

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 21 SEPTEMBRE 2016

VOLUME 6

ROSA FANIZZI et CLAUDE MORIN
Sténographes officiels

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).

TABLE DES MATIÈRES

| | PAGE |
|---|------|
| LISTE DES ENGAGEMENTS | 4 |
| LISTE DES PIÈCES | 5 |
| PRÉLIMINAIRES | 6 |
| PREUVE DE HQT-HQD (suite) | 7 |
| JEAN LAPOINTE | |
| LUC DUBÉ | |
| FRANÇOIS G. HÉBERT | |
| FRANÇOISE METTELET | |
| JAMES M. COYNE | |
| ROBERT C. YARDLEY Jr. | |
| CONTRE-INTERROGÉS PAR Me CATHERINE ROUSSEAU | 8 |
| CONTRE-INTERROGÉS PAR Me ANDRÉ TURMEL | 25 |
| INTERROGÉS PAR Me JEAN-FRANÇOIS OUIMETTE | 32 |
| INTERROGÉS PAR LA FORMATION | 98 |
| PREUVE DE L'AQCIE-CIFQ | 139 |
| MARK NEWTON LOWRY | |
| LUC BOULANGER | |
| PIERRE VÉZINA | |
| INTERROGÉS PAR Me GUY SARAULT | 140 |
| CONTRE-INTERROGÉS PAR Me STEVE CADRIN | 199 |

LISTE DES ENGAGEMENTS

| | PAGE |
|---|------|
| E-2 (HQD) : À l'égard de la page 10 du PowerPoint, sur l'affirmation : There is considerable precedent in Canada for the pass-through of return on rate base. Vérifier, pour le Québec, Gaz Métro et Gazifère, quel était le mécanisme alors applicable (demandé par FCEI) | 28 |
| E-3 (HQD) : Confirmer les exclusions liées aux amortissements (demandé par la Régie) | 80 |
| E-4 (HQD) : Fournir un tableau montrant l'évolution depuis 2010 de chacun des éléments du tableau qui seraient inclus dans le mécanisme, ainsi que du total, sur une base comparable, donc ajusté pour les changements des normes comptables, ainsi qu'une projection pour les 5 prochaines années. Aussi, que ce tableau soit complété par les données historiques et projetées pour chacune de ces années, en parallèle avec l'évolution de la base de tarification historique et projetée ainsi que le nombre d'abonnements historiques et projetés (demandé par la Régie) | 84 |
| E-5 (HQD) : Répondre à la question : avez-vous l'intention de suivre la recommandation? Et si oui, la produire, et dans quelle phase, et sous quelle forme, l'étude en question, pour déterminer le facteur X? (demandé par la formation) | 138 |

LISTE DES PIÈCES

| | PAGE |
|--|------|
| C-FCEI-0057 : Pièce B-0077 du dossier R-3884 Phase 3 de Gazifère | 29 |
| C-FCEI-0058 : Pièce Gaz Métro-8, Document 5 du dossier tarifaire 3752-2011 | 29 |
| A-106 : Tableau Écarts en IPC réel du Québec et les prévisions du Distributeur pour la période 2002 à 2015 | 52 |
| A-0107 : HQD-5, document 1, page 8 | 77 |
| C-AQCIE-CIFQ-0079 Affidavit de documents de Dr. Marc Newton Lowry | 140 |
| C-AQCIE-CIFQ-0080 Affidavit de documents de M. Luc Boulangier | 140 |
| C-AQCIE-CIFQ-0081 Affidavit de documents de M. Pierre Vézina | 140 |
| C-AQCIE-CIFQ-0082 Présentation PowerPoint de Dr. Marc Newton Lowry | 141 |

1 L'AN DEUX MILLE SEIZE (2016), ce vingt et unième
2 (21e) jour du mois de septembre :

3

4 PRÉLIMINAIRES

5

6 LA PRÉSIDENTE :

7 Bonjour. Bienvenue à cette troisième journée
8 d'audience. Oui.

9 LA GREFFIÈRE :

10 Protocole d'ouverture. Audience du vingt et un (21)
11 septembre deux mille seize (2016), dossier R-3897-
12 2014 Phase 1, établissement d'un mécanisme de
13 réglementation incitative assurant la réalisation
14 de gains d'efficience par le distributeur
15 d'électricité et le transporteur d'électricité.
16 Poursuite de l'audience.

17 LA PRÉSIDENTE :

18 Alors, Maître Rousseau, la parole est à vous.

19

20

1 L'AN DEUX MILLE SEIZE (2016), ce vingt et unième
2 (21e) jour du mois de septembre, ONT COMPARU :
3
4 PREUVE DE HQT-HQD (suite)
5
6 JEAN LAPOINTE, contrôleur Hydro-Québec
7 Distribution, ayant une place d'affaires au 75,
8 René-Lévesque Ouest, Montréal (Québec);
9
10 LUC DUBÉ, chef cadre financier réglementaire, ayant
11 une place d'affaires au 75, René-Lévesque Ouest,
12 13e étage, Montréal (Québec);
13
14 FRANÇOIS G. HÉBERT, directeur des affaires
15 réglementaires et environnement Hydro-Québec
16 Distribution, ayant une place d'affaires au 75,
17 René-Lévesque Ouest, 22e étage, Montréal (Québec);
18
19 FRANÇOISE METTELET, chargée d'équipe stratégie
20 réglementaire, ayant une place d'affaires au 75,
21 René-Lévesque Ouest, 22e étage, Montréal (Québec);
22
23 JAMES M. COYNE, Senior Vice President Concentric
24 Energy Advisors, place of business located at 293
25 Boston Post Road West, Marlborough (MA);

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 CATHERINE ROUSSEAU :
10 Bonjour, Catherine Rousseau pour l'Union des
11 municipalités du Québec. Tel qu'annoncé hier, j'en
12 aurais à peu près pour une vingtaine de minutes.
13 Donc, je vais poser mes questions en français, donc
14 aux deux témoins. Les questions vont s'adresser
15 plus particulièrement aux deux témoins experts.
16 (9 h 00)

17 Premier volet que j'aimerais traiter ce
18 matin, on en a déjà traité amplement, mais
19 j'aimerais revenir quand même sur certains éléments
20 au niveau de la détermination du facteur X. Est-ce
21 que le faible taux d'inflation qui est enregistré
22 au Canada au cours des derniers trimestres a
23 influencé la recommandation de Concentric d'opter
24 plutôt pour une approche dite de « informed
25 judgement » dans la détermination du facteur X?

1 Mr. JAMES M. COYNE:

2 A. I think it is influential, but it is one of the
3 factors that... one of the reasons we recommended
4 that the parameters should be chosen together, the
5 I factor would be X, the exclusions; the Y and the
6 X... excuse me, the Y and the Z, our belief is that
7 they should be examined together for that reason
8 that they do all fit together. And when you
9 estimate an X factor, you need to know what
10 inflation rate is being associated with it. So, I
11 would say that is probably one of the factors
12 that's associated with declining industry
13 productivity, is the fact that we have seen a... as
14 you suggest, we've seen a very low inflation rate
15 over the last five to ten (10) years, both in the
16 US and Canada. And during that period of time, we
17 are seeing the case where utilities are subject to
18 ongoing pressure. Most recently in North America,
19 we now starting to see wage pressure that is
20 pushing not just utilities, but other companies up
21 against the fact that with inflation running at
22 only two percent (2%) or less a year, labourers are
23 looking for more than that, so they're looking for
24 positive gains in relationship to inflation. So
25 that is one of the factors that does weigh into the

1 consideration of the X factor. So, the answer is
2 yes.

3 Q. [1] Merci. J'aimerais maintenant vous amener à la
4 page 25 du rapport de Concentric, et je parle de la
5 pièce HQD-0057. Est-ce que vous y êtes?

6 A. Yes.

7 Q. [2] Alors, j'aimerais... je vais lire un passage du
8 second paragraphe vers la fin où on mentionne :

9 Concentric therefore recommends that
10 the Régie rely upon its judgement,
11 with input from the parties, on
12 setting the appropriate productivity
13 factor for HQD.

14 Le passage qui m'intéresse est plus « with input
15 from the parties, » ma question : les parties, est-
16 ce que ça inclut les représentants de la clientèle?

17 A. Yes, I would assume so. I would assume that all the
18 parties that have participated in phase 1 of the
19 proceeding would be actively involved in phase 2,
20 if there is one, or with our recommendation in
21 phase 3, if the Régie determines to go directly to
22 phase 3 from phase 1. So, yes, we would assume that
23 the parties would be very active in that process
24 and submit their own evidence pertaining to
25 industry productivity, the company's productivity,

1 and specific recommendations for the parameters of
2 the MRI.

3 Q. [3] Donc, ça serait... si je comprends de votre
4 réponse, le type de « input » que vous attendez des
5 parties.

6 A. Yes. And I know that not all parties would have the
7 access to the same resources. It may be... as
8 participating here in phase 1, they may decide on a
9 common expert that might assist them in putting
10 together what they deem to be the appropriate
11 evidence to submit before the Régie, or they may
12 even determine that more than one expert is
13 required. But I would assume that they would want
14 to retain at least one expert with assisting them
15 and developing an independent recommendation of
16 those parameters.

17 Q. [4] Je vais maintenant passer au deuxième volet du
18 contre-interrogatoire. Au niveau de la
19 détermination du facteur I dans la formule, je vais
20 vous amener à la page 5 de votre présentation
21 PowerPoint. Vous y êtes?

22 (9 h 05)

23 A. Yes.

24 Q. [5] Vous mentionnez à la page 5, en fait, vous
25 suggérez d'utiliser un facteur I qui combine l'IPC

1 et un indice d'inflation des coûts de la main-
2 d'oeuvre. Est-ce que l'utilisation d'un indice
3 composé qui inclut un historique de l'augmentation
4 des coûts de la main-d'oeuvre est une pratique
5 fréquente?

6 A. It is. Most MRI programmes that we see adopted
7 these days adopt a composite index as suggested
8 here, with a broad measure of inflation pertaining
9 to input prices in the broader economy, associated
10 with one specific to labour because it's such an
11 important component of the utilities overall cost
12 profile.

13 The ones recently adopted in Alberta, BC,
14 Ontario all included composite X factors. The only
15 one that I can think of that didn't probably was
16 the Vermont utilities continue to rely on an
17 overall CPI measure.

18 Q. [6] Et par rapport à l'utilisation, justement, d'un
19 tel indice... Pardon.

20 A. My apologies, I'm told that I substituted X for I.
21 I'm perfectly capable of doing that, I meant "I
22 factor", not to confuse.

23 Q. [7] Bon, par rapport à l'utilisation de cet indice,
24 ma deuxième question, vous avez commencé à donner
25 des exemples, mais est-ce que vous pouvez être un

1 peu plus précis par rapport à des exemples où on
2 aurait utilisé un tel indice composé qui inclut
3 l'historique de l'augmentation des coûts de la
4 main-d'oeuvre.

