merci, maître. Et j'invite maître Neuman, pour SÉ-  
8 AQLPA.

9 CONTRE-INTERROGÉS PAR Me DOMINIQUE NEUMAN :

10 Bonjour, Madame la Présidente. Bonjour, Madame,  
11 Monsieur les régisseurs. Bonjours messieurs,  
12 madame. Dominique Neuman, pour Stratégies  
13 énergétiques et l'Association québécoise de lutte  
14 contre la pollution atmosphérique.

15 I will ask my questions in English, even  
16 though some of them might be partially or totally  
17 answered by other members of the panel from Hydro-  
18 Québec.

19 First of all, for all my questions, I will  
20 ask the panel to have four documents, well actually  
21 four documents, it's the two presentations, which  
22 are C-HQT-HQD-0080 and 0081, as well as the two  
23 reports, the expert report and HQT-D-3, Document 1,  
24 which is 0023, if I have it correctly. It might be  
25 needed at some point to refer also to answers to



1 information requests, but it's not necessary to  
2 have all these documents open at this moment.

3 Q. [298] I will start with a question related to the  
4 presentation made at the hearing by Mr. Coyne and  
5 Mr. Yardley, and I will start by referring you to  
6 page number 2, which is the number 2 which is  
7 indicated on, at the bottom of each page -- when  
8 I'll refer to pages, it's the pages on the text  
9 itself. On that page, you describe Concentric's  
10 mandate, and I see as item 3 of that mandate that  
11 one of your mandates was to define, together with  
12 HQD, a model, which is the HQD proposal that  
13 achieves the Article 48.1 objectives, consistent  
14 with HQD's specific characteristics and  
15 circumstances.

16 Also, I've noticed a certain shift in the  
17 focus of your text between your actual report and  
18 this presentation, because, on numerous occasions,  
19 you refer, and I'll refer you to the proper pages,  
20 page 4 of this same presentation, you talk about  
21 HQD's proposed hybrid model. Similarly, on page 9,  
22 concerning electricity supply and transmission  
23 costs. You refer to, at the top of that page, to  
24 the HQD proposal. Same thing on the next page, on  
25 the return on, and of, capital, you refer to the

1 HQD proposal. On page 13, on the autonomous  
2 networks to the HQD proposal, and similarly, in the  
3 table which is on page 15, in line 1 and 3 of that  
4 table, you also refer to the HQD proposal.

5 So, what I would like to know, and please  
6 don't see that as something negative, or some form  
7 of blame of any kind, I would like to understand  
8 better the respective role of HQD, of your client,  
9 and of yourself in designing the proposal that is  
10 before us today.

11 A. That's one of the reasons why we defined it on page  
12 2, what we meant by HQD proposal, but you're  
13 parsing it a little bit more carefully, and let me  
14 see if I can address that.

15 Because we say they're defined together  
16 with HQD a model which we're calling the HQD  
17 Proposal, for purposes of this document. But your  
18 question went to the role that we played in  
19 developing this proposal versus the company. And  
20 our role was to provide expertise and advice based  
21 on our experience and research to the company. The  
22 company's role was to provide evidence and data,  
23 and sufficient background to inform us where we had  
24 questions pertaining to the company's operations,  
25 cost profiles, and things of this nature. So when

1 we say together, it was a combination of our  
2 analysis and our research and our experience, along  
3 with the company's knowledge and data pertaining to  
4 its experience that helped us form this proposal.  
5 It is the company's proposal to the Régie, it is  
6 Concentric's recommendation that this proposal be  
7 adopted.

8 We began the process with a menu of  
9 potential approaches that are... and the menu is  
10 basically what you see on page 3, and we tested the  
11 company circumstances against that menu to  
12 determine which of those options, or what subsets  
13 of those options would work best, given good MRI  
14 design, the requirements of 48.1, and also the  
15 company's specific circumstances, which all  
16 factored into that analysis.

17 Is that responsive to your question?

18 Q. [299] Yes, absolutely. One aspect of your answer,  
19 you mentioned the data, the information that was  
20 provided to you by HQD. Would that correspond to  
21 the first item of your mandate, as described on  
22 page 2, that you mention access HQD's specific  
23 characteristics and circumstances. And I understand  
24 that, of course the information mainly came from  
25 HQD, who provided you information as to what were

1 the specific characteristics and circumstances  
2 under which they operate.

3 A. That formed part of it. We also made ourselves  
4 available of the regulatory documents pertaining to  
5 its past rate cases, and those filings, its annual  
6 reports, and there were a vast number of documents,  
7 in fact, that were exchanged, but the sources for  
8 those documents were principally HQD, the Régie's  
9 website, and well, of course, HQT, because we had a  
10 parallel working path with the HQT division as  
11 well. Okay, but yes, the data that was company-  
12 specific, most of it came from HQD directly.

13 (13 h 46)

14 Q. [300] Okay. I'll direct you to page 4 of your  
15 presentation, which is Section 3, Rationale for a  
16 Hybrid MRI Model. You describe HQD's proposed  
17 hybrid model. Is it my correct understanding to  
18 state that what makes it a hybrid model, in view of  
19 the various options, the various models that you've  
20 considered, is the fact that CapEx is treated as a  
21 Y factor. Is that what makes it a hybrid model  
22 versus a more traditional I-X model?

23 A. Primarily, yes. But I would say that most even  
24 traditional I-X models are hybrids of some form,  
25 because almost every - and I would say probably

1 every I-X model - has some special treatment  
2 embodied in it for capital. And that was one of the  
3 reasons why I made that remark when we introduced  
4 the presentation, that almost every model is a  
5 hybrid of some sort. But specifically, yes, we're  
6 calling this a hybrid because of its specific  
7 treatment of capital.

8 Q. [301] Okay. Thank you. I will direct you to page 6  
9 of that presentation, when we're talking about the  
10 Productivity "X" Factor. As... Well, as you know,  
11 the HQD proposal is to include, under the model,  
12 not only the operation costs, but also the  
13 amortization of capital and the taxes. There was  
14 some discussion, mostly about the amortization, as  
15 to whether or not it was under the control of the  
16 Distributor or not. And I would like you to examine  
17 if it would not be a better way of describing the  
18 status of amortization and taxes, as qualifying not  
19 as being under the control of the Distributor, but  
20 as being predictable. Which makes it... makes them  
21 easier to integrate in the model, compared to other  
22 factors that would be unpredictable like Z factors.  
23 So would it be more correct to describe them as  
24 being not really under the control, but... 'Cause  
25 the... even the taxes, I don't think the

1 Distributor controls the tax. But they are, to a  
2 certain level, predictable. And that's why it is  
3 possible to integrate these two items, amortization  
4 and taxes, into the model.

5 A. In the case of amortization, yes, it is  
6 predictable. These assets are long-life, forty  
7 (40), fifty (50) year assets, so... The change...  
8 What is not predictable is the change in a given  
9 year based on what approved capital expenditures  
10 are going to flow into rate base. That is the  
11 portion of it which is not within the company's  
12 direct control, because that is an approval process  
13 that requires the Régie's involvement.

14 But in a given year, most of that  
15 amortization expense is based on past investments.  
16 And that... It's predictable. It's not within the  
17 company's control per se, but it's predictable, and  
18 you're not going to change it unless you change the  
19 amortization methodology. And if you did change  
20 that methodology, that would probably be a Z factor  
21 exclusion. So it's reasonably... it's reasonably  
22 predictable.

23 And the element that's not within the  
24 company's control in the short-term is not of a  
25 sufficient unknown, to the point where we would

1 want to exclude it.

2 Q. [302] Would you agree with me that the fact that  
3 amortization and taxes are included in the model  
4 ultimately means that the Distributor would have to  
5 adapt its yearly operational expenditures to  
6 whatever variations happen on the addition of  
7 assets, which would impact the amortization, or  
8 whatever changes would also affect the taxes, that  
9 in a certain way it shifts, it concentrates the  
10 burden of adapting to meet the I-X objective,  
11 shifts the burden on operational expenses that the  
12 Distributor, as it learns about changes on these  
13 two other factors, has to, in a certain way, adapt  
14 the main element that it controls, which is the  
15 operational costs?

16 A. Well, in the case of amortization, the control that  
17 it can exercise in terms of its capital placed in  
18 service in a given year, so it can exercise that  
19 control, which is going to have some small impact  
20 on amortization in that year or the next or the  
21 year after that.

22 In taxes, the company has no control but it  
23 is counting on the fact that it's predictable for  
24 it in order to be able to include it in the I-X  
25 formula. So, I would say near zero percent control,

1 if not zero, but entirely predictable, short of a  
2 change in law in which case that would then resort  
3 to a Z factor.

4 And that's what makes them appropriate for  
5 inclusion in this case and, as I mentioned at the  
6 outset, the division was looking to expand what's  
7 included in the formula today to the maximum extent  
8 possible and it helped to reach the determination  
9 that yes, it could include amortization and taxes  
10 under the I-X formula.

11 Mr. ROBERT C. YARDLEY:

12 A. Can I just add to that? If I understood your  
13 question - and maybe I didn't but - so the question  
14 was if something, amortization were to move in some  
15 way...