5 A. So, where specifically a composite index has been
6 adopted?

7 Q. [8] Oui, exact.

8 A. Yes. If you turn to the next page in the
9 presentation, page 7, those represent the three
10 most recent Canadian decisions where an MRI was
11 adopted and in all three of those cases, a
12 composite index was adopted by the Commission and
13 generally, accepted by the parties.

14 I would have to say that every aspect of an
15 MRI draws controversy but, in the grand scheme of
16 things, I've seen the I factor as being far less
17 controversial than say, the selection of X.
18 Generally, it's accepted that a composite index is
19 appropriate because it reflects the actual input
20 prices that the utility is going to face if you
21 make it a composite index.

22 Q. [9] Merci. Je vais vous amener encore une fois dans
23 votre rapport, c'est la pièce HQD-0057 à la page
24 11.

25 A. Yes.

1 Q. [10] On remarque, et corrigez-moi si je me trompe,
2 mais en analysant les figures 5 et 6, on peut
3 observer que l'enveloppe des dépenses de HQD
4 augmente moins rapidement que le taux d'inflation.
5 Est-ce que ma compréhension est juste?

6 A. It's unfortunate, when we print this out in black
7 and white, that... I was going to rely on my
8 memory... this way, I have it in colour.

9 So, what you can see is true that the
10 envelope prices of those that have been included
11 historically under the parametric formula have been
12 managed under inflation and, as we've discussed,
13 beginning in two thousand eight (2008), the company
14 made significant strides in terms of energy
15 efficiency improvements and we see those reflected
16 in that growing wedge.

17 For those that are looking at it in black
18 and white, the bottom line represents the growth
19 and the envelope expense and the top line
20 represents inflation over that index back to the
21 year two thousand five (2005).

22 What we point out in the bottom figure is
23 that... is it over time that they have grown more
24 closely together, and you can see that they're
25 moving more or less in parallel between the two

1 thousand thirteen (2013) and two thousand sixteen
2 (2016) period. So, this suggests to us that the
3 trend in efficiency has slowed, it's now moving in
4 a parallel path with inflation.

5 Q. [11] Considérant les constatations qui sont faites
6 dans votre rapport, pouvez-vous nous expliquer
7 pourquoi Concentric recommande d'adopter un facteur
8 I qui soit combiné en incluant, évidemment,
9 l'indice interne d'augmentation des coûts de la
10 main-d'oeuvre.

11 A. Yes, as we discussed at the outset, it's an issue
12 that we gave some consideration to. As we
13 discussed, the standard approach is to use either a
14 provincial or a national index of labour input cost
15 and the reason that we thought that this was an
16 exception is because of the unique role that the
17 government and also the corporation in negotiating,
18 in setting guidelines and negotiating those
19 contracts.

20 We want, you want the utility operating
21 under an MRI program to manage its labour costs and
22 to have a barred sets of threshold for them to do
23 so. And that's the purpose of that input to the MRI
24 program, but you also want to reflect how much
25 control they have over this labour cost, so we felt

1 as though, for that reason, it was appropriate to
2 reflect their actual input labour costs in that
3 index.

4 And it still creates an incentive for them,
5 because if the company can do better than that,
6 then, of course, they create earning sharing that
7 they will share with the stake or the shareholder
8 and with customers, so it's not that it doesn't
9 include an incentive, but in our view, it created a
10 more realistic representation of the actual input
11 labour costs for the utility in this case.

12 Me CATHERINE ROUSSEAU :

13 Q. [12] Je vous ramène encore dans votre présentation,
14 à la page 5. Au troisième boulet, il est indiqué :

15 An internal labor index provides
16 greater confidence in its ability to
17 accurately reflect HQD's operating
18 circumstances.

19 Pouvez-vous élaborer par rapport au passage,
20 comment il :

21 ... provides greater confidence in its
22 ability to accurately reflect HQD's
23 operating circumstances.

24 A. Yes, as I understand it, labour contracts are
25 negotiated on a periodic basis for union employees,

1 and that is the focus here. And their operating
2 circumstances reflect the fact, as we discussed,
3 the government sets guidelines for negotiating
4 those contracts and then the corporation negotiates
5 them. So an index reflecting the real change in
6 those labour input costs, of course, gives you more
7 ability... more confidence and ability to
8 accurately reflect those costs specifically.

9 So you would expect that if there was a
10 three percent (3%) increase in a giv... projected
11 for the year in that labour cost index, then that
12 would be factored into the composite I factor. It's
13 forty-two percent (42%) today of the costs that are
14 covered under the operating... excuse me, it is,
15 it's forty-two percent (42%) as the envelope is
16 currently constructed today; that would go to
17 twenty-four percent (24%) under the proposed MRI.

18 So twenty-four percent (24%) of weight in
19 the I factor would be associated with the actual
20 change in the company's projected labour cost
21 increase for that year, based on those negotiated
22 contracts. And at this point, I might invite the
23 company to add anything that they would around how
24 they would actually construct that year-over-year
25 change, if there's anything to add in terms of

1 additional detail.

2 M. LUC DUBÉ :

3 R. Non, je pense que tout, tout a été bien expliqué
4 par nos experts.

5 Mr. JAMES M. COYNE :

6 A. That's not always so.

7 Q. [13] Je vais passer à ma prochaine question, je
8 retourne encore dans votre rapport HQD-0057, à la
9 page 12 cette fois-ci. Je suis au dernier
10 paragraphe, la dernière phrase :

11 [...] Concentric believes that an
12 expansion of the existing parametric
13 formula is a logical evolution of the
14 company's regulatory framework.

15 A. Pardon me, because we probably just have different
16 page numbers, can you... oh! maybe if I look at
17 this version, okay. For those that may have a
18 different version like I do, it's on, I had it on
19 page 13, under "Recommended Approach for HQD." And
20 the sentence beginning with, I'm sorry?

21 Q. [14] En fait, ma question concerne la formule
22 paramétrique, j'étais à la dernière phrase, en fait
23 de ma page 12, mais qui commence par :

24 Concentric believes than an expansion
25 of the existing parametric formula

1 and it continued through the present day. So to us,
2 it appears as though it's been effective.

3 In terms of relative strengths and
4 weaknesses. The... I think, as reflected in our
5 current proposal, we think, in general, that a
6 longer period of time is beneficial because it
7 gives the company more time to implement longer-
8 term efficiency solutions, rather than having to
9 reset the clock and rebase every year. So that's a
10 stronger incentive, when you add more time to the
11 programme. And we also considered that expanding
12 the coverage of what's included under the formula
13 gives the company the opportunity and the incentive
14 to manage a broader expense profile.

15 So we see two strengths to this proposal
16 vis-a-vis the current form... the current approach.
17 Longer time provides more opportunity for
18 generating efficiency savings, and greater coverage
19 provides greater incentive for managing a greater
20 percentage of its costs, but it reflects the
21 reality that to be an effective incentive, they
22 need to be costs that are reasonably within the
23 company's control.

24 That's what... we see it, but it's familiar
25 in the sense that the existing approach for

1 approving capital projects remains in place, it's
2 familiar to the Régie, it's familiar to
3 stakeholders, and the basic... the basic structure
4 of the parametric formula remains in place. But
5 we're going to have an examination of X, whereas my
6 view is in the past, that there has been a trial
7 and error approach associated with this X-factor
8 that's built into the MRI. And the context of this
9 proceeding, that'll conclude with phase 3, will
10 provide the Board with greater information around
11 that X factor, that'll drive it on a going-forward
12 basis. And also greater input in terms of what the
13 appropriate inflation factor should be on a going-
14 forward basis, rather than just a broad-based CP...
15 Well, actually, I take it back. The structure of
16 that inflation factor looks all like this today.
17 But it'll have... It'll also have greater input in
18 terms of the other parameters. The exclusions, the
19 Y and the Z factors. So it'll be a more structured
20 approach, but it's a sensible... What's in place
21 today serves as a sensible launching pad for this
22 next evolution.

23 Q. [18] Très bien, merci. Ma dernière... en fait, deux
24 dernières questions. Je vous ramène une dernière
25 fois à votre présentation PowerPoint, à la page 12.

1 Au troisième boulet, vous faites référence
2 à un indicateur composé qui serait similaire à
3 l'approche adoptée pour Gazifère. Est-ce que vous
4 avez personnellement validé cette approche, qui
5 consiste à utiliser, finalement, une moyenne
6 d'atteinte des indicateurs de performance?

7 Mr. ROBERT C. YARDLEY :

8 A. I've seen the formula and looked at the formula if
9 that... I don't know if that qualifies as
10 validated.

11 (9 h 21)

12 Q. [19] Et, selon vous, est-ce qu'une telle approche
13 est transportable à HQD à cent pour cent (100 %) ou
14 plutôt que certaines adaptations pourraient être
15 nécessaires?

16 A. I think when we get to phase 3, we should ask that
17 question. I don't know that we know today whether
18 it would transfer exactly. But whatever methodology
19 is approved in phase 3 should fit HQD's
20 circumstances, so we should use it as a guide, it's
21 a relevant precedent, and we should... it's a very
22 good starting point, but the end result should be a
23 mechanism that fits HQD's circumstances.

24 Q. [20] Donc, je comprends que vous avez analysé cette
25 approche sans nécessairement, je dirais, pousser

1 votre analyse pour vous assurer ou, disons, valider
2 que cette approche-là qui est utilisée pour
3 Gazifère est vraiment... on pourrait vraiment
4 prendre cent pour cent (100 %) de l'approche pour
5 l'appliquer à HQD. Est-ce que j'ai bien compris
6 votre réponse?

7 A. I have looked at it. I have done some analysis to
8 look at it. My concern was that it, and my concern
9 generally with the ESM, is that it's possible to
10 design the ESM in a way that works against
11 efficiency, that reduces the incentive for
12 efficiency. And I would have the same concern with
13 this particular approach. So, that's been the
14 nature of my inquiry.

15 Mme FRANÇOISE METTELET :

16 R. Si vous permettez, est-ce que je peux compléter?

17 Q. [21] Bien sûr.

18 R. C'est bien certain que lorsqu'on a parlé de bâtir
19 un indicateur composite sur lequel on appliquerait
20 un certain seuil qui ferait en sorte qu'on obtienne
21 soit cent pour cent (100 %) ou X pour cent de notre
22 partage des écarts de rendement, on a fait
23 effectivement certains tests. Ce que je peux vous
24 dire, c'est que ça s'inspire de... ça
25 s'inspirerait, probablement, ce qu'on proposerait

1 de Gazifère, effectivement. L'objectif de
2 l'indicateur composite serait de traduire au
3 travers de l'indicateur qu'on va obtenir, traduire
4 l'évolution de la qualité du service qui est
5 introduit par les activités du Distributeur.

6 Donc, ce qu'on veut vraiment, c'est axer
7 sur un panier d'indicateurs qui est relativement
8 limité, tel que Elenchus l'a bien suggéré. On
9 souhaiterait limiter ces indicateurs-là, comme
10 monsieur Yardley l'a signalé lors de sa
11 présentation, a des indicateurs qui sont parlant
12 pour le Distributeur et sur lesquels on peut agir,
13 qui touchent vraiment à nos activités de base et
14 qui fassent en sorte qu'on n'envisage pas à ce
15 stade-ci d'avoir d'indicateurs additionnels.

16 Q. [22] Je vous remercie. J'ai terminé.

17 (9 h 25)

18 LA PRÉSIDENTE :

19 Merci, Maître Rousseau. Alors...

20 Mr. JAMES A. COYNE :

21 A. If it's convenient, I would just like to make a
22 correction to the record from yesterday if I could
23 do that at this moment.

24 THE PRESIDENT:

25 Sure.

1 A. In response to Mr. David yesterday from the OC, he
2 was asking me a question referring to page 10 of
3 our opening testimony, and I was referring to FEI
4 and FBC and he wanted to know if they were gas or
5 electric companies that had these programmes and I
6 cross-referenced FEI and FBC incorrectly. So, FEI
7 is the gas company, FBC is the electric
8 distributor. So, I just wanted to make that
9 correction for the record.

10 THE PRESIDENT:

11 Thank you. Maître Turmel.

12 Me ANDRÉ TURMEL :

13 Bonjour Madame la Présidente. Avec votre
14 permission, et c'est justement sur cette page-là,
15 je voulais simplement poser une question parce
16 qu'on pense qu'on a détecté peut-être une erreur
17 dans cette page-là, et je voulais vérifier avec les
18 témoins si c'était le cas parce que c'est en lien
19 avec, donc, l'affirmation... So, it's in relation -
20 ça va prendre deux minutes, Madame la Présidente.

21 LA PRÉSIDENTE :

22 D'accord, allez-y.

23 CONTRE-INTERROGÉS PAR Me ANDRÉ TURMEL :

24 Q. [23] It's in relation... First of all, good
25 morning. So, if you go to page 10 of your

1 presentation, yesterday or two days ago, you made
2 the statement that there is considerable precedent
3 in Canada for the pass-through or return on rate
4 base and then you quote for Quebec both Gaz Métro
5 and Gazifère.

6 My first question to you, so, have you
7 personally, both of you or one of you, looked at
8 those mechanisms then?

9 A. Yes, I have at some point in time gone back and
10 looked at those decisions.

11 Q. [24] Okay. Because we looked back at those
12 mechanisms and I don't want to catch you off guard,
13 so I will probably ask you and probably HQ, because
14 we looked at both Gazifère and Gaz Métro mechanisms
15 and it is not the case, pass-through are not done
16 the way you seem to affirm it. So, in fact, I think
17 we could discuss, but I think somebody has to
18 check, go back so I would table both Gazifère and
19 Gaz Métro and I would ask you and HQ to just make
20 sure that you are still in agreement with that
21 statement.

22 Alors, Madame la Présidente, parce que
23 quand on lit ça, à la fois notre analyste et un
24 analyste d'un autre intervenant, hier soir, on
25 était un peu confondus, on se disait : mais ce

1 n'est pas exactement ce que l'on voit. Donc c'est
2 une vérification, d'un engagement et pour nous
3 faciliter la tâche et faciliter la tâche à HQ, je
4 déposerais un extrait du mécanisme de Gazifère, qui
5 va nous aider, et un extrait du mécanisme de Gaz
6 Métro, je vais les coter correctement, et ils
7 pourront vérifier en engagement puis on reviendra
8 si ça vous va.

9 M. FRANÇOIS G. HÉBERT :

10 R. C'est ce que j'allais suggérer, Madame la
11 Présidente.

12 Q. [25] Oui, oui, tout à fait.

13 R. Pour prendre le temps de bien analyser les
14 documents.

15 Q. [26] Oui.

16 R. Ça nous fera plaisir d'y répondre.

17 LA PRÉSIDENTE :

18 Merci.

19 Me ANDRÉ TURMEL :

20 Oui, simplement donc faire la vérification, donc
21 dans l'engagement numéro?

22 LA GREFFIÈRE :

23 2.

24 Me ANDRÉ TURMEL :

25 2?

1 LA GREFFIÈRE :

2 Oui.

3 Me ANDRÉ TURMEL :

4 À l'égard de la page 10 du PowerPoint, sur
5 l'affirmation :

6 There is considerable precedent in
7 Canada for the pass-through of return
8 on rate base.

9 Vérifier, pour le Québec, Gaz Métro et Gazifère,
10 quel était le mécanisme alors applicable et je
11 dépose, pour nous aider, donc la pièce B-0077 du
12 dossier R-3884 Phase 3 de Gazifère, donc c'est
13 clair, voici une copie. C'est juste pour dire
14 qu'est-ce que c'est parce que dans la photocopie
15 ça... Donc, le premier dossier de Gazifère c'est la
16 pièce B-0077 de R-3884 Phase 3.

17

18 E-2 (HQD) : À l'égard de la page 10 du PowerPoint,
19 sur l'affirmation : There is
20 considerable precedent in Canada for
21 the pass-through of return on rate
22 base. Vérifier, pour le Québec, Gaz
23 Métro et Gazifère, quel était le
24 mécanisme alors applicable
25 (demandé par FCEI)

1 C-FCEI-0057 : Pièce B-0077 du dossier R-3884
2 Phase 3 de Gazifère

3

4 Me ANDRÉ TURMEL :

5 Oui. De même que la pièce Gaz Métro-8, Document 5
6 du dossier tarifaire 3752-2011 que je dépose.

7

8 C-FCEI-0058 : Pièce Gaz Métro-8, Document 5 du
9 dossier tarifaire 3752-2011

10

11 Me ANDRÉ TURMEL :

12 Oui. Donc, à l'égard de ces deux dernières pièces
13 que je viens de déposer, faire cette vérification
14 relativement à l'affirmation.

15 Mr. JAMES M. COYNE:

16 A. Might I ask, to be responsive to the undertaking,
17 are you suggesting that in your review of these
18 decisions that it's not the case?

19 Q. [27] Yes.

20 A. Okay. For both companies?

21 Q. [28] Yes.

22 A. Oh, I'm surprised. So, I will...

23 Q. [29] Me too.

24 A. Well, I even called the company to check...

25 Q. [30] Okay.

- 1 A. ... that's what makes me doubly surprised.
- 2 Q. [31] Okay.
- 3 A. I did that in the case of Gaz Métro, yes.
- 4 Q. [32] No, no, okay but, I mean, there may be an
5 explanation for that...
- 6 A. Yes.
- 7 Q. [33] ... but, at least, I think we had... So, it
8 will be good for all the intervenors here...
- 9 A. Yes.
- 10 Q. [34] ... to make sure we're on the right track.
11 Okay?
- 12 A. I'll certainly check it. Yes.
- 13 Q. [35] Okay. And while we're here, my little tiny
14 last question that I forgot, this one, Madame la
15 Présidente, j'avais oublié de poser cette question,
16 si on me le permet, toujours sur le PowerPoint.
17 (9 h 31)
- 18 LA PRÉSIDENTE :
- 19 D'accord.
- 20 Me ANDRÉ TURMEL :
- 21 Je ne dépose rien d'autre. Merci.
- 22 Q. [36] Donc, Sir, would you go to page 8. I just want
23 to make sure that we understand the, you know, on
24 the Z factor exclusions, to our change in law, our
25 tax code. Just in your words, how, to make sure, I

1 just want to make sure how that exclusion for a
2 change in tax code would work. I understand, if a
3 public service tax for a year is point two percent
4 (0.2%) and costs twenty-five million (\$25M), and
5 if, in the subsequent year, it goes to point three
6 percent (0.3%), and I assume this costs thirty-five
7 million (\$35M), how do we... how does that work,
8 how does it fit into it? Does that make sense, just
9 to explain how it would work.

10 A. Yes. It's typically the case that Z factors have
11 economic thresholds, so it needs to be of a
12 significant magnitude to have financial impact
13 that's meaningful to the company. So we might
14 suggest, for example, a threshold of a certain
15 dollar amount of impact, so (A) it needs to be
16 unforeseen, it wouldn't have been built into the
17 company's plans, except the tax code would have
18 changed, and that it has exceeded this economic
19 threshold.

20 And that threshold can be determined in
21 either absolute dollar terms, it could be
22 determined as an impact on ROE, are two common ways
23 that they get expressed. So that, obviously, there
24 can be a judgement element involved in determining
25 whether or not something was meaningfully beyond

1 the company's control and it was unforeseen, so
2 that the economic threshold helps to take minor
3 changes, so what you may have just described, off
4 the table and make them non-controversial.

5 Q. [37] That's very clear, thank you very much. So,
6 but then, would that sort of threshold be
7 applicable to cost of capital... could...

8 A. No, well, no, as we have proposed, cost of capital
9 would be Y factored, so if the Régie decides to
10 change eight point two percent (8.2%) to eight
11 point five percent (8.5%), that would flow through
12 to the Y factor. If the cost of debt for the
13 company, which is currently six point two percent
14 (6.2%), goes to six point three percent (6.3%),
15 that would flow through in the Y factor, as applied
16 to whatever the then current rate base is for the
17 rate year under the MRI.

18 Me ANDRÉ TURMEL :

19 Okay, thank you. Merci, Madame la Présidente.

20 LA PRÉSIDENTE :

21 Merci. À ce moment-ci, nous prendrons les questions
22 de la Régie avec le procureur, maître Jean-François
23 Ouimette.

24 INTERROGÉS PAR Me JEAN-FRANÇOIS OUIMETTE :

25 Oui, alors merci beaucoup, Madame la Présidente.

1 Q. [38] Dans un premier temps, une question d'ordre
2 général sur le choix que vous avez fait quant à
3 votre type de MRI, vous avez proposé
4 essentiellement un MRI de type plafonnement des
5 revenus, où on a un peu discuté, hier ou avant-
6 hier, sur le fait que c'est un modèle peut-être
7 hybride, mais il reste que, essentiellement, on
8 parle d'un mécanisme de type plafonnement de
9 revenus.

10 Et on sait tous que récemment, Hydro-Québec
11 a dévoilé son Plan stratégique 2016-2020 et l'un de
12 ses, des objectifs du Plan 2016-2020 est de limiter
13 les hausses tarifaires à un niveau inférieur ou
14 égal à l'inflation. Alors, considérant cet
15 objectif-là, est-ce qu'il ne serait pas opportun de
16 considérer la mise en place d'un MRI de type plutôt
17 price cap au lieu de ce que vous avez proposé,
18 alors est-ce que ça ne serait pas plus approprié,
19 price cap, compte tenu des intentions, ou plutôt du
20 Plan stratégique d'Hydro-Québec?

21 Mr. JAMES M. COYNE :

22 A. Yes, I understand that objective. The reason we've
23 proposed a Revenue Cap, or there are several, one
24 is, it is a logical extension of what's in place
25 today. Secondly, it has incentive properties that

1 we think suits HQD's circumstances. The company, as
2 we have seen and heard from several stakeholders
3 here over the last several days, the company is
4 being encouraged to encourage efficiency from its
5 customers, and a Revenue Cap holds the company
6 neutral as to whether or not a customer is
7 increasing their consumption or decreasing.