16 Q. [303] No, no.

17 A. No? I didn't answer?

18 Q. [304] No, maybe you both did not understand my  
19 question because Mr. Coyne was still answering my  
20 earlier question.

21 A. Okay.

22 Q. [305] My question is whether or not you would agree  
23 that since there is less control possible on taxes  
24 and amortization, if we include these two elements  
25 in the formula, it means that whenever these



1 elements change - taxes and amortization - it will  
2 shift the burden on the operational costs because  
3 that's what the Distributor really controls. So,  
4 whenever...

5 A. Right.

6 Q. [306] ... the Distributor will perceive or  
7 anticipate a change in amortization on taxes, it  
8 will mean higher efforts in changing or reducing  
9 the operational costs so that the I-X objective  
10 would be met.

11 A. Okay, so yes, that's what I thought the question  
12 was. And I don't see it having any impact on  
13 incentive for operating expenses. I can't see HQD  
14 why they would say, "We're going to put more or  
15 less effort in trying to develop efficiencies on  
16 the operating expense side based on what's going on  
17 in this other bucket." They would always on the  
18 margin have the same incentive to pursue  
19 efficiencies.

20 Mr. JAMES M. COYNE:

21 A. I think there's a nuance to the question that I now  
22 I'm beginning to understand. And you're saying that  
23 - and maybe we're not in agreement - I think the  
24 nuance in your question is if one piece, you have  
25 the I-X envelope which is one point seven billion

1 dollars (\$1.7 G) in revenue requirements and your  
2 question is: if something that you can't control so  
3 much, such as amortization, goes up, are you going  
4 to feel pressure to try to counterbalance that by  
5 making savings in another aspect of that cost  
6 bucket at one point seven billion (1.7 G).

7 Q. [307] Exactly, that's my question, yes.

8 A. And I would say - I'm not sure if Mr. Yardley would  
9 agree - but I would say yes, that is the way these  
10 things work, is that you want to give the  
11 management some flexibility to be able to balance  
12 its cost portfolio by doing that, so that is one of  
13 the results you do get from an I-X formula, is you  
14 do get exchanges within that budget as management  
15 uses the tools it has to try to balance the budget,  
16 so to speak. So, that would be an expected  
17 behaviour. I don't know, I want to give you a  
18 chance to disagree if you do.

19 Mr. ROBERT C. YARDLEY:

20 A. We can discuss this tonight at dinner. I invite  
21 anyone to join us, we can record it I suppose. I  
22 think as long as you're within the deadbands,  
23 you're going to have every incentive to save as  
24 much as possible, hopefully.

25 Q. [308] I hope you'll both agree on the answer to my

1 next question. On the calculation of the X factor  
2 itself, since the X factor will deal with, will  
3 concern all three aspects of the data included in  
4 the model which are the OPEX, the amortization and  
5 the taxes, how do you see that would influence the  
6 calculation and the judgement, the sound judgement  
7 that the Régie would have to come up with to  
8 determine an X factor. How would see the taking  
9 into account of these two other elements in the X-  
10 factor?

11 Mr. JAMES M. COYNE:

12 A. That's an interesting and thorny question, that's  
13 probably you asked it. So, in the determination of  
14 an X-factor, ideally what you would like to do is  
15 to measure the same input costs and productivity  
16 trends for the same cost buckets for your industry  
17 sample group that you would use to conduct your  
18 productivity study.

19 So, for example, if we are only going to  
20 include operations and maintenance expenses in the  
21 envelope, you would conduct a partial factor  
22 productivity study where you would take the same  
23 cost streams for your sample, let's just say as a  
24 practical example it's fifty (50) US utilities, you  
25 would take the same O&M expenditures for those

1 companies over time and measure their productivity  
2 in terms of managing those input costs against  
3 their output, sales of electricity measured other  
4 ways.

5 So, you would like to have alignment  
6 between the cost your measuring for the industry  
7 sample group and the cost you're going to incur  
8 for the target company, in this case HQD. So, what  
9 you would like to do is add amortization in and  
10 taxes and corporate fees so that you have a like-  
11 for-like comparison. So that's what you'd like to  
12 do.

13 The reality is the data never allows you to  
14 do that perfectly. So, oftentimes, and inevitably,  
15 it is the case that your sample cost data will not  
16 precisely match the programme that you're adopting  
17 for the target company. So, that's an imperfection  
18 of this approach that you're stuck living with.

19 So, your answer to it is to try to do two  
20 things: one is you try to develop a cost profile  
21 that's as close as you can get to the one you're  
22 looking for for the target company; and then  
23 secondly, you apply judgement. And this gets to  
24 what we call informed judgement around by excluding  
25 certain things and including other things, would we

1 expect their productivity profile to look different  
2 than what it was for the industry group.

3 And at the end of the day, you can avoid  
4 that judgement because your cost, the cost data  
5 that you have will never allow you to do precisely  
6 what you wanted to do because, on the one case, you  
7 have access to proprietary data for HQD, in this  
8 case, that you don't have for the sample of US  
9 companies and you definitely don't have it for  
10 sample of Canadian companies. So, it's an  
11 imperfection that you're stuck with and judgement  
12 is the link that allows you to move forward if you  
13 still want to move forward with an I-X formula.

14 Q. [309] Still on the X-factor, if we assume that the  
15 incentive mechanism will last for three years, is  
16 it correct to understand that, necessarily, the X-  
17 factor would be set once and for all at the  
18 beginning, on year 1, and it would be on single  
19 factor that would automatically apply to the three  
20 years or do you see any possibility or any logic to  
21 have that X-factor reexamined yearly as the  
22 mechanism progresses, especially since it's based  
23 on a judgement of the Board.

24 A. I think as a practical matter it's... Well, as a  
25 practical matter, it's impractical to do so given

1 what's required to set an X factor to begin with is  
2 an expensive and time-consuming exercise, so I  
3 don't think you'd want to update your analysis if  
4 it was an analysis-based X on a yearly basis, that  
5 would be cost prohibitive. For that reason, most  
6 utilities, that reason... in a second, and that is  
7 you want to give the utility a target that it can  
8 build into its planning it has an inflation  
9 forecast. If it knows what the X is going to be, it  
10 can build that into its budgeting process and plan  
11 around it. So, you're weakening the incentive by  
12 changing the rules of the game, by changing the X  
13 on an annual basis.

14 So, generally speaking, that would not be  
15 done. I've seen examples where different Xs were  
16 set at the outset for a programme, the change over  
17 the term of the MRI but it would be unusual to  
18 change the X in an interim period. What does happen  
19 is at the end of the MRI updated data is examined,  
20 the ability of the company to meet the targets is  
21 examined and then the X-factor may change.

22 As I mentioned yesterday, we're seeing, the  
23 trend in productivity in the utility industry  
24 declined in both the gas and the electric industry  
25 so, as updated data has been added, it tends to be

1 signalling that utilities are less productive as  
2 measured this way in terms of converting their  
3 inputs to outputs.

4 Q. [310] Thank you. My next question concerns demand  
5 increase and I would refer the whole panel to page  
6 5 of the presentation of Hydro-Québec which is  
7 C-HQT-HQD-0080 to the formula that's at the top of  
8 that page. Okay. I see that as part of the formula  
9 there's an item which is called "croissance des  
10 abonnements" which is increase in demand which is  
11 part of that formula.

12 We have a certain concern with another  
13 reference to that item that appears on page 8 of  
14 the presentation of Hydro-Québec which mentions,  
15 and I'll say it in French, "un seul examen  
16 approfondi des prévisions la première année", only  
17 one thorough examination of the forecast would be  
18 done on the first year of the mechanism.

19 Is it your proposal, is it a proposal of  
20 Hydro-Québec that the demand forecast for the three  
21 years would only be established on year 1 for the  
22 purpose of the formula and not be readjusted later  
23 since Hydro-Québec does, regardless of any  
24 regulatory requirement, there is a demand forecast  
25 made by Hydro-Québec every year and, as a matter of

1 fact, twice a year, even if there was no  
2 requirement to do so for the Régie, it would still  
3 be done. So, is it your proposal to only use the  
4 forecast three years in advance, that would be done  
5 in year 1, or to adjust that demand forecast every  
6 year of application of the model with the new data  
7 that becomes available.

8 Mme FRANÇOISE METTELET :

9 R. Peut-être juste pour revenir sur ce qui sera mis à  
10 jour annuellement dans le 'compliance file' dont on  
11 parlait hier, effectivement, il y aura la prévision  
12 de la demande donc c'est sûr et certain que ça, ça  
13 va changer à tous les ans. Le facteur de croissance  
14 des abonnements, on ne peut pas le fixer pour trois  
15 ans non plus donc ça, cet élément-là, sera revu à  
16 tous les ans.

17 L'inflation, une fois que la Régie aura  
18 décidé sur les composantes qui, on le souhaite,  
19 soient celles que l'on soumet actuellement dans  
20 notre dossier une fois que ça sera défini par la  
21 Régie, on va mettre à jour l'inflation.

22 Comme vous le mentionnez dans  
23 l'interrogatoire précédent, le X devrait être  
24 maintenu sur la période du MRI et, bien entendu, je  
25 peux même aller un peu plus loin, les exclusions



1 vont être déposées à tous les ans et pourront faire  
2 l'objet d'un examen écrit par la Régie et les  
3 intervenants.