8 And that's a pretty important attribute.
9 Whereas with a price cap, and one of the reasons
10 regulators have turned away from price cap
11 proposals is that they're concerned that it
12 provides the company with an incentive that it
13 doesn't want to encourage, and that is to promote
14 greater consumption as a way to increase the
15 company's revenues, and therefore increase its
16 profitability.

17 That's probably a greater concern with an
18 investor-owned company than it is with a Crown
19 corporation, but it still creates an incentive that
20 runs counter to a public, another public policy
21 goal, of course, is for the company to efficiently
22 use energy and for its customers to efficiently use
23 energy. So those are the primary reasons for a
24 decision, to decide on a Revenue Cap approach.

25 (9 h 36)

1 Q. [39] Et vous avez indiqué que de plus en plus, si
2 je comprends bien, la formule price cap est appelée
3 à disparaître? Est-ce que j'ai bien compris, ou que
4 les régulateurs étaient moins entichés à l'idée
5 d'établir ce type de mécanisme-là?

6 A. Well, when you say... Maybe I can just clarify the
7 question. When you say are we suggesting that the
8 price cap formula should eventually disappear,
9 we're not... we're not aware of a price capping in
10 place today. It's operating as a revenue cap today,
11 as we understand it, with the existing parametric
12 formula. So, could I ask you to clarify the
13 question in terms of which...

14 Q. [40] Non, mais je voulais savoir uniquement au
15 niveau, la tendance, si on veut, en Amérique du
16 Nord, est-ce que la tendance est à l'effet que, de
17 plus en plus, les modèles de type price cap sont
18 moins populaires? J'allais dire appelés à
19 disparaître, là, peut-être que ce n'est pas le bon
20 terme, mais est-ce que ce sont des mécanismes, ou
21 des types de mécanismes qui sont moins... moins
22 populaires? On va dire ça comme ça.

23 A. There is... Yes, understood.

24 Q. [41] O.K.

25 A. There has been a trend, a deciding trend,

1 certainly, for gas distributors, away from revenue
2 caps and towards price caps. It's the most common
3 approach for a gas distributor. And the reason for
4 that is that gas distributors, for over a decade,
5 have had the issue of declining use per customer.
6 A). And b), gas distributors have been strongly
7 encouraged to promote conservation programmes for
8 their customers, and I think those policies were
9 even stronger, given our policies in the U.S. and
10 Canada concerning climate change.

11 What's happened on the electricity side is
12 that there used to be faith that electric customers
13 would continue to faithfully increase their
14 consumption. So there wasn't as much concern about
15 declining use per customer. But we have now seen a
16 change in that trend. We've seen it in Quebec, and
17 we've seen it more broadly in North America. As
18 consumers are utilizing electricity differently,
19 they're moving into smaller homes, they have more
20 efficient appliances on the residential side. The
21 commercial side as well, we're seeing more
22 efficient appliances. We're seeing people moving
23 into condo towers instead of, you know, three
24 thousand (3000) square foot homes.

25 So now we're seeing some of the same trends

1 revealed on the electric side that we had seen on
2 the gas side. So for that reason, we're now seeing
3 a turn towards a greater consideration of price
4 caps there as well. I could tell Mr. Yardley wants
5 to add to this.

6 Just to be sure that I was... that I spoke
7 correctly, the trend on the gas side has definitely
8 been away from price cap and towards revenue cap.
9 If I... If I convoluted that, I apologize.

10 Mr. ROBERT C. YARDLEY:

11 A. If I could just add one more thing on the electric
12 side, there has been a trend away from the price
13 cap for another reason, and that is the proportion
14 of investment that really isn't associated with the
15 growth in sales. So historically, through the
16 sixties (60's) and seventies (70's), as load was
17 growing, most investment was, in the industry, was
18 targeted toward meeting that growth. And now, much
19 of the investment is targeted toward either new
20 systems that support efficiency, or toward
21 replacing a lot of infrastructure that needs to be
22 replaced. So it's not really associated with
23 growth, and the price cap can struggle to meet
24 those objectives.

25 Q. [42] O.K. Je vous remercie. Et peut-être pour

1 boucler la boucle sur cette première ligne de
2 questions, en quoi la proposition que vous faites
3 assure le respect de l'objectif que je vous ai
4 mentionné tantôt, c'est-à-dire de limiter les
5 hausse tarifaires à un niveau égal ou inférieur à
6 l'inflation?

7 Mr. JAMES M. COYNE:

8 A. If you... Well, of course, it'll have to do with
9 the ultimate determination of the X factor. But if
10 one assumes that an X factor is zero, or less than
11 zero, then at least from a revenue cap standpoint,
12 that would have the company managing the expenses
13 covered by this new and expanded envelope at
14 inflation or less.

15 (9 h 41)

16 Of course, as we know, there are
17 significant expenditures for transmission costs and
18 for energy supplies. The energy supply number,
19 because of the strong component that the heritage
20 pool plays, would probably not be a driving force
21 in terms of exceeding inflation. So therefore, two
22 big pieces of that pie, those that are covered
23 under the expanded MRI and the supply cost of
24 electricity should both be managed within
25 inflation. Then, the question would be: what's

1 happening on the transmission side? And I think
2 that that... my understanding is that HQT is coming
3 off a period of significant capital investments.
4 So, the real question is: what does that path look
5 like in a going forward basis, and will those costs
6 be exceeding inflation or not? I don't have a
7 judgement on that as we sit here today and perhaps
8 that discussion will occur when the MRI from HQT
9 comes up.

10 So, I think at least two big buckets of the
11 pool should be managed at a level of inflation or
12 less from an overall revenue cap. And unless
13 there's a decline... and unless there's a decline
14 in sales, that would suggest that the rates in
15 themselves should be managed within a level of
16 inflation or lower, under the circumstances. And I
17 should ask the company if they want to comment on
18 that.

19 M. LUC DUBÉ :

20 R. Bien, je pense que même avec la proposition en
21 place au niveau du MRI, effectivement, l'engagement
22 d'avoir des hausses à l'inflation va représenter un
23 défi important de la part du Distributeur. Et je
24 fais juste regarder les quelques dernières années,
25 je pense que ça a toujours été une préoccupation de

1 la part du Distributeur d'avoir une hausse
2 tarifaire le plus bas possible. Et si on retourne
3 quelques années en arrière, c'est souvent des
4 éléments hors de notre contrôle qui ont contribué à
5 avoir des hausses peut-être un peu supérieures à
6 l'inflation. Je pense au nivellement climatique, je
7 pense au pass-on des appro. Donc... puis, je pense
8 qu'à chaque année depuis les deux, trois dernières
9 années, le Distributeur a proposé des changements
10 pratiques réglementaires pour être en mesure
11 d'absorber, ou de lisser, en tout cas, du moins,
12 justement des méthodes pour être capable d'avoir
13 une hausse qui s'approche, du moins, de
14 l'inflation.

15 Puis dans le futur, on compte aussi sur ces
16 pratiques réglementaires-là pour nous permettre de,
17 si jamais le cas il y a, d'un hiver très, très
18 froid ou d'autres éléments comme ça qui sont un peu
19 hors de notre contrôle, de voir comment on pourra
20 arriver à cet engagement-là.

21 Q. [43] Alors, la prochaine question va porter sur les
22 indicateurs de performance. Monsieur Hébert, en
23 début de témoignage lundi matin, vous avez réitéré
24 le souhait du Distributeur de choisir et identifier
25 particulièrement les indicateurs de performance qui

1 performance dans l'exploitation d'un
2 réseau de transport d'électricité.

3 Alors, je comprends que vous n'êtes pas
4 nécessairement disposé à identifier les indicateurs
5 précisément, mais vous avez tout de même une idée
6 des grandes catégories d'indicateurs que vous allez
7 proposer au cours de la Phase 3?

8 Me FRANÇOIS G. HÉBERT :

9 R. On a certainement... D'abord, ici, on fait
10 référence au Transporteur.

11 Q. [47] Ah!

12 R. Je n'oserais pas me prononcer pour le Transporteur.

13 Q. [48] Vous avez raison. Vous avez raison.

14 R. Mais certainement qu'on aura des... Nous avons de
15 grandes catégories d'indicateurs en tête.

16 Q. [49] Je suis désolé pour la mauvaise référence.
17 Mais est-ce que vous pourriez nous identifier au
18 moins les grandes catégories d'indicateurs?

19 R. Ma collègue madame Mettelet va le faire.

20 Q. [50] Oui. Parfait.

21 Mme FRANÇOISE METTELET :

22 R. Donc, c'est sûr que ce que je vais vous mentionner,
23 c'est les indicateurs qui partent de notre liste
24 d'indicateurs qu'on soumet annuellement dans la
25 pièce HQD-2, Document 1. Ce ne sont pas tous les

1 indicateurs. Alors j'y vais.

2 Q. [51] On parle des catégories. Pardon de vous
3 interrompre. On parle des grandes catégories?

4 R. Oui. Oui.

5 Q. [52] O.K. Je veux juste m'assurer que ce sont les
6 grandes catégories que vous comptez utiliser en
7 Phase 3? Je veux juste m'assurer que c'était ça
8 dont on parle?

9 R. Oui.

10 Q. [53] O.K. Parfait.

11 R. Donc, la première grande catégorie qu'on a, c'est à
12 l'intérieur de satisfaction de la clientèle.

13 Q. [54] Oui.

14 R. Ensuite, on a l'indice de... bien, on a la
15 continuité du service pour assurer à nos clients.
16 On a tout le volet demande faite par nos clients
17 sur le réseau. Comme, par exemple, délai moyen de
18 raccordement ou des choses comme ça. Bien entendu
19 on a le volet plus au niveau des interruptions,
20 donc sur notre réseau. Tout le volet, quand je
21 disais « satisfaction de la clientèle », ça inclut
22 la satisfaction, l'indice de satisfaction, mais ça
23 inclut également le volet téléphonie de la chose.

24 Q. [55] O.K.

25 R. Et il y a bien entendu la sécurité, sécurité de nos

1 employés et du public.

2 Q. [56] Alors, si je comprends bien, la proposition à
3 venir, puis je comprends vous ne voulez pas vous
4 peindre dans un coin, mais la proposition à venir
5 en Phase 3 va beaucoup se baser sur ce qui est déjà
6 déposé en tarifaire, dans les tarifaires
7 habituelles?

8 Me FRANÇOIS G. HÉBERT :

9 R. C'est ce qui est envisagé. Et on verra la décision
10 de la Régie suite au débat qu'on aura dans le
11 dossier tarifaire deux mille dix-sept-deux mille
12 dix-huit (2017-2018). Peut-être il y aura lieu
13 d'ajouter aux indicateurs que l'on connaît déjà.
14 Et, effectivement, ça se base principalement sur
15 les indicateurs que vous connaissez depuis
16 plusieurs années.

17 Mme FRANÇOISE METTELET :

18 R. Je rajouterai juste un élément.

19 Q. [57] Oui. Allez-y!

20 R. C'est qu'on pourrait en rajouter, mais on n'en veut
21 pas une quantité astronomique. Comme je vous le
22 disais au départ, une des recommandations qui est
23 faite par Elenchus, et on pense que c'est sain de
24 fonctionner comme ça, c'est d'avoir un nombre
25 limité d'indicateurs.

1 Q. [58] O.K. Alors, on comprend alors que ce serait
2 des indicateurs davantage de service plutôt que des
3 indicateurs de coût?

4 R. Oui, c'est effectivement des indicateurs de qualité
5 de service. Il nous semblait... D'ailleurs, dans la
6 décision que la Régie avait rendue lorsqu'elle nous
7 demandait de lier le MTER aux indicateurs, elle
8 nous mentionnait... Je l'ai quelque part. Si vous
9 voulez, je pourrais vous la redonner. Mais elle
10 nous mentionnait que ce qu'elle voulait s'assurer
11 par ces indicateurs-là, c'est que... et ça
12 s'applique tout à fait au contexte d'un MRI, elle
13 voulait s'assurer qu'il n'y ait pas d'efficience de
14 coût qui se fasse au détriment de la qualité du
15 service. Donc, c'est vraiment le volet qualité de
16 service qu'on veut cibler à ce stade-ci.

17 (9 h 52)

18 Et, par ailleurs, dans le X de la formule,
19 c'est la productivité en matière de coût du
20 service. Donc, on ne peut pas... Il nous semble
21 très incongru d'avoir un indicateur, un incitatif
22 de coût qu'on livre directement dans la formule,
23 puis rajouter un autre incitatif de coût au niveau
24 du partage des écarts de rendement.

25 Q. [59] Et peut-être une autre question sur... Bien, à

1 la page suivante... Là, je vais m'assurer que c'est
2 vraiment le Distributeur. Je ne suis plus certain.
3 Bah, écoutez, vous me le direz. Mais je pense que
4 c'est pertinent également pour le Distributeur. À
5 la page 28 ligne 14, vous indiquez, et je vous
6 cite :

7 Enfin, le partage des écarts de
8 rendement sera conditionnel à
9 l'atteinte d'un certain pourcentage
10 global de réalisation des indicateurs
11 de performance.

12 Et vous ajoutez que :

13 La Régie a approuvé un tel mécanisme
14 d'attribution pour Gazifère.

15 Est-ce que le Distributeur anticipe mettre en place
16 le partage des écarts conditionnel, tel que vous le
17 décrivez, dès le premier MRI, dès la proposition
18 que vous allez déposer en Phase 3 suite à la
19 décision de la Régie?

20 Me FRANÇOIS G. HÉBERT :

21 R. D'abord, effectivement, le passage que vous avez
22 cité touche davantage le Transporteur. Mais on
23 va...

24 Q. [60] Bien, ça s'applique quand même au
25 Distributeur.

1 R. Ma collègue va répondre à votre question, mais au
2 nom du Distributeur.

3 Q. [61] Au nom du Distributeur, oui, effectivement. Je
4 vous remercie.

5 Mme FRANÇOISE METTELET :

6 R. Donc, pour la référence, c'est à la page 17 de
7 notre présentation ce volet-là, de notre document.

8 Q. [62] D'accord. Je vous remercie.

9 R. Donc pour répondre à votre question. Ce qu'on a
10 mentionné, c'est que, effectivement, en Phase 3, on
11 va déterminer les indicateurs, on va faire la
12 proposition du mécanisme qui viendrait à les lier.
13 Toutefois, il y a un élément important à
14 considérer. C'est le fait que l'ISM, le MTER, selon
15 les conseils de nos experts, doit être revu dans le
16 contexte d'un MRI. Donc, c'est une étape qui va
17 être importante à réaliser pour s'assurer que, dans
18 le contexte d'un mécanisme de réglementation
19 incitatif, notre mécanisme de traitement des écarts
20 de rendement soit cohérent.

21 Q. [63] O.K. Ça va pour cette ligne de questions.
22 Maintenant, concernant la détermination de la durée
23 du MRI du Distributeur, cette fois-ci, vous
24 proposez une durée initiale trois ans, donc une
25 première année établie sur la base du coût de

1 service et deux années suivantes établies en
2 fonction de la formule paramétrique. Une des
3 raisons que vous invoquez, autant Hydro-Québec que
4 vos experts, c'est qu'une durée plus longue, donc
5 au-delà de trois ans, aurait pour effet d'augmenter
6 encore davantage le risque pour le Distributeur et
7 les consommateurs. Dans le cas de PEG, on nous fait
8 une proposition alternative, une proposition
9 différente, on parle d'un plan de quatre ans,
10 accompagné d'un examen de mi-parcours à la
11 troisième année.

12 (9 h 57)

13 Pouvez-vous nous indiquer, considérant la
14 proposition faite par les experts de AQCIE-CIFQ,
15 pouvez-vous nous indiquer si le Distributeur serait
16 plus ouvert à la possibilité d'étendre la durée de
17 son MRI sur quatre ans, dans ce cas-ci, dans la
18 mesure où un examen de mi-parcours à la troisième
19 année serait implanté? Autrement dit, est-ce que le
20 fait de prévoir un examen de mi-parcours pourrait
21 atténuer les préoccupations que vous avez invoquées
22 quant au risque pour le Distributeur et les
23 consommateurs?

24 R. Alors, je vais débiter la réponse...

25 Q. [64] Oui.

1 R. ... et nos experts compléteraient possiblement ce que
2 j'aurai mentionné. D'abord, je réitère, et je le
3 mentionnais lors de la présentation que nous avons
4 faite à l'ouverture des audiences, que pour le
5 Distributeur, qui se présentait une fois l'an à la
6 Régie pour réviser ses tarifs et son coût de
7 service et plus globalement son revenu requis, de
8 passer d'une année à trois ans, c'est déjà un
9 inducteur de risques importants. Alors, en réponse
10 à votre question, le Distributeur n'envisage pas
11 de, enfin c'est la proposition que nous soumettons
12 à la Régie pour approbation, d'étendre nonobstant
13 le fait qu'il y aurait une mise à jour la troisième
14 année, nous sommes d'avis que pour un mécanisme de
15 première génération, une durée de trois ans vient
16 amoindrir le risque qui, par ailleurs, est
17 important pour nous et nous sommes d'avis que cette
18 période-là est optimale dans les circonstances pour
19 le Distributeur.

20 Mme FRANÇOISE METTELET :

21 R. Je veux juste rajouter deux éléments qui
22 m'apparaissent importants. Vous demandiez à nos
23 experts comment on allait être en mesure de
24 rencontrer l'objectif du... fixé dans le plan
25 stratégique de hausse en bas de l'inflation. Il

1 nous semble important, puisqu'on augmente beaucoup
2 la portion des coûts qui vont être couverts à
3 l'intérieur du MRI, il nous apparaît important de
4 voir, de façon opérationnelle, le fonctionnement...
5 le fonctionnement du MRI et justement quel résultat
6 il donne...

7 Me JEAN-FRANÇOIS OUIMETTE :

8 Q. [65] O.K.

9 R. ... pour voir s'il n'y a pas de déviation majeure.
10 Et donc, plus on étire la longueur du MRI, plus le
11 risque est élevé que l'on s'écarte, et donc ça
12 milite pour une période relativement courte pour
13 commencer.

14 (10 h 00)

15 Me FRANÇOIS G. HÉBERT :

16 R. Et je conclurais, Maître, en vous mentionnant que,
17 évidemment, il y a des agences de cotation de
18 crédit qui se prononcent sur... de notation de
19 crédit qui se prononcent sur cette question-là et
20 on voit que, pour un MRI de trois ans et moins, le
21 score, le résultat est qualifié de bon et on fait
22 un pas en arrière. Le coût de service, un résultat
23 d'excellent. Le trois ans et moins, le score au
24 niveau du risque est bon. Et lorsque nous passons
25 de quatre ans et plus, c'est un risque qui est

1 satisfaisant. Alors, Hydro-Québec est très sensible
2 à cette question-là et on pense que trois ans est
3 le terme pour, encore une fois, pour un premier
4 mécanisme de première génération, un terme qui est
5 adéquat.

6 Mr. ROBERT C. YARDLEY:

7 A. I would just add that even with respect to the last
8 item that monsieur Hébert just mentioned, that that
9 would have implications for customers if there were
10 some credit issues. But in general, we've talked
11 about risk, when we looked at it, when Concentric
12 look at it, we were focussed on risk to the
13 shareholders and to customers. So, we viewed three
14 years as the appropriate term with respect to both
15 customers and the shareholders.

16 Q. [66] Juste un instant, s'il vous plaît. Pardon, je
17 voulais juste m'assurer qu'on avait tout couvert.
18 Donc, ça va pour cette question-ci. Prochaine
19 question va porter sur l'index d'inflation, le
20 facteur I. Nous avons confectionné un petit tableau
21 que nous voulons déposer au dossier. Alors, je vais
22 le déposer sous la cote...

23 LA GREFFIÈRE :

24 Alors, ce sera A-106.

25

1 Me JEAN-FRANÇOIS OUIMETTE :

2 A-106. Alors, c'est un tableau qui présente les
3 écarts en IPC réel du Québec et les prévisions du
4 Distributeur pour la période deux mille douze
5 (2012) à deux mille quinze (2015), prévisions qui
6 sont basées sur l'IPC Canada, prévisionnel deux
7 pour cent (2 %) par année. Oui, donc, pardon, deux
8 mille deux (2002) à deux mille quinze (2015).

9

10 A-106 : Tableau Écarts en IPC réel du Québec et les
11 prévisions du Distributeur pour la période
12 2002 à 2015

13

14 Q. [67] Et on regarde les moyennes d'écart. Lorsqu'on
15 regarde sur une période de quatorze (14) ans, on
16 voit un écart de moins trois pour cent (-3 %),
17 écart qui est identique, ou à peu près, pour la
18 période... pour une période de cinq ans. Alors, on
19 voulait vous demander, selon vous, est-ce qu'un
20 écart de point trois pour cent (0,3 %) en moyenne,
21 sur un horizon cinq et quatorze (14) ans, est
22 significatif, selon vous?

23 A. I would just like to understand what's on the
24 table, the top line.

25 Q. [68] Oui, la ligne du haut, ce sont les prévisions

1 qui sont utilisées par Hydro-Québec dans la
2 tarifaire, je comprends, dans la formule
3 paramétrique, qui sont l'équivalent de l'IPC Canada
4 prévisionnel, donc de deux pour cent (2 %) par
5 année depuis deux mille deux (2002).

6 A. And those are forecasts of inflation for the year,
7 CPI?

8 Q. [69] Oui.
9 (10 h 05)

10 LA PRÉSIDENTE :

11 Souhaitez-vous prendre une pause maintenant?

12 Me FRANÇOIS G. HÉBERT :

13 R. C'est fait. Allons-y! Excusez-nous, Madame la
14 Présidente.

15 M. LUC DUBÉ :

16 R. Désolé, il fallait juste traduire un peu la page à
17 nos experts pour leur compréhension.

18 Me JEAN-FRANÇOIS OUIMETTE :

19 Q. [70] Non, non, ça va. Pas de problème. Puis,
20 évidemment, la ligne du bas, IPC réel Québec, on
21 s'entend, ce n'est pas une proposition du
22 Distributeur, mais c'est une option ou une
23 alternative qu'on avait commencé à explorer avec
24 vous dans les DDR numéro 2.