4 Q. [311] Je vous remercie. I will continue asking my  
5 questions in English for the benefit of the  
6 experts. I will direct you now to page 8 of your  
7 presentation at the hearing, which is section 6 of  
8 that presentation concerning the Y and Z factors.

9 A. I perceive a certain difference in approach between  
10 the one suggested by the experts and the one  
11 suggested by Hydro Quebec concerning the definition  
12 of what a Y factor is. I see here the Y factor, on  
13 that page 8 of the presentation, Y factor is  
14 described as being "the known expense categories  
15 but deemed beyond management's direct control." You  
16 give a certain number of examples. But as you know,  
17 that list... well, I know that list is not meant to  
18 be complete because Hydro Quebec Distribution also  
19 recommends as Y factor to include its cost for  
20 energy efficiency programs, as well as various  
21 operation costs. And I'll try to translate, I'll  
22 read it in French first, but I'll also translate  
23 it. There's an item called "charge d'exploitation,"  
24 which is... and Hydro Quebec mentions "activités de  
25 base avec facteurs d'indexation particulier et

1 éléments spécifiques," which are base activities  
2 with specific indexation factors, or specific  
3 elements.

4 So, my understanding is that these elements  
5 that I've just mentioned, which are the electric...  
6 I'm sorry, energy-efficiency programs, as well as  
7 the specific elements of the operation costs. These  
8 elements are not beyond management's direct  
9 control; they are very well-controlled by Hydro  
10 Quebec Distribution, but they are placed as Y  
11 factors for reasons other than being beyond  
12 management's control. It's because there is a  
13 specific other reason to place them there so that  
14 they would not be subject to the I minus X rule.

15 I can give you an example, but there would  
16 be many other examples. For instance, Hydro Quebec  
17 may rightly believe that there should not be an  
18 incentive to reduce energy efficiency programs for  
19 various social and environmental reasons. The same  
20 could be said for some other of these elements that  
21 are under Hydro Quebec's control, but that they  
22 would be qualified as Y factors.

23 So, could you explain to us what should be  
24 the correct view as to what elements should be  
25 qualified as Y factors, should enter into that

1 group of elements called Y factors?

2 A. Yes, I think we provide a little bit more detail on  
3 that in our report. When we say deemed beyond  
4 management's control, part of being deemed beyond  
5 management's control is that they're abiding by a  
6 public policy directive to expand resources in  
7 these other programs, energy efficiency being one.  
8 So, we would consider that as being the direction  
9 of those expenditures is dictated by a public  
10 policy mandate, therefore it's not under their  
11 direct control, the magnitude. They control how  
12 those expenditures, today, at least, they're  
13 controlling how those programs are unfolding,  
14 because they're responsible for them. If the  
15 program goes forward, they would combine that  
16 activity into one (1) single agency, then it would  
17 remove that responsibility from the utility and  
18 place it... and put it in the hands of that agency,  
19 but that's not the place today. So that's  
20 consistent with our definition of beyond  
21 management's direct control, and we would agree  
22 that that would be a Y factor program as well,  
23 energy efficiency expenditures. So it would not be  
24 subject to those constraints.

25 Q. [312] Would you agree that, among the specific Opex

1 items that were just mentioned, there could be  
2 items that are not necessarily the result of a  
3 mandate from government or public authority, but  
4 simply that Hydro Quebec Distribution proposes to  
5 be excluded for social or environmental reasons of  
6 its own, of Hydro Quebec, or social environmental  
7 reasons that the Régie would agree to promote, even  
8 though there is no public policy mandating these  
9 expenses to be incurred?

10 A. Yes, absolutely. For example, I see cyber-security  
11 is listed here as one of those items, and I think  
12 all would agree that cyber-security is a good  
13 thing. So, I could see examples of programs that  
14 are deemed to be of immediate importance, and cost  
15 is not the overriding concern, but execution of  
16 them, and delivery of the service provided by the  
17 expenditure is the most important. So therefore,  
18 it's appropriately deemed to be outside the I minus  
19 X constraint, or the revenue cap constraint.

20 So, most MRI programs have a list of those  
21 Y factor programs at the outset, and sometimes  
22 those lists grow over time as the regulator and the  
23 company and stakeholders make a determination as to  
24 which programs they don't want constrained by that  
25 revenue cap.

1 MR. LUC DUBÉ:

2 A. Juste peut-être de rajouter un élément pour être  
3 sûr que c'est bien compris dans la proposition, je  
4 pense en termes anglophones, on faisait plus de  
5 référence à "specifically tracked items," qui, je  
6 pense, se retrouvaient dans la mémoire de  
7 Concentric. Et dans le fond, ça fait référence aux  
8 critères qui sont déjà dans les dossiers de tarifs  
9 actuels reconnu comme nos éléments spécifiques,  
10 puis les éléments qui varient selon un facteur  
11 d'indexation particulier dont je les répéterai pas,  
12 mais il y a quatre (4) critères à laquelle la Régie  
13 nous a autorisée par le passé à venir exclure dans  
14 le fond certains éléments de coup de notre formule  
15 paramétrique. Ce même environnement là est conservé  
16 dans notre proposition.

17 Q. [313] Under that Y category, could that Y category  
18 also include preventive maintenance? And by  
19 preventive, I mean maintenance aimed at delaying or  
20 avoiding capital expenditures.

21 MR. JAMES M. COYNE:

22 A. So, is this a capital expenditure item or an  
23 operating expenditure?

24 Q. [314] No, I'm asking if it would... Y factors, what  
25 Y factor exclusions could include preventive

1 maintenance? I'm talking about operational expenses  
2 that would be preventive maintenance aimed at  
3 delaying or avoiding capital expenditures.

4 A. I see, so they're an operating expense category.

5 Yes, okay. Pardon me one moment.

6 I guess without trying to be unresponsive  
7 to your question, you can include anything you want  
8 in a Y factor if it's agreed to by the regulator  
9 and the stakeholders that it's in the public  
10 interest. But having said that, if it were deemed  
11 that a certain type of operating expenditure is in  
12 replacement, for example, if you had... it's not  
13 the case today, most PCB transformers have been  
14 eliminated from most systems, but you might have a  
15 program that's in place that's dedicated to that  
16 specific purpose, and you want to carve it out from  
17 anything that's covered under the formula.

18 If the relationship between operating  
19 expenditures and capital expenditures is... every  
20 utility is faced with it, and if it increases its  
21 operating expenditures in order to delay capital  
22 expenditures, it just has to make that  
23 determination, and in this case, specifically when  
24 it files its capital plans with the Régie, it  
25 should be in a position to discuss, you know, the

1 relationship between its capital expenditures, and  
2 whether or not they could be deferred or not. But  
3 there's bound to be some relationship between the  
4 two (2), and you can't help but to at least have a  
5 discussion, I think, with the Régie when you come  
6 forward with capital plans about the necessity of  
7 those capital expenditures vis-à-vis the potential  
8 to delay them.

9 But if you wanted to ensure and carve  
10 something out, typically it would be program-  
11 specific though as opposed to some generic  
12 category, but one could design something like that  
13 if one felt it was important enough.

14 Q. [315] Several of my next questions I will ask more  
15 about the process that you envision, and those  
16 questions are addressed to the whole panel, in  
17 order to determine what would take place before on  
18 a forecasting-to-forecasting level, in that part of  
19 the regular three (3) process, and what would take  
20 place after a posteriori when we have the real  
21 data?

22 So, on that series of questions, I will  
23 start again with the Y and Z factors. As we've  
24 discussed, there is a certain list which might be a  
25 bit longer than what we see on page 8 of the

1 presentation, list of items that would be factored  
2 as Y factors, and there is also another list of Z  
3 factors. How do you envision the process and the  
4 role of the Régie and the intervenors first at the  
5 forecasting level, so before the beginning of a  
6 certain year when these elements are included, and  
7 also at the end, and the context of my question is  
8 that these items are rather important, and they're  
9 not just pass-on's. There has to be a certain  
10 judgment made as to whether or not, what  
11 elements... how these elements would be calculated.

12 I can give the example of the energy  
13 efficiency programs. Each year there has to be a  
14 certain judgment by the Board as to whether or not  
15 the budget submitted is reasonable or not, and  
16 whether or not there are certain modalities that  
17 should be proved or modified in any way. So could  
18 you elaborate on that, as to what... how it would  
19 be dealt at the two stages of the process each  
20 year, before and after?

21 Mr. JAMES M. COYNE:

22 A. At the outset, for the three-year MRI, the company  
23 would project its Y and Z factor costs, and those  
24 would... Well, it would project its Y factor cost.  
25 The Z's are not known, so they shouldn't be



1 predictable at the outset. Although you may have  
2 recovery of past Z factor items that are still  
3 built into current rates, so, I don't think Z  
4 factors are very complicated. You may have an  
5 agreement with the Régie that you're gonna recover  
6 a Z factor over so many years, so you would just  
7 project what that recovery is going to be. I think  
8 that's more simple.

9 On the Y factor, electricity purchases, for  
10 example, we would expect that the company would  
11 have a projection of what its electricity supply  
12 costs are going to be for each year, and that would  
13 be updated each year, according to its demand,  
14 projections, updates and market costs.

15 And then, in its report that it makes to  
16 the Régie at the end of each year of the MRI, it  
17 would update... it would update that forecast, what  
18 it believes those costs are going to be in  
19 subsequent years.

20 Q. [316] So if I understand you correctly, for the  
21 various Y factors, they would be projected each  
22 year, during the process that's indicated, and also  
23 as when the real data is obtained, they would be  
24 reviewed each year, also to see if the Distributor,  
25 well, complied with what was predicted.

1 A. And also to rebalance the account for that year  
2 against what actual electricity purchases were. So  
3 if there was a deficit or a surplus, that deficit  
4 or surplus could be carried forward into the rates  
5 for the following year. That is my understanding. I  
6 would like to take a moment, however, to check with  
7 the company, to make sure we're on the same page.  
8 M. LUC DUBÉ :  
9 R. Vous m'entendez correct, mais c'est bon. Juste pour  
10 préciser, je ne m'entendais pas. Puis c'est rare.  
11 Dans le fond, ce que... Tous les facteurs Y, juste  
12 pour être précis, en fait, les facteurs Y qu'on  
13 propose, puis là on inclut là-dedans l'achat de  
14 l'électricité au même titre que des éléments  
15 spécifiques, la façon de procéder est sensiblement  
16 la même qu'on fait actuellement dans le cadre  
17 réglementaire actuel, seulement à l'année 2 et à  
18 l'année 3, donc, du plan MRI. À ce moment-là, comme  
19 on a dit, on parlait d'un compliance filing, à ce  
20 moment-là c'est par écrit, tout simplement, donc...  
21 Puis là on verra, la Régie aura le loisir de  
22 déterminer comment... le nombre de séries de DDR ou  
23 de demande de renseignements qui aura lieu, mais  
24 c'est via cette proposition-là que, au niveau des  
25 facteurs Y.

1                   Donc, au niveau du rapport annuel, chaque  
2                   élément sera examiné par rapport à ce qui avait été  
3                   prévu à chaque année.

4       Q. [317] O.K. Donc, vous dites par écrit mais en tout  
5                   cas, ce sera à la Régie de déterminer si le  
6                   processus annuel sera écrit ou oral, mais il y aura  
7                   une revue chaque année de la projection de ces  
8                   éléments, et une revue annuelle des résultats de  
9                   chaque année.

10       R. Exact. En fait, je reviens juste sur la proposition  
11                   écrite. Pourquoi on propose une proposition écrite  
12                   dans l'année 2 et 3, c'est vraiment pour respecter,  
13                   dans le fond, l'article 48.1, au troisième, qui est  
14                   l'allégement réglementaire.

15                   (14 h 23)

16       Q. [318] O.K. Comme vous avez répondu sur l'ensemble  
17                   des facteurs Y, j'avais des questions  
18                   spécifiques... un par un, mais je comprends que ça  
19                   s'applique à l'ensemble des facteurs Y. Une  
20                   question... I'll switch back to English. You've  
21                   recommended that the amortization of capital  
22                   expenditures would be included in the formula but  
23                   with the exception of the amortization of the  
24                   energy efficiency programmes. Could you elaborate  
25                   on that?

1 Mr. JAMES M. COYNE:

2 A. The intent is that that is a Y factor element. So,  
3 all of its costs are calculated and tracked outside  
4 of the I-X formula. So, those should be separate.  
5 And I'm seeing nodding from the division. So, it'll  
6 be tracked separately, those amortization expenses  
7 to the extent that they exist for energy efficiency  
8 would be tracked separately.

9 Q. [319] O.K. O.K. But even though the rest of the  
10 capital expenditures is also a Y factor but its  
11 amortization is not excluded from the formula.

12 A. Yes, the rate base portion is... yes, the return on  
13 rate base is excluded. The amortization is included  
14 for the other factors. And in the case of energy  
15 efficiency, it's all Y factor. So, it's passed  
16 though according to its true and approved costs.

17 Q. [320] I would go to page 11 of the expert's  
18 presentation, the Advantages of a Revenue Cap over  
19 a Price Cap Model. Is it correct to understand that  
20 one of the main differences in a revenue cap over a  
21 price cap model is the way the demand growth or  
22 reduction would be taken into account in the  
23 system, in that a price cap would better protect  
24 the clients from any modification in the price they  
25 would pay, the tariff they would pay, that would

1 result from a demand increase or decrease?

2 A. When you say "better protect clients" maybe I can  
3 parse your question a couple of different ways.  
4 It's a different... there's a different incentive  
5 structure with a price cap and a revenue cap. If  
6 you mean better protect clients from a standpoint  
7 of would the company still be motivated to deliver  
8 on its energy efficiency programmes, it's more  
9 likely to be incented to do so under revenue cap.  
10 And that's the traditional argument for it, is it  
11 holds the company neutral to the actual level of  
12 sales under a revenue cap.

13 Under a price cap, it does well when sales  
14 are high, it does poorly when sales are low. So,  
15 the company is mindful of its sales. And the  
16 argument goes that that is a negative incentive  
17 from a standpoint of implementing energy efficiency  
18 programmes.

19 So, to circle back on your question, will  
20 clients will be more protected, did you mean  
21 protected in that way?

22 Q. [321] No, but not necessarily but would their costs  
23 be protected, better protected, under a price cap  
24 model, than under a revenue cap model?

25 A. Generally speaking, you'll have prices, because of

1 a revenue cap approach, that are going to be more  
2 stable. They're not going to be subject... they're  
3 not going to be as subject to big fluctuations in  
4 demand as they would be in a price cap. So, if  
5 protected means a more stable price, then, I guess,  
6 the answer to that would in all likelihood be yes.

7 At the end of the day, the Distributor is  
8 going to have to recover its full cost, be it  
9 though a price cap or a revenue cap. But it is...  
10 it offers better protection, we believe, to both  
11 the company and customers with a revenue cap model.  
12 It's a fair sharing of what those risks are and you  
13 avoid the potential for some clients to have to pay  
14 more when other clients are consuming less. You  
15 don't have the potential for that imbalance in a  
16 revenue cap model.

17 Q. [322] Incidentally, a price cap is not our proposal,  
18 but it is the proposal of another intervenor  
19 expert, and that intervenor suggested a formula  
20 which would be mostly a Revenue Cap, except for  
21 large industrial, large consumers would be subject  
22 to a Price Cap.

23 To your knowledge, is it unusual to have  
24 such a combination of models assembled in the way  
25 that it's proposed by this intervenor?

1 A. Yes, I'm not aware of another one. The programs  
2 that we have seen adopted are either Price Caps or  
3 Revenue Caps, so I'm not aware of one that combines  
4 the two, as proposed. At least, as we understand  
5 their proposal.

6 Q. [323] I'm at page 13, on "Autonomous Networks", you  
7 mention that HQD's proposal is to integrate  
8 autonomous networks costs within the HQD's MRI, but  
9 would you not agree with me that the structure of  
10 costs, the way they evolve, even the inflation  
11 applicable in these autonomous networks, and the  
12 productivity that's possible in those networks, is  
13 completely different from what we see in the main  
14 network, and would, and when answering that  
15 question, I would ask you if you would be, and I  
16 know it's your client's proposal to integrate them,  
17 these costs, in the main mechanism, but would you  
18 be totally opposed, categorically opposed, to  
19 having autonomous networks treated as another Y  
20 factor simply?

21 Mr. ROBERT C. YARDLEY :

22 A. Treating them as a Y factor seems to me to provide  
23 less incentive to, at least to make some progress  
24 on the autonomous networks, or pursue efficiencies  
25 then treating them the way we've proposed within

1 the HQD integrated MRI program. So that's not an  
2 option that we considered, we considered a targeted  
3 mechanism, an MRI, and integrating them within the  
4 overall HQD MRI. We did not consider a Y factor, or  
5 recommend one.

6 Mr. JAMES M. COYNE :

7 A. I was just confirming that the fuel cost portion of  
8 serving autonomous networks is Y factored, but not  
9 the other costs, which we're proposing for  
10 inclusion. And what this reflects is, the approach  
11 that we took with HQD in developing this program is  
12 to see all, is to examine all those that we thought  
13 could be reasonably included under an I-X formula.  
14 And we thought, given the magnitude of these  
15 revenue requirements, that it would be reasonable  
16 to include them. And as Mr. Yardley just expressed,  
17 to provide some incentive also to manage these  
18 costs.

19 Me DOMINIQUE NEUMAN :

20 I thank you very much, all of you. This concludes  
21 my questions.

22 LA PRÉSIDENTE :

23 Merci, Maître Neuman. J'inviterais maintenant  
24 maître Sicard, pour UC.

25



1 CONTRE-INTERROGÉS PAR Me HÉLÈNE SICARD :

2 Bonjour tout le monde. Hélène Sicard, pour l'Union  
3 des consommateurs. Je vais tenter de rester près du  
4 micro.

5 Yes, I will address you both in French and  
6 in English, but mostly in French, which will make  
7 it easier so you don't have to go back and forth  
8 with your ear, so I will start. And I apologize,  
9 but I think it's easier if we proceed in French.  
10 Thank you.