25 R. Ce que je rajouterai, puis je vais répondre à la

1 question dans un deuxième temps, mais dans un
2 premier temps, quand on est en dossier tarifaire,
3 l'indice qu'on utilise pour prévoir les tarifs, on
4 est toujours en indice prévisionnel. C'est sûr
5 qu'après coup, c'est certain, puis on pourrait le
6 faire pour un certain nombre d'indices, le réel
7 n'arrivera à peu près jamais au niveau de l'indice
8 qui était prévu à l'époque.

9 Mais si on regarde à l'heure actuelle, si
10 on regarde les indices, là, de l'IPC qui sont
11 prévus Québec et Canada, puis pas une étude
12 exhaustive, là, mais la tendance est autour de deux
13 pour cent (2 %) tant au niveau Québec qu'au niveau
14 Canada. Et je crois plus, je ne suis pas là depuis
15 des années au niveau du dossier tarifaire, mais ça
16 avait été reconnu à l'époque que, étant donné que
17 l'IPC Canada était préparé ou... par Statistique
18 Canada, donc un institut peut-être d'une meilleure
19 référence que c'est cet indice-là qu'on prendrait
20 pour les dossiers tarifaires.

21 Ceci dit, avec la question, je pense, je ne
22 me souviens plus de quel intervenant hier, on
23 parlait d'un point quinze (,15) quand on avait un
24 échantillon...

25 Q. [71] Oui.

1 R. ... un peu moins large.

2 Q. [72] Exactement.

3 R. On avait fait l'exercice d'évaluer le point quinze
4 (,15), ça représentait quoi, au niveau de notre
5 proposition actuelle, c'est-à-dire d'avoir une
6 enveloppe d'environ un point sept milliard (1,7 G\$)
7 en fait. Et cet écart-là représenterait si on le
8 ramène à point trois, comme l'exemple le donne
9 aujourd'hui, à un écart par rapport de quatre
10 millions (4 M\$) en fait sur l'enveloppe, sur une
11 enveloppe de un point sept milliard (1,7 G\$) si on
12 venait ajuster selon un indice réel, qui ne sera
13 pas le cas parce qu'on sera toujours au niveau d'un
14 indice prévisionnel, comme je le disais plus tôt.

15 Q. [73] Peut-être à ce niveau-là, selon ma
16 compréhension, en Ontario et en Alberta, les
17 régulateurs ont décidé de retenir une approche où
18 on tenait compte pour le facteur I des données
19 réelles et non prévisionnelles. J'aimerais peut-
20 être vous entendre davantage sur la pertinence de
21 tenir compte d'un taux d'inflation réel plutôt que
22 d'un taux d'inflation prévisionnel. Je comprends
23 votre argument de dire qu'on est en année témoin
24 projeté. Donc, vous préférez utiliser une
25 prévision. Mais avez-vous d'autres commentaires à

1 faire à ce niveau-là ou si...

2 (10 h 11)

3 R. En fait, non, je n'ai pas de commentaires mais
4 effectivement, mon lien est, en fait, si on veut
5 prévoir deux mille dix-sept (2017), bien oui, on va
6 vouloir s'attendre à avoir un indice qui prévoit
7 l'IPC à ce moment-là. Mais je n'ai pas fait
8 l'analyse dont vous parlez, peut-être que les
9 experts pourront rajouter à ce point-ci.

10 M. FRANÇOIS G. HÉBERT :

11 R. Et évidemment, dans le cadre actuel, on a un
12 principe réglementaire qui nous enseigne qu'on doit
13 utiliser l'année témoin projetée alors voilà un
14 exemple, par exemple, lorsqu'on migre d'un régime
15 réglementaire à un autre, un inducteur de risque,
16 si on revoit certains principes, bien, on induit
17 davantage de risques mais c'est une parenthèse que
18 je formulais.

19 Mr. JAMES M. COYNE:

20 A. Yes, on this matter, it is true that some
21 jurisdictions have adopted historic numbers that
22 are used in the MRIs as you've suggested too. The
23 rationale for forecast is that it's forward
24 looking and Quebec has a long, had a forward-
25 looking approach to rate-making.

1 There are two elements to the I factor as
2 proposed. Of course, there's the labour forecast
3 and I would think that the degree of accuracy there
4 should be quite high because the company should be
5 aware of what the framework is around those labour
6 negotiations and I would think would be able to
7 dial that in pretty closely.

8 But when it comes to forecast of CPI, this
9 does not surprise me to see this because, generally
10 speaking, analysts have been continuously surprised
11 by how low inflation has been over the past decade.
12 The same has been through with interest rates. It's
13 been a somewhat unusual period in that regard. The
14 same would probably be true when inflation resumes,
15 analysts will probably be surprised in the other
16 direction.

17 So, that is the risk that one runs when one
18 is using inflation. The good news is that we're not
19 in a runaway inflation state and I'm not saying
20 that any difference is insignificant but I think
21 retaining a forward-looking approach is still
22 advisable to the extent that one could get
23 comfortable with the source of the forecast, in
24 this case is being reasonable and independent.

25 Q. [74] Je vais vous référer à la pièce AQCIE-CIFQ-

1 0025 à la page 37.

2 M. FRANÇOIS G. HÉBERT :

3 R. Pouvez-vous répéter la cote s'il vous plaît?

4 Q. [75] La cote c'est AQCIE-CIFQ-0025 qui est le
5 rapport de PEG. On va essayer de trouver la bonne
6 page. En fait, c'est le début, le premier
7 paragraphe de la section 4.5.4.

8 R. Ça ne sera pas bien long, Maître.

9 Q. [76] Oui.

10 R. On vous écoute.

11 Q. [77] Donc, c'est bien à la page 37?

12 LA PRÉSIDENTE :

13 Oui.

14 Me JEAN-FRANÇOIS OUIMETTE :

15 Q. [78] O.K. Donc, premier paragraphe de la section
16 4.5.4 PEG mentionne :

17 Index logic suggests that the
18 inflation measure of an ARM should in
19 some fashion track the input price
20 inflation of utilities. For incentive
21 reasons, it is preferable that the
22 inflation measure track the input
23 price inflation of utilities generally
24 rather than the prices actually paid
25 by the subject utility.

1 Alors, on aimerait avoir vos commentaires sur cet
2 extrait, s'il vous plaît.

3 (10 h 16)

4 Mr. JAMES M. COYNE :

5 A. I can comment on that. The, generally speaking,
6 that's true, the only difference here in terms of
7 what has, what is typically adopted elsewhere is
8 the fact that the company's proposal incorporates
9 an inflation index for its labour costs that are
10 specific to the company. The inflation measure, the
11 CPI measure is certainly a broad base measure and
12 it's commonly employed in I factors elsewhere in
13 Canada.

14 So if one were to substitute an inflation
15 factor for labour, however, that doesn't represent
16 the real input costs of labour that the company
17 faces, then you have an artificial index that
18 doesn't really reflect the input prices that the
19 company faces.

20 And then, you would create an incentive
21 structure that is flawed, because if you're facing
22 four percent (4%) inflation in labour costs, and
23 the general labour rate of inflation is two percent
24 (2%), because you have specialty fields, you have
25 engineers, you have technical experts, and things

1 of that nature, if they're not represented in that
2 general inflation index, then you're going to be
3 held to an index that's going to be artificially
4 constrained, and as a result of that, you're going
5 to create an I-X formula that is not realistic for
6 the company. And if it's not realistic, then it's
7 not creating the incentive that you're looking for.

8 So to the extent that they move reasonably
9 close together, then I agree with the standard as
10 suggested here, but to the extent that they
11 deviate, you're better off reflecting what the
12 company is actually facing in terms of its input
13 costs.

14 Q. [79] Pourquoi Hydro-Québec, selon vous, devrait
15 être traitée différent... différemment, pardon,
16 d'autres compagnies ailleurs au Canada ou aux
17 États-Unis où on n'aurait peut-être pas
18 nécessairement la réalité de l'entreprise dans le
19 facteur I, pourquoi en particulier Hydro-Québec
20 vous suggérez de refléter sa situation, qui
21 ressemble davantage à sa situation réelle?
22 Notamment sur les salaires, pardon.

23 A. Sure. Yes, one can argue that in the case of these
24 other circumstances, that the company has greater
25 control over negotiating those labour contracts.

1 But in this case, as we've discussed, the
2 government sets the parameters for those
3 negotiations, and it's, it is a unique situation as
4 being one subsidiary of a three-legged corporation,
5 and it is the corporate entity, HQ, that actually
6 negotiates those labour contracts.

7 So you have two levels of influence that
8 you don't typically have with the utility that has
9 more autonomy over negotiating its labour contracts
10 directly. And it goes to the issue of control -- if
11 you can't control it, then you don't have an
12 effective index. So we're looking for an effective
13 index however, and the way of doing that is to
14 introduce the actual labour costs that they're
15 facing, which still provides an incentive.

16 Me FRANÇOIS G. HÉBERT :

17 R. J'ajouterais simplement au passage que, évidemment,
18 c'est une pratique qui a été reconnue depuis deux
19 mille huit (2008) aussi par la Régie, dans le cadre
20 de la formule paramétrique actuelle.

21 Q. [80] Ça va pour cette ligne de questions, je vous
22 remercie. Maintenant, rapidement, sur le rendement,
23 sur la base de tarification, dans votre
24 proposition, vous demandez à la Régie de l'exclure
25 de la formule. Je peux peut-être vous, bien, en

1 fait, vous référer, je pense que les experts sont
2 au courant que la AUC en Alberta, dans sa décision
3 D-2012-237, a décidé d'inclure le rendement de la
4 base de tarification dans le mécanisme incitatif
5 mais a créé un mécanisme de suivi des
6 investissements, qu'on appelle les « capital
7 trackers », pour certains types d'investissements
8 qui sont mentionnés dans la décision.

9 Je ne sais pas si vous avez besoin que je
10 vous réfère à un paragraphe précis de la décision
11 ou si vous avez une assez bonne mémoire, mais je
12 pourrais vous la donner, là, ça serait peut-être
13 plus... la décision, en fait, c'est la décision
14 D-2012, comme je disais, 237, au paragraphe 592 de
15 cette décision.

16 Me FRANÇOIS G. HÉBERT :

17 R. Avez-vous un extrait papier, maître, ça pourrait
18 peut-être faciliter le travail?

19 (10 h 21)

20 Q. [81] En fait c'est un... C'est une décision qui est
21 déjà au dossier...

22 M. JAMES M. COYNE :

23 A. I believe... I believe we do.

24 Me FRANÇOIS G. HÉBERT :

25 Alors on en a une copie, merci.

1 Me JEAN-FRANÇOIS OUIMETTE :

2 O.K. Parfait.

3 M. JAMES M. COYNE :

4 A. In which paragraph?

5 Q. [82] 592. Alors la Commission indique :

6 Based on the foregoing, the Commission
7 adopts the following criteria for
8 capital trackers.

9 Et vous avez les trois critères. Alors j'aimerais
10 vous demander quels sont les avantages et les
11 inconvénients d'une telle approche, en comparaison
12 avec votre proposition d'exclure le rendement de la
13 base du mécanisme? Le rendement de la base sur le
14 mécanisme, oui.