11 Q. [324] Alors vous avez répondu, vous venez de  
12 répondre, en fait, à maître Neuman qu'au niveau des  
13 taxes, le contrôle était zéro, le Distributeur  
14 avait un contrôle zéro, c'est correct?

15 Mr. JAMES M. COYNE :

16 A. As we see it, yes.

17 (14 h 32)

18 Q. [325] O.K. Maintenant, vous avez, si on prend votre  
19 présentation à la page 4, vous indiquez que les  
20 taxes seraient dans cette tarte avec l'amortisation  
21 et les frais corporatifs qui est assujettie au  
22 mécanisme incitatif. Est-ce que je dois comprendre  
23 que s'il y a un taux d'inflation qui est accordé  
24 d'une année à l'autre sur les trois années pour les  
25 éléments qui sont inclus dans le mécanisme

1 incitatif, qu'à ce moment-là l'amortisation, les  
2 taxes et les frais corporatifs seraient bonifiés de  
3 ce taux d'inflation.

4 Mr. JAMES M. COYNE:

5 A. They would, less the productivity factor.

6 Q. [326] O.K. Maintenant, toujours dans votre  
7 présentation, si je vais à la page 8, vous excluez  
8 dans votre troisième point, et le troisième point  
9 du troisième point, s'il y a une modification dans  
10 la loi ou dans « tax code », ce que vous avez  
11 écrit, ce serait exclu.

12 Est-ce que je dois comprendre si, par  
13 exemple, l'évaluation municipale des immeubles qui  
14 appartiennent au Distributeur était modifiée, qu'à  
15 ce moment-là, l'augmentation qui pourrait découler  
16 de cette évaluation-là, elle, par contre, serait  
17 exclue. J'essaie de comprendre parce que d'un côté,  
18 à la page 4, vous incluez les taxes et vous nous  
19 avez dit que pour vous c'est prévisible, et vous  
20 expliquez l'exclusion en disant : « Bien alors, ce  
21 qui n'est pas prévisible, je l'exclus. »

22 Je voudrais vraiment comprendre la logique  
23 derrière la façon dont vous traitez les éléments  
24 ici.

25 A. You raise a good point and, quite frankly, we

1 didn't consider that specific circumstance  
2 regarding tax code and I believe that, of course,  
3 given the phase that we're in here, phase 1, we're  
4 trying to determine the overall characteristics...

5 Q. [327] Uh, huh.

6 A. ... of the programme that was beyond the level of  
7 detail that we were trying to get to. But your  
8 question is a fair one.

9 Q. [328] I'm not trying to trick you. I'm trying to  
10 understand the philosophy, the exact philosophy and  
11 we want to see definitions of items that will be as  
12 precise and as comprehensible as possible so, when  
13 we get to a further phase, things are clear. We  
14 don't want to find ourselves a year from now having  
15 an argument about whether it's included or it's not  
16 because the definitions weren't clear.

17 M. LUC DUBÉ :

18 R. Je vais juste peut-être rajouter sur le facteur Z.  
19 Ce qu'on propose au niveau du facteur Z, il faut  
20 que ça soit vraiment un élément majeur, là. Donc,  
21 je ne pense pas qu'un changement dans l'évaluation  
22 municipale ou des taxes foncières, dans  
23 l'évaluation des bâtiments serait considéré comme  
24 un impact majeur. Quand on parle d'un changement au  
25 niveau des « tax code », est-ce qu'il y aurait un

1           décret gouvernemental à ce moment-là qui viendrait  
2           augmenter les taux, les choses, les règlements en  
3           lien avec ça, mais on ne parle pas ici de mouvement  
4           au niveau de l'évaluation foncière des actifs.

5       Q. [329] O.K. Est-ce que ça correspond à votre  
6           réponse, Monsieur Coyne.

7           Mr. JAMES M. COYNE:

8       A. Yes, yes. You know, generally speaking, Z  
9           categories are ones that are going also to have a  
10          significant financial impact. And municipals change  
11          tax levies on a regular basis, so I think that's  
12          the type of thing that a division could fairly be  
13          expected to anticipate even though it will be  
14          beyond it's direct control.

15                 So, I would agree with the company's  
16          response, that probably wouldn't be something you  
17          would be filing for Z factor under.

18       Q. [330] O.K. Est-ce que je dois comprendre que pour,  
19          et n'importe qui dans le panel peut répondre, là,  
20          que pour qu'une dépense soit incluse dans le  
21          facteur Z, il faudrait à ce moment-là avoir une  
22          procédure qui demande à la Régie d'inclure cette  
23          dépense dans le facteur Z?

24                 M. LUC DUBÉ :

25       R. Oui. En fait, si on peut prendre un comparable, je

1 prendrais le compte qui a été demandé auprès de la  
2 Régie pour les déversements au niveau des Îles-de-  
3 la-Madeleine, ce genre d'événement important-là et  
4 oui, le Distributeur devrait se présenter pour  
5 faire autoriser cette nouvelle inclusion au niveau  
6 d'un facteur Z.

7 Q. [331] Et la Régie déciderait, à ce moment-là, à  
8 savoir si elle l'y inclut ou pas.

9 R. Oui.

10 Q. [332] O.K. Alors, je vous amène maintenant, alors  
11 c'est pour le Distributeur principalement, à votre  
12 pièce HQD-3, Document 1, page 9, pour le reste de  
13 la salle, c'est la pièce 0028-HQT-HQD à la page 9,  
14 aux lignes 31 à 33. Alors à ces lignes, vous nous  
15 dites :

16                   Finalement, en vertu de la Loi, la  
17                   tarification des activités du  
18                   Distributeur doit respecter  
19                   l'uniformité territoriale par  
20                   catégorie de consommateurs et le  
21                   maintien de l'interfinancement entre  
22                   les tarifs en faveur des clients  
23                   domestiques.

24 Alors, soyons clairs pour vos experts, que tout le  
25 monde, les clients domestiques sont les clients

1           résidentiels?

2           Mme FRANÇOISE METTELET :

3           R. Oui, c'est ça.

4           Q. [333] Maintenant, avez-vous... On a vu dans le  
5           dernier dossier tarifaire que cet interfinancement  
6           s'effrite depuis quelques années. Est-ce que vous  
7           avez une cible à maintenir dans le cadre du MRI  
8           pour l'interfinancement en faveur des tarifs  
9           résidentiels?

10          R. On n'en a pas. Toutefois, il nous semblait, il nous  
11          semble prématuré d'en émettre quelques cibles que  
12          ce soit à cet égard-là. On n'est pas rendu à la  
13          phase de l'implantation du MRI, on est rendu à la  
14          phase de détermination des caractéristiques. Il est  
15          bien certain que lors de la présentation de la  
16          Phase 3, à ce moment-là, ces éléments-là vont  
17          devoir être précisés.

18          Q. [334] Donc, vous envisagez éventuellement d'avoir  
19          une cible pour cet interfinancement. Je vais  
20          vous... O.K. Je vais vous laisser aller puis je...

21          R. Dans un premier temps, je pense, à ce stade-ci, je  
22          ne peux pas vous dire si on va se fixer une cible.  
23          On l'a toujours laissé évoluer au fil des années,  
24          l'interfinancement. On a fait la démonstration que  
25          ce n'était pas avec l'intention de réduire

1 l'interfinancement, et on demande à la Régie année  
2 après année de maintenir tel que tel. Je ne peux  
3 pas vous dire à ce stade-ci ce qu'on va décider de  
4 faire lorsque va venir le temps de la Phase 3, de  
5 l'implantation.

6 Et, deuxièmement, il y a un facteur qui  
7 fait que je ne peux pas vous répondre tout de  
8 suite. Présentement, il y a un avis qui a été  
9 demandé par le gouvernement à la Régie qui touche  
10 ce volet-là. Donc, de surcroît, je peux  
11 difficilement me prononcer là-dessus.

12 Q. [335] Mais je vais quand même avancer dans ma  
13 question, et vos experts pourront participer à la  
14 réponse. Dans le contexte où cet interfinancement,  
15 pour le moment, est quelque chose qui existe et est  
16 quelque chose qui est reconnu, tant par Hydro-  
17 Québec que par la Régie et par la Loi, est-ce que  
18 ça ne poserait pas un problème d'avoir un « price  
19 cap » comme le propose l'expert de l'AQCIE pour les  
20 industriels si on vise le maintien de  
21 l'interfinancement? Est-ce que les deux, avoir un  
22 « price cap » et avoir de l'interfinancement en  
23 faveur des tarifs résidentiels, peuvent être  
24 conciliés?

25 (14 h 44)

1 Mr. ROBERT C. YARDLEY :

2 A. I could read the discussion of cross-subsidization  
3 in the Act, and so my interpretation was that  
4 however the mechanics work, the cross-subsidization  
5 would need to be preserved. I can't tell you how it  
6 would work, those were some of the concerns we  
7 mentioned with respect to the price cap, not  
8 understanding exactly how it would be implemented  
9 and the need to really understand those details;  
10 that would be one of them.

11 Q. [336] O.K. Est-ce que quelqu'un a quelque chose à  
12 ajouter... O.K. Maintenant, Madame Mettelet, vous  
13 nous avez, c'est la seule question que j'ai  
14 directement pour vous, vous nous avez hier indiqué  
15 que neuf pour cent (9 %) de l'électricité était de  
16 l'électricité postpatrimoniale, on retrouve ce  
17 chiffre-là dans votre témoignage hier, à la page  
18 159.

19 Mme FRANÇOISE METTELET :

20 R. Oui.

21 Q. [337] Alors, vous nous dites :

22 R. [...] pour ce qui est de la portion  
23 d'énergie postpatrimoniale, ça  
24 représente neuf pour cent (9 %) de nos  
25 sources d'approvisionnements, soit



1 dix-sept térawattheures (17 TWh)...

2 Mais si je vous posais la question en dollars, ce  
3 que le postpatrimonial représente en dollars par  
4 rapport à la facture totale des approvisionnements,  
5 et sous-question à l'intérieur de la même, là, est-  
6 ce que ce chiffre inclurait les approvisionnements  
7 pour lesquels on paie, mais qu'on ne reçoit pas,  
8 par exemple les frais de suspension de TCE?

9 R. Donc dans, je me rapporte à la pièce que l'on a  
10 déposée dans le dossier tarifaire qui est en cours,  
11 le R-3980-2016, la pièce HQD-6, Document 1, dans  
12 lequel on retrouve, au Tableau 6, le coût des  
13 approvisionnements postpatrimoniaux. Je n'ai pas de  
14 calculatrice sous la main, là, mais ce que je peux  
15 voir, c'est que pour l'année historique deux mille  
16 quinze (2015), le total des approvisionnements  
17 postpatrimoniaux était d'un milliard sept cent deux  
18 virgule sept millions (1 702,7 G\$), et la portion  
19 des achats d'énergie de court terme, incluant les  
20 montants relatifs à l'entente-cadre totalisaient  
21 deux cent cinquante-sept virgule huit millions de  
22 dollars (257,8 M\$).

23 Q. [338] Et dans le un milliard sept cent deux  
24 millions (1 702 G\$), est-ce qu'il inclut les  
25 contrats engagés, ou les frais de contrats

1 d'approvisionnements pour lesquels, on ne reçoit  
2 pas d'énergie, que ce soit parce qu'ils sont  
3 suspendus, incidemment parce qu'ils sont suspendus?

4 R. On me dit que oui, je ne suis pas spécialiste en  
5 approvisionnements, mais on me dit que oui.

6 Q. [339] C'est parfait. Donc, si on consulte cette  
7 pièce, on retrouvera tous ces chiffres?

8 R. Oui, vous devriez trouver toute l'information  
9 puisque dans notre dossier tarifaire, en plus de  
10 présenter les informations pertinentes pour l'année  
11 témoin projetée, donc deux mille dix-sept (2017),  
12 on fait également un suivi de l'année deux mille  
13 seize (2016) et également, un suivi de l'année deux  
14 mille quinze (2015), tel que demandé par la Régie  
15 dans les dossiers tarifaires des années passées.

16 Q. [340] Merci. Maintenant, juste une confirmation,  
17 monsieur Hébert peut peut-être répondre à ça.  
18 Maître Hébert, juste me confirmer qu'à l'heure  
19 actuelle, dans le contexte juridique actuel, le  
20 Distributeur ne fait pas de revente de l'énergie  
21 qu'il n'utilise pas, il laisse plutôt sur la table  
22 de l'énergie patrimoniale, puisqu'il doit utiliser  
23 en priorité ses contrats?

24 Me FRANÇOIS G. HÉBERT :

25 R. Je ne veux certainement pas donner un avis

1 juridique...

2 Q. [341] O.K.

3 R. ... ce n'est pas mon rôle de le faire, ça sera  
4 maître Fraser qui pourra plaider ça.

5 Q. [342] Mais la situation, est-ce qu'à l'heure  
6 actuelle, le Distributeur fait de la revente?

7 R. À l'heure actuelle, le Distributeur ne fait pas de  
8 revente et il a l'obligation de d'abord vendre  
9 l'électricité qui est postpatrimoniale.

10 (14 h 49)

11 Q. [343] O.K. Je vous amène maintenant, messieurs les  
12 experts, Monsieur Coyne et Monsieur Yardley, à la  
13 page 7 de votre présentation, qui est la section 5  
14 intitulée Productivity "X" Factor: Recent MRI  
15 Proceedings in Canada, j'ai cru comprendre de votre  
16 témoignage hier qu'une étude... que selon vous, une  
17 étude de productivité n'était pas vraiment  
18 nécessaire, et que la Régie pourrait fixer d'elle-  
19 même le facteur de productivité. Est-ce que j'ai  
20 bien compris?

21 A. That's what we refer to as informed judgment.

22 Q. [344] Yes?

23 A. Where basically, we indicated that the... there are  
24 three ways that the Régie could exercise that  
25 informed judgment. It could invite the party... It

1 could commission its own productivity study, as we  
2 have seen done in some jurisdictions, it could  
3 invite the parties to submit the evidence that it  
4 thinks should inform the Régie's judgment regarding  
5 the setting of the appropriate X factor, or it  
6 could avail itself of other evidence and resources  
7 it has access to.

8 Q. [345] Now on page 7, you cite three examples:  
9 FortisBC, Ontario 4th Generation, Alberta 1st  
10 Generation. Am I to understand that in all those  
11 three cases, productivity studies were supplied to  
12 the Board to make a decision?

13 A. It happened... It happened differently in each of  
14 those jurisdictions. In the case of Alberta, there  
15 were six experts that provided expertise. One of  
16 those experts was one that was retained by the  
17 Commission itself. That was near, in that case.

18 In the case of Ontario, this is the fourth  
19 generation program for the electric distributors in  
20 Ontario, and the Board itself commissioned PEG to  
21 provide analysis, and it required all seventy (70)  
22 distributors, or seventy-one (71) distributors in  
23 Ontario, to provide data. And it used PEG as its  
24 resource to examine that data in order to estimate  
25 the trend in productivity and to set an appropriate

1 X factor.

2 In the case of FortisBC, there were two  
3 experts that provided expert testimony there, and  
4 the Board, I do not think, provi... The Board did  
5 not retain its own expert, is my recollection.  
6 There was an intervenor that retained an expert,  
7 and also the companies that retained its own  
8 expert. Yes.

9 Q. [346] Okay. So productivity studies were used in  
10 different ways. Is it your opinion that those  
11 Boards would have come to the same decision as they  
12 did if they had not had those productivity studies?

13 A. It's really difficult for me to speculate on that.  
14 I think that from my knowledge of the situation in  
15 Alberta, for example, the Board itself expressed  
16 some exasperation with the range of evidence that  
17 it had, and the degree of debate that it had about  
18 setting the appropriate X factor. My impression is  
19 that the Board was surprised by the range of  
20 expertise that it was presented with, and the  
21 differences in methodologies.

22 So afterwards, would it have proceeded down  
23 the same path? I doubt it, just based on the  
24 reservations that it was expressing in its  
25 decision. But it would be impossible for me to

1 speculate as to whether or not it would make the  
2 same decision or not.

3 I have seen other Boards that have moved  
4 forward with MRI programs using just company-  
5 specific data, without any reliance on an industry  
6 productivity factor. And that was in the case of  
7 both Vermont Gas, and as I recall, it was the case  
8 as well with the two electric companies that it  
9 relied... that Board relied on the historic  
10 evidence of the Commission and evidence of other X  
11 factors from other jurisdictions in framing its  
12 opinion.

13 Q. [347] Okay. Now, considering that... I don't know  
14 if you've had a chance to see this, but that over  
15 the past few years, Hydro-Québec has had a...  
16 has... a eu un rendement au-delà du rendement  
17 autorisé par la Régie, et ce, de façon importante.  
18 Et la Régie a dit, dans certaines de ses décisions,  
19 qu'il y a une certaine asymétrie d'information  
20 souvent entre ce que le Distributeur sait et ce que  
21 les intervenants ou elle-même, la Régie, sait.

22 (14 h 54)

23 Dans ce contexte-là, ne serait-il pas  
24 beaucoup plus prudent d'avoir une étude, au moins  
25 une étude de productivité, pour que la Régie puisse

1 se faire une opinion la plus juste et la plus  
2 raisonnable de la situation et rendre une décision  
3 en conséquence? Vous en pensez quoi?

4 A. Well, I would suggest that the Régie has access to  
5 all of these productivity studies. They're a matter  
6 of public record, as well as one... an updated  
7 study that was just provided by the Brattle Group  
8 in Alberta, along with... there's a new and  
9 expending record in Alberta as well on updating  
10 that X factor. So, it's not necessary for the Régie  
11 to commission a study per se in order to have  
12 access to that work. It's expensive work and it's  
13 time consuming work. So, it doesn't necessarily  
14 have to recreate the wheel.