15 A. It's a very good question. Yes. I'm aware of this
16 provision of the Alberta approach. And what we have
17 seen is that, well, first of all, broadly speaking,
18 capital is the biggest issue with MRIs. Generally
19 speaking, operating expenditures are considered to
20 be a bucket of costs that are reasonably within a
21 company's control, and could be measured against
22 inflation over time. We've done an analysis around
23 that for HQD, we see it in the industry, we see it
24 here. That's not to say that specific circumstances
25 don't arise that will create cost pressures that

1 will deviate from those trends.

2 But typically speaking, operating costs
3 aren't creating the problem when it comes to
4 implementing an MRI programme. Capital is
5 universally a headache. I would say that
6 universally speaking, it requires the most
7 exceptions, the most care, and I don't know that
8 any one regulator, and I would - without speaking
9 for the Alberta Commission - I would say that it's
10 probably been their biggest headache as well.

11 There was controversy associated with
12 establishing this K factor in a proceeding that
13 lasted about thirty (30) months by the time it was
14 done. They invested considerable time and resources
15 to get to this point. And what they found was that
16 when they got to this point, they then needed to
17 ask the utilities to submit K factor proposals. And
18 the K factor proposals created a whole other round
19 of regulatory input, stakeholder input, and
20 regulatory decision-making.

21 And what they found was that the universal
22 proposals presented as K factors were very broad
23 and very significant, and represent a very
24 substantial portion of each company's capital
25 programmes.

1 So, for all the efforts expended here
2 around a streamlining process, what I believe the
3 Alberta Commission created was a very complex
4 proposal which extenuated the rate-making resources
5 required, the stakeholder resources required to,
6 once again, consider the significant capital
7 proposals that were being presented, and these...
8 I've looked at these capital proposals for some of
9 these companies, and they cover every element of
10 capital spending that these companies engage in.

11 So, rather than a separation of specific
12 types of capital expenditures, it invited another
13 round of analysis around what's appropriate or not.
14 We considered that. And we also considered the
15 existing process that's in place for HQD. And we
16 felt as though that process was working reasonably
17 well. It already had stakeholder input to it, it
18 already had Régie involvement in it. So we felt as
19 though it would be inefficient to attempt to
20 establish this type of K factor framework here,
21 when that process already existed. And especially,
22 again, in a first generation MRI programme.

23 So, I like to think that we can learn from
24 the Alberta experience in this case, and not try to
25 recreate a wheel that was not perfectly round, to

1 be sure, by the time it was born from this
2 framework. So that was very much on our minds, as
3 we developed this proposal.

4 And I should say that some programmes that
5 are established for MRIs only relate to O&M, and
6 others include some elements of capital, and others
7 are... I can't think of one, these days, that's all
8 inclusive. Usually there is some sort of a building
9 block approach to capital, or a K factor approach.
10 But most recognized that capital requires special
11 treatment. And we felt as though the treatment that
12 was in place today was one that was working
13 reasonably well.

14 (10 h 26)

15 Q. [83] Je vais vous référer, pour la prochaine
16 question, à la pièce HQT-HQD-28, qui est votre
17 document HQT-D-3, document 1, à la page 16. Alors,
18 la question porte sur la clause de sortie. Alors, à
19 la page 16, vous indiquez :

20 Enfin, tel que CEA le recommande, une
21 clause de sortie advenant un écart de
22 rendement supérieur ou inférieur à un
23 certain nombre de points de base est
24 essentielle. Cette clause permet la
25 révision ou l'interruption du MRI

1 lorsque des problématiques en cours de
2 MRI surviennent.

3 Dans le cas de l'Alberta, dans la décision que vous
4 avez encore sous la main, la D-2012-237, la
5 Commission précisait dans sa décision que bien que
6 les clauses de révision, donc les clauses
7 « reopener » et de sortie « off ramp » sont
8 fréquentes dans les MRI, la Commission avait établi
9 qu'il n'y avait pas une nécessité d'avoir une
10 clause de sortie puisque la clause de révision
11 était suffisante.

12 Mr. JAMES M. COYNE:

13 A. If I could just catch up to that paragraph. Thank
14 you.

15 Q. [84] Je pourrais vous... oui, je vais vous référer
16 au paragraphe 728 de la décision de l'Alberta, qui
17 est à la page 157 de la décision.

18 A. Thank you for the time to review that paragraph.
19 This is an unusual approach. Usually there is an
20 off ramp that's in place, that's measured as a
21 percentage of ROE. And the reason for that is that,
22 once in place, the desire is for the company to
23 know that it's going to be in place for certain
24 period, and it can put in place measures that will
25 create efficiencies, that are one of the desired

1 outcomes of the programme. If there is uncertainty
2 about when and how it's going to get reopened, that
3 can be destructive to the intended result of the
4 MRI. And this is also one of the factors that
5 weighed into our recommendation for a three-year
6 plan because we think that in three years, the odds
7 are, you know, you're not going to have any major
8 unpleasant surprises or major unforeseen
9 circumstances that are going to create the need to
10 reopen it? And... but we felt as though after three
11 years, that would be a sufficient and appropriate
12 time to re-examine the programme and to do what the
13 AUC is suggesting in 728, and that is the
14 opportunity to open and review the PBR plan to see
15 if it has any application flaws that come to light.
16 So, we really have built that in with this three-
17 year view... three-year term.

18 If you go for the period that the AUC did,
19 with its first generation plan, out to five years,
20 then, that may become more desirable. In case you
21 do have a programme that's not working well, but
22 you do introduce the problem that we described,
23 that I just mentioned, of creating uncertainty
24 around just how long the programme is going to run,
25 and so far as the company is concerned.

1 (10 h 32)

2 So I would say that, in general, we think
3 having something that's a known off-ramp is a
4 preferred approach. Most of these programmes don't
5 run through that off-ramp though. I can't think of
6 one, in fact, that, well, I take it back, some of
7 the Massachusetts utilities had problems early on
8 with their PBR mechanisms where Mr. Yardley might
9 have even been serving on the Commission at that
10 point in time and may be more aware of that. Bay
11 State Gas had a problem, New England Electric had a
12 problem with longer term PBRs and had to come back
13 in and look for relief from them.

14 So, I think we've learned some lessons from
15 those earlier programmes. Let me see if Mr. Yardley
16 has something to add to that.

17 Mr. ROBERT C. YARDLEY:

18 A. I'm not sure I want to comment on my experience.

19 I'm actually much older than that Bay State.

20 Mr. JAMES M. COYNE:

21 A. Okay.

22 Mr. ROBERT C. YARDLEY:

23 A. I served before the Bay State but there was, in
24 fact, some experience with long-term plans in
25 Massachusetts where it worked the other way, where

1 the company did extraordinarily well. I do recall
2 that.

3 I was just going to add that as a
4 regulatory strategy, I would ask whether you really
5 want to invite an open-ended request from either
6 the company or the stakeholders at any point in
7 time. In addition to the efficiency disincentives
8 that I would see, just as a regulatory strategy, do
9 you want to put yourself in that position of
10 inviting that type of inquiry.

11 Q. [85] Est-ce que je peux me permettre de vous
12 demander, juste pour qu'on soit sur la même
13 longueur d'onde, d'élaborer sur la distinction que
14 vous faites entre une clause de sortie qu'on
15 appelle une clause « off-ramp » et une clause de
16 révision qu'on appelle un « reopener ». Est-ce que
17 vous pouvez juste nous préciser la distinction que
18 vous faites entre les deux types de clause.

19 Mr. JAMES M. COYNE:

20 A. I'm using them synonymously. It's an opportunity to
21 reopen the examination of the programme. The off-
22 ramp is the trigger mechanism, the reopening is the
23 process that occurs after that trigger has been
24 reached. Now, that's not to say that because the
25 trigger has reached that parties on either side

1 would trigger the reopener. They may determine that
2 it was an unusual circumstance, that we don't need
3 to act here. The Régie may determine that if the
4 parties aren't concerned, that we're fine with it.
5 But it's typically the case that the company or
6 parties or the Commission itself can call the
7 company back in once that off-ramp mechanism has
8 been reached.

9 And it's not uncommon to see them as wide
10 as a hundred and fifty (150) or even two hundred
11 (200) basis points differential from allowed ROE
12 prior to earning sharing mechanism. There would be
13 that type of trigger.

14 Q. [86] Alors, je vous remercie. Peut-être, Madame la
15 Présidente, ça serait un bon moment pour faire une
16 pause. Je vois qu'il est déjà presque onze heures
17 moins vingt (10 h 40). Il me reste quelques
18 questions, j'évalue peut-être à une vingtaine de
19 minutes si tout va bien. Donc...

20 LA PRÉSIDENTE :

21 Oui, on va prendre une pause parce qu'il y aura
22 aussi des questions de la part des régisseurs.
23 Alors, on va se revoir dans dix (10) minutes.

24 SUSPENSION DE L'AUDIENCE

25 REPRISE DE L'AUDIENCE

1 (10 h 53)

2 LA PRÉSIDENTE :

3 Alors on poursuit, Maître Ouimette?

4 Me JEAN-FRANÇOIS OUIMETTE :

5 Q. [87] Alors ma prochaine question va concerner le
6 « rebasing », je vais vous référer à la pièce
7 HQT-HQD-0069, aux pages 7 et 8, qui est la réponse
8 3.1 que vous avez donnée à la DDR 2 de la Régie.

9 Me FRANÇOIS G. HÉBERT :

10 R. Ça ne sera pas bien long, juste un instant, s'il
11 vous plaît?

12 Q. [88] Oui... est-ce que vous l'avez?

13 R. Oui, nous l'avons, merci.

14 Q. [89] O.K. Donc à la réponse 3.1, le Distributeur
15 nous précise qu'il :

16 R3.1 [...] propose un retour au coût
17 de service pour l'année suivant les
18 trois années du MRI de première
19 génération...

20 et vous invoquez quatre motifs à l'appui de votre
21 proposition. On voit que les, que Concentric ajoute
22 à la réponse, puis le bout qui nous intéresse
23 particulièrement, c'est vers la fin, vers le bas de
24 la page, à la page 7 toujours :

25 The AUC ultimately concluded:

1 et là, je vais citer la Commission en Alberta :

2 The Commission will not make a
3 determination at this stage as to how
4 it will go forward following the end
5 of the five-year term.

6 Me FRANÇOIS G. HÉBERT :

7 R. Oui.

8 Q. [90] Alors je vais revenir encore sur la
9 proposition, je vais donner en exemple la
10 proposition de PEG, qui propose un terme un petit
11 peu plus long que trois ans, donc quatre ans avec
12 une revue à mi-terme. Évidemment, c'est une
13 question que, je dois dire qu'elle est
14 hypothétique, je ne connais pas la décision que la
15 Régie va rendre à ce niveau-là, mais on aimerait
16 savoir quels seraient les avantages et les
17 inconvénients à reporter, au moment d'une
18 potentielle revue de mi-terme, une décision sur les
19 modalités entourant le recalibrage, en anglais
20 « rebasing »?