15 And one should be mindful of the fact that  
16 these studies, for the most part are industry  
17 studies, so they're the same types of studies that  
18 one would see submitted here, in the sense that  
19 they are measuring performance of a broad group of  
20 electric utilities or electric and gas utilities.  
21 Of course I think electric utilities are more  
22 appropriate in this case. But those types of  
23 studies are out there.

24 Q. [348] Yes.

25 A. And would it be beneficial to see a study that is

1 specific to HQD? And I think the answer is yes. I  
2 would say in all probability, I would like to  
3 see... And when I say that, I would like to see an  
4 analysis, if I were the Régie, of the company's  
5 productivity over time, changes in that  
6 productivity over time, in order to help to form my  
7 basis for what I think is the proper X factor, on a  
8 going forward basis. So, I think it would be  
9 reasonable to expect to see that type of  
10 information.

11 Q. [349] Thank you. Changement de sujet et ce sera, je  
12 pense, ma dernière ligne de questions. Est-ce que  
13 vous avez la chance de prendre connaissance du  
14 mémoire d'UC qui traite en particulier des réseaux  
15 autonomes. Est-ce que vous...

16 Mr. ROBERT C. YARDLEY:

17 A. I'm so confused. So, the memorandum you're  
18 referring to is the brief or...

19 Q. [350] Yes, the brief by UC which is UC-0016.

20 A. Yes. Yes.

21 Q. [351] You had a chance to...

22 A. I did read that. I did read that...

23 Q. [352] Okay.

24 A. ... and the autonomous network section.

25 Q. [353] Don't you find that the proposition that UC



1 has made makes sense?

2 A. I thought that the memorandum was quite well  
3 conceived and provided a lot of detail. As I  
4 understood it, the specific, if I recall correctly  
5 was a very specific MRI for the autonomous  
6 networks...

7 Q. [354] Yes.

8 A. ... wit a unique inflation factor and a unique X  
9 factor.

10 Q. [355] Yes.

11 A. So, I thought that was an interesting proposition.  
12 The decision... the recommendation of HQD, this  
13 proposal was really based not on the fact that the  
14 autonomous networks are unique and they present,  
15 you know, not just unique challenges, but important  
16 challenges with consequences for all rate payers,  
17 and some environmental issues, you know, a large  
18 number of issues that, you know, a specific study  
19 might be appropriate. But our recommendation was  
20 that it be integrated more for just ease of getting  
21 started. So, provide some incentive...

22 Q. [356] Okay.

23 A. ... but not have to address the difficulty of  
24 coming up with a unique X factor. I don't know  
25 quite how challenging that would be but the X

1 factor for the autonomous networks might require  
2 quite a bit of work, quite a bit of effort.

3 Q. [357] Are you aware that historically, the Régie  
4 has asked of Hydro-Québec and within the supply  
5 plan, the autonomous networks are treated  
6 separately, in the supply plans?

7 A. Yes the... well, the supply is much different.

8 Q. [358] Yes.

9 A. So, it would be treated differently.

10 Q. [359] And also, over the years, within the tariff  
11 case, the Régie has repeatedly asked the  
12 Distributor to come up with programmes and plans to  
13 reduce the consumption of electricity but also to  
14 try to reduce the diesel that is used to provide  
15 that electricity. Were you made aware of that?

16 A. I'm generally aware that a lot of attention has  
17 been given to this particular challenge...

18 Q. [360] Okay. Are you...

19 A. ... over a number of years.

20 Q. [361] Okay. Are you also aware that since all those  
21 proofs were deposited, the government has come up  
22 with "La politique énergétique 2030", the energy  
23 policy...

24 A. Yes...

25 Q. [362] ... of two thousand thirty (2030) -- sorry, I

1 see you don't have...

2 A. Since I was aware, I knew the French translation,  
3 so Hydro, HQD has informed me of that. I thought it  
4 was very interesting.

5 Q. [363] And that within that report, on many pages,  
6 the autonomous, les réseaux autonomes, are referred  
7 to to see that they are improved, I mean, there's a  
8 series of pages, pour ceux qui sont intéressés, il  
9 y a la page 43 et pages 48 et 49, la partie sur  
10 l'éolien. And the government has targeted the, I  
11 would call it "la bonification des réseaux." Dans  
12 ce contexte, ne croyez-vous pas qu'il serait  
13 indiqué de justement traiter les réseaux séparément  
14 de façon à ce que la Régie, et all the  
15 stakeholders, puissent suivre ce qui arrive aux  
16 réseaux autonomes et la progression des réseaux  
17 autonomes, tant pour les coûts que pour les  
18 bénéfices et les revenus?

19 A. I didn't get quite all the translation, but I could  
20 understand what the...

21 Q. [364] Okay, well, the idea is, right now, the  
22 revenue that we get from those autonomous réseaux  
23 is very very little.

24 A. Right, no, I understand.

25 Q. [365] It's quite less than the costs that they...

1 A. Absolutely.

2 Q. [366] ... moreover, there are problems with energy  
3 efficiency, diesel, and the productivity, the way  
4 the electricity is produced. Yes, it's a cost for  
5 the basic for all consumers, but don't you agree  
6 that the cost of improving ces réseaux should be  
7 identified separately, so the Distributor, for  
8 example, could try to get money, we have a Green  
9 Fund, un Fonds vert, in Quebec...

10 A. Uh-huh.

11 Q. [367] ... could try to get, for example, financing  
12 from the Green Fund to improve, instead of, and the  
13 consumers, the stakeholders could follow what  
14 happens and see it separately.

15 A. Yes, I, you know, I do agree, and my reaction when  
16 I heard that the government was, had identified  
17 this maybe as one of three priority issues, if I  
18 understood it correctly, was that it will receive  
19 the attention that it deserves at this time. I'm  
20 not sure I would go take an MRI approach, I think  
21 the issues are not complicated, but I think it  
22 would be important to arrive at a solution that  
23 reflects not only the energy and the environment  
24 but also the social and political, economic and  
25 health issues, and draw upon other resources that

1 you mentioned, the Green Fund.

2 So I'm not sure of the MRI approach, I  
3 would agree more attention is needed, and that  
4 there should be not just studies for the sake of  
5 studies but, you know, real focus...

6 Q. [368] Implementation.

7 A. ... focus on this issue, and with respect, done  
8 respectfully with the unique circumstances of  
9 people who live in those areas.

10 Me HÉLÈNE SICARD :

11 Oui, Monsieur... je vous ai vu, Monsieur Hébert.  
12 J'attends qu'on me... et pour vous rassurer, Madame  
13 Jean, j'ai deux autres questions, une ici puis mon  
14 analyste me dit qu'il en a une autre, et ça devrait  
15 être plus court que les dernières. Je cherche juste  
16 à vous encourager.

17 Me FRANÇOIS G. HÉBERT :

18 R. J'aimerais compléter, Maître Sicard.

19 Q. [369] Oui, allez-y, Maître Hébert.

20 R. Évidemment les réseaux autonomes, c'est une  
21 question qui est très importante pour le  
22 Distributeur, on en convient tous, on y travaille  
23 fort à chaque jour. Mais il faut revoir cette  
24 question-là dans le contexte plus global des coûts,  
25 on mentionnait que les réseaux autonomes, sans

1 diminuer l'importance qu'on accorde à ces réseaux-  
2 là, et la préoccupation qu'on a quant aux coûts,  
3 l'environnement également, là, c'est trois pour  
4 cent (3 %) des revenus de ventes, point trois pour  
5 cent (,3 %) des revenus de vente du Distributeur.  
6 C'est deux pour cent (2 %) des revenus requis.  
7 C'est point cinq pour cent (,5 %) des abonnements.  
8 Et encore là, je ne diminue en rien l'importance  
9 qu'on doit attacher, accorder aux réseaux  
10 autonomes. Et la Régie, on sait qu'elle y accorde  
11 beaucoup d'importance.

12 (15 h 05)

13 Maintenant, on est dans le cadre de  
14 l'établissement d'un mécanisme de réglementation  
15 incitative qui nous demande, et ce n'est pas moi  
16 qui le mentionne, c'est le législateur,  
17 l'allégement du processus par lequel vont être  
18 fixés les tarifs.

19 Évidemment, si on décidait d'implanter un  
20 mécanisme de réglementation incitative pour les  
21 réseaux autonomes distincts du mécanisme qu'on  
22 discute aujourd'hui, on aura une autre audience  
23 comme ça, un autre forum pour discuter de cette  
24 réglementation incitative-là, à tout le moins peut-  
25 être d'autres études de productivité, nos collègues

1 le mentionnaient, pour établir le facteur X compte  
2 tenu des distinctions qu'on pourrait soulever entre  
3 le réseau intégré et les réseaux autonomes.

4 Alors, ça va alourdir de beaucoup, pense-t-  
5 on, le processus compte tenu des montants qui sont  
6 impliqués, compte tenu du ratio. Quand on compare  
7 le revenu requis, l'impact des réseaux autonomes  
8 sur l'ensemble du revenu requis du Distributeur,  
9 bien, on fait des choix ici. Et on pense que le  
10 fait de l'intégrer est une bonne chose dans le  
11 grand mécanisme, non pas de le traiter comme un  
12 facteur Y, il y a eu des questions là-dessus ce  
13 matin, on ne pense pas que ce soit opportun, mais  
14 de le traiter à même le cadre ou le mécanisme qu'on  
15 propose aujourd'hui, on pense que c'est opportun de  
16 le faire.

17 Q. [370] Écoutez, je ne vais pas argumenter avec vous,  
18 là, je veux juste dire qu'UC n'est pas  
19 nécessairement d'accord vous. Mais si la Régie  
20 retenait votre approche-là, par hasard, est-ce qu'à  
21 ce moment-là on aurait des indicateurs spécifiques  
22 et qu'on pourrait en avoir plusieurs pour les  
23 réseaux autonomes?

24 M. LUC DUBÉ :

25 R. Je vais y aller peut-être très général, mais à ce

1 point ici, je pense qu'il y en a vingt-trois (23),  
2 vingt-quatre (24), en tout cas autour de... plus  
3 que vingt (20), là, de réseaux autonomes. Puis  
4 chacun a ses critères spécifiques. En tout cas, de  
5 notre point de vue, puis on n'a pas fait d'analyse  
6 à cet effet-là, c'est très difficile d'obtenir des  
7 indicateurs qui permettraient, en tout cas, à la  
8 lumière de ce que vous voulez, permettre d'évaluer  
9 nécessairement de façon globale, on va appeler ça,  
10 mais la performance mettons des réseaux autonomes.

11 Q. [371] Avant dernière question. Vous nous avez parlé  
12 d'un rapport annuel pour les éléments hors MRI qui  
13 serait écrit et où les intervenants pourraient  
14 commenter ou questionner également par écrit.  
15 Seriez-vous opposé à avoir une formule de  
16 fonctionnement un peu comme celle qu'on avait dans  
17 le cas de Gaz Métro, il y a plusieurs années, où  
18 vous déposeriez vos éléments et la Régie, à sa  
19 discrétion, déciderait tel et tel sujet, je veux  
20 que ça aille en audience publique et tel et tel  
21 sujet, bien, on va les faire par écrit ou par  
22 groupe de travail ou autrement, auriez-vous un  
23 problème avec ça? Finalement, ma question, c'est :  
24 Est-ce qu'il est nécessaire aujourd'hui ou dans le  
25 présent dossier de couler dans le ciment que ça va



1 être une audience écrite?

2 Mme FRANÇOISE METTELET :

3 R. Vous allez nous trouver insistants, mais c'est sûr  
4 que l'objectif qu'on poursuit, c'est de rencontrer  
5 l'objectif d'allégement de la réglementation. Et  
6 c'est sûr et certain que si on veut atteindre cet  
7 objectif-là, il faut le plus possible fonctionner à  
8 l'intérieur de dépôts annuels qui sont revus de  
9 façon écrite pour éviter le temps qui pourrait être  
10 alloué aux audiences sur ces sujets-là. C'est sûr  
11 et certain que lors de l'année du « rebasing »,  
12 l'ensemble des éléments vont être revus avec les  
13 intervenants et la Régie.

14 Donc, vous avez une année sur trois où vous  
15 avez un dossier complet, alors que les deux autres  
16 années où ce qu'on anticipe, c'est que la mise à  
17 jour de la formule ne soit pas discutée. Donc, on  
18 fait simplement appliquer une formule. Les seuls  
19 éléments qui vont venir à être discutés par écrit,  
20 ce serait les éléments d'exclusion qui viennent  
21 s'ajouter. Donc, si la Régie... Elle est libre de  
22 faire ce qu'elle veut, mais ce n'est pas ce que  
23 souhaite le Distributeur pour répondre à l'objectif  
24 de 48.1.

25 (15 h 12)

1 Q. [372] J'ai une autre question pour messieurs  
2 Yardley et Coyne, page 8 de votre présentation, Z  
3 factor exclusion indicate significant equipment  
4 failure. Now do you make a difference between  
5 equipment failure, for example due to an electrical  
6 storm that hits an installation, and equipment  
7 failure that would be judged caused by a default of  
8 maintenance?

9 LA PRÉSIDENTE :

10 Maître Sicard, je pense que le témoin est prêt pour  
11 répondre.

12 Me HÉLÈNE SICARD :

13 Je m'excuse. I'm sorry.

14 Mr. JAMES M. COYNE :

15 A. Thank you. We... it would... we would consider this  
16 to be, (A) it needs to be significant in order to  
17 be a Z factor exclusion, so it needs to be some  
18 financial impact of a significant magnitude, (A),  
19 and (B), that it should have been beyond the  
20 company's control. And if the suggestion is that it  
21 was within the company's control, and its  
22 maintenance was insufficient, then it may... it may  
23 argue, to the Régie, that it was beyond its  
24 control, but ultimately, the Régie would have to  
25 make a determination as to whether or not it was

1 legitimately within its control or not in order to  
2 allow that exclusion. So that would become a matter  
3 for the Régie to decide and the parties to argue.  
4 But the intent would be that it was beyond the  
5 company's control, and unforeseen.

6 Me HÉLÈNE SICARD :

7 Okay. Alors si vous m'excusez deux minutes,  
8 j'aurais une dernière question, je vais voir s'il y  
9 a...

10 LA PRÉSIDENTE :

11 Pendant ce moment, Maître Rousseau, pourriez-vous  
12 me confirmer la durée de votre intervention pour  
13 qu'on puisse planifier?

14 Me CATHERINE ROUSSEAU :

15 Bonjour. Alors, écoutez, à la lumière des  
16 interventions qui ont eu lieu toute la journée,  
17 j'ai revu la liste des questions et je crois en  
18 avoir pour à peu près quinze, vingt minutes tout au  
19 plus.

20 LA PRÉSIDENTE :

21 Merci.

22 Me HÉLÈNE SICARD :

23 Q. [373] I'm going to try to be as clear as possible  
24 with this question, but I'm just a lawyer. I'm  
25 conveying the message from my analyst. You have, in

1 the formula, amortization, which is included, and  
2 you've already indicated to me earlier that this  
3 amortization would be subject to the inflation  
4 factor to be determined. But other than that, do  
5 you foresee that amortization would increase in the  
6 next two or three years, like during the years of  
7 the MRI, is there already an increase, yearly,  
8 above and beyond the inflation for amortization?

9 Mr. JAMES M. COYNE :

10 A. Are you speaking historically or are you speaking  
11 expected over the next several years?

12 Q. [374] Expected.

13 A. Uh...

14 Q. [375] En autant qu'il y ait une réponse.

15 M. LUC DUBÉ :

16 R. On a « switché. » En fait, je n'ai pas les chiffres  
17 avec moi mais, en principe, l'amortissement,  
18 finalement, j'ai deux types d'investissements, on  
19 s'entend, j'ai des investissements en maintenance,  
20 des investissements en croissance. Les  
21 investissements en maintenance ont pour but,  
22 habituellement, de remplacer ce qui est existant,  
23 alors qu'en croissance, c'est vraiment une addition  
24 à mon parc d'actifs.

25 Donc, si on garde cette logique-là, en

1 principe, je ne suis pas en mesure de vous dire  
2 est-ce que ça va fluctuer en fonction d'un I, et  
3 d'un X, et d'un facteur de croissance, mais on  
4 considère, en tout cas, qu'en vertu d'un I-X, c'est  
5 pour ça qu'on l'a proposé à même la formule, que  
6 l'amortissement devrait, on devrait être capables  
7 de (1) la prédire, être capables de la gérer en  
8 fonction du I-X, considérant que mes  
9 investissements en croissance vont faire en sorte  
10 qu'en principe, mon amortissement devrait tendre à  
11 grandir avec les années.

12 Q. [376] « En principe devrait tendre à grandir »,  
13 mais dans le réel, est-ce qu'il est possible qu'il  
14 diminue avec les années?

15 (15 h 20)

16 R. Comme je vous dis, je n'ai pas fait... je n'ai pas  
17 de chiffres avec moi pour le futur. Mais si la  
18 logique se maintient puis que j'ai encore des  
19 investissements en croissance, en principe,  
20 l'amortissement... Parce que les actifs... les  
21 activités en maintenance vont venir remplacer les  
22 vieux. Donc, mon amortissement devrait tendre à  
23 être assez équivalent au fil du temps. Donc, c'est  
24 vraiment mes investissements en croissance qui vont  
25 venir affecter ma dépense d'amortissement à la

1 hausse au fil du temps.

2 Q. [377] Ça termine mes questions. Je vous remercie.

3 LA PRÉSIDENTE :

4 Merci, Maître Sicard. Compte tenu de l'heure et

5 qu'on n'a pas pris de pause, nous allons suspendre

6 jusqu'à demain matin neuf heures (9 h). Merci,

7 Maître Rousseau. On se voit demain matin.

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9 AJOURNEMENT DE L'AUDIENCE

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1           SERMENT D'OFFICE

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3           Je, soussignée, CLAUDE MORIN, sténographe officiel,  
4           certifie sous mon serment d'office que les pages  
5           qui précèdent sont et contiennent la transcription  
6           fidèle et exacte des témoignages et plaidoiries en  
7           l'instance, le tout pris au moyen du sténomasque,  
8           et ce, conformément à la Loi.

9           Et j'ai signé,

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14           CLAUDE MORIN

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