21 Mr. JAMES M. COYNE :

22 A. Just to be sure I understand your question, are you
23 suggesting that one could go a longer period than
24 three years if one had a mid-term review at three
25 years and what are the advantages or disadvantages

1 of that approach, is that the basis of your
2 question, or is there more to it?

3 Q. [91] Ce qu'on cherche à savoir, c'est, évidemment,
4 comme je vous disais, c'est une question
5 hypothétique, alors si la Régie devait retenir une
6 procédure de mi-terme, est-ce qu'il serait plus
7 approprié d'attendre, comme on l'a fait en Alberta,
8 d'attendre ce mi-terme-là avant de décider des
9 modalités qui entoureraient le recalibrage?

10 A. Again, one of the reasons that we suggested three
11 years is, we think that is sufficient time for the
12 plan to unfold and for the parties and the Régie,
13 and the company, to see how it has worked.

14 So rather than a mid-year review, we
15 suggested to let that term come to an end at the
16 end of three years, to evaluate at that point
17 whether or not the plan should be continued, the
18 plan should be contained, or if a return to cost of
19 service or some other approach to ratemaking is
20 warranted. So we didn't want to prejudge what the
21 Régie may decide at that point in time, but we
22 think that a full review at the end of three years
23 is appropriate.

24 Now, it can very well be that the programme
25 has worked smoothly, that the parties are satisfied

1 with how it's working and it may very well be that
2 the company might propose to continue the programme
3 as it is, and it could be that the Régie and
4 stakeholders might agree with that proposal - in
5 which case it could be a very short proceeding - or
6 it could very well be that parties would propose
7 certain changes that they think need to be fixed.
8 That would be the appropriate time to do so.

9 When it comes to the question of timing,
10 perhaps implicit in your question is how would that
11 occur...

12 Q. [92] Oui.

13 A. ... at the end of this programme. And, I guess two
14 ways. One is that one could have a filing in the
15 middle of that third year, that would allow
16 sufficient time for it to continue, so that there
17 would be no need to go to cost of service in the
18 interim. Or, if there is a longer hearing required,
19 then the default, as we have seen here in Quebec,
20 for example, with Gaz Métro, the default has been a
21 return to cost of service until a new programme
22 could be designed and accepted by the parties.
23 That's typically the case that we see, is if there
24 is a significant redesign, that there is a pause,
25 there is a return to cost of service and rebasing

1 until a new MRI programme is implemented if it's
2 deemed to be the best approach to take forward.

3 So both are possible. One is a smooth
4 transition from one MRI phase to the next, and the
5 other would be a return to cost of service,
6 redesigned, and then move forward from there.

7 Mr. Yardley, I think, would like to comment.

8 Mr. ROBERT C. YARDLEY:

9 A. I've heard reference to the midyear review a few
10 times today, and I think it was made, reference was
11 made with respect to REO as well. It's not clear
12 how these midyear reviews will be done, performed,
13 and I imagine that, by definition, they will be
14 complex, because there will be one party or another
15 that will feel disadvantaged through the experience
16 to date, by definition.

17 But I would just ask... I don't see the
18 value of a midyear review, because with a three-
19 year term, it's effectively an option to revisit
20 the programme. What are you gaining by a midyear
21 review at three years, the end of three years, that
22 you don't have with a three-year term? It's the
23 same... I don't see any incremental option that you
24 don't have when you have a three-year term, and
25 there is a potential diminishment of the incentive

1 to pursue efficiency programmes. So I see no
2 upside, potential complexity and potential
3 diminishment of efficiency incentive.

4 Q. [93] Maintenant, sur la question de
5 l'amortissement, je comprends que vous proposez
6 d'inclure les charges d'amortissement dans votre
7 formule. Je vais déposer au dossier une pièce à
8 laquelle je veux me référer, une pièce qui a été
9 déposée au dossier tarifaire R-3980, à la pièce
10 B-0023, à la page 5, qui est la pièce d'Hydro-
11 Québec HQD-5, document 1, page 8. Alors je peux
12 peut-être vous la remettre, ça va peut-être être
13 plus simple pour suivre. Merci.

14 LA GREFFIÈRE :

15 Alors ça va être coté sous A-0107.

16

17 A-0107 : HQD-5, document 1, page 8

18

19 Me JEAN-FRANÇOIS OUIMETTE :

20 Alors peut-être nous dire, on est rendu à A...

21 C'est déjà coté? O.K. A-107. Parfait.

22 Q. [94] Alors je voulais vous référer à cette pièce-
23 là, c'est un tableau qui s'intitule Composantes
24 détaillées des revenus requis, puis on voulait
25 passer en revue avec vous les postes des

1 amortissements et déclassements pour être bien
2 certains de s'entendre sur les éléments qui sont
3 inclus dans la formule. C'est juste pour être sûr
4 qu'on se comprenne bien, là. Alors est-ce que vous
5 pourriez juste me dire, là, dans la catégorie
6 amortissement et déclassement, lesquels seraient...
7 quels postes seraient inclus dans votre formule I-
8 X+G?

9 (11 h 04)

10 M. LUC DUBÉ :

11 R. Je veux juste m'assurer qu'à l'intérieur de
12 différentes catégories de ces lignes-là qu'il n'y a
13 pas d'éléments qui, selon notre proposition, ne
14 seraient pas exclus.

15 Q. [95] Parfait. Allez-y!

16 R. Écoutez, dans le fond, je vais le faire rapidement.
17 Mais probablement que je vais vouloir valider par
18 la suite pour être sûr que je n'ai pas omis
19 certaines exclusions. Mais rapidement, si on prend
20 la rubrique « amortissement et déclassement », sans
21 les nommer tous, là, mais les trois premiers, donc
22 immobilisation d'exploitation, contrat de location
23 et logiciel, seraient inclus dans le fond.
24 L'exclusion, comme on avait dit, tout ce qui touche
25 les programmes en efficacité énergétique serait

1 exclu, dont l'amortissement également.

2 Si on voit sous la rubrique « autres
3 actifs, intervention en efficacité énergétique et
4 programmes et activités du BEIE », ces deux-là
5 seraient exclus. Ensuite de ça, contribution puis
6 autres actifs, c'est peut-être à ces deux niveaux-
7 là que j'aimerais être sûr, valider. Mais je
8 dirais, mon premier réflexe serait qu'ils seraient
9 inclus. Mais j'aimerais valider cette information-
10 là.

11 Ensuite, « coût net lié aux sorties
12 d'actifs » serait inclus. Le « nivellement pour
13 aléa » serait exclu étant donné que lui-même fait
14 partie d'une exclusion. Et l'autre, c'était la
15 coupure qui a été... la rubrique qui était
16 seulement pour précision.

17 Q. [96] Le dernier ça ne s'applique pas?

18 R. Oui, c'est ça.

19 Q. [97] Alors voulez-vous prendre un engagement de
20 vérifier ou on vous fait confiance puis on attend?

21 R. Oui, on va faire l'exercice, vous confirmer dans le
22 fond les exclusions.

23 Me ÉRIC FRASER :

24 Ce sera l'engagement numéro 3.

25

1 LA PRÉSIDENTE :

2 L'engagement numéro 3.

3 Me ÉRIC FRASER :

4 Confirmer les exclusions liées aux amortissements.

5

6 E-3 (HQD) : Confirmer les exclusions liées aux
7 amortissements (demandé par la Régie)

8

9 Me JEAN-FRANÇOIS OUIMETTE :

10 Q. [98] Et sur cette question-là, on aimerait que vous
11 élaboriez davantage sur, je vais dire la logique,
12 là, mais je ne le dis pas de façon péjorative, mais
13 la logique d'appliquer une formule I-X+G aux
14 dépenses d'amortissement. On aimerait peut-être
15 vous entendre davantage sur le lien que vous
16 faites.

17 Me FRANÇOIS G. HÉBERT :

18 R. Pouvez-vous préciser ce que vous entendez par le
19 « G »? Est-ce que c'est la croissance?

20 Q. [99] La croissance des abonnés.

21 R. O.K.

22 M. LUC DUBÉ :

23 R. Bien, en fait, comme les experts l'ont affirmé
24 précédemment, au niveau de l'amortissement, c'est
25 vraiment... quand on a regardé ligne par ligne

1 notre revenu requis pour établir la proposition, on
2 a regardé à savoir il y a-tu des éléments qu'on
3 pourrait bonifier au niveau de la formule
4 présentement en vigueur. Et on en est venu à la
5 conclusion, pour essayer de bonifier en fait notre
6 proposition au niveau... par rapport au cadre
7 réglementaire actuel, est-ce qu'on était capable de
8 vivre avec l'amortissement au niveau de la formule.
9 Et comme l'ont mentionné nos experts, on croit que
10 c'est une information qui est prévisible. Et à ce
11 moment-là, on est en mesure de fonctionner à
12 l'intérieur.

13 Je rajouterais à ça, comme les experts
14 l'ont dit, c'est qu'étant donné que l'amortissement
15 est inclus dans la formule I-X, bien, ça devient
16 aussi un incitatif par la bande qui peut être
17 considéré au niveau des investissements, parce que,
18 veux veux pas, il y a comme un incitatif
19 relativement à ça, à réduire le plus possible.
20 Parce que, ultimement, mes investissements vont se
21 retrouver au niveau de ma dépense d'amortissement.

22 Q. [100] La Régie aurait une demande particulière à
23 vous faire. Hier, je crois que c'est maître Sicard
24 qui vous interrogeait sur la tendance des charges
25 d'amortissement pour le futur. Est-ce que vous

- 1 pourriez fournir à la Régie en engagement un
2 tableau qui montrerait l'évolution depuis deux
3 mille dix (2010) de chacun des éléments du tableau
4 qui seraient inclus dans le mécanisme, ainsi que du
5 total, sur une base comparable, donc ajusté pour
6 les changements des normes comptables, et une
7 projection également sur une période qu'on vous
8 proposerait de cinq ans? Est-ce que vous seriez en
9 mesure de nous faire, de déposer un tel tableau?
- 10 R. Je vous dirais qu'on va vérifier, mais c'est
11 certain que, plus on avance dans le temps au niveau
12 de notre prévision des investissements, vous
13 comprendrez qu'il y a quand même une certaine
14 incertitude au niveau de la planification.
- 15 Q. [101] Oui.
- 16 R. On va vérifier ce qu'on peut faire comme... En tout
17 cas, on va essayer de répondre à votre question à
18 ce moment-là.
- 19 Q. [102] Peut-être pour compléter l'engagement pour
20 avoir un portrait plus clair pour nous, on aimerait
21 également avoir les données historiques et
22 projetées pour chacune des années en parallèle avec
23 l'évolution de la base de tarification historique
24 et projetée, ainsi que le nombre d'abonnements
25 historiques et projetés. Est-ce que vous êtes en

1 mesure de nous fournir ce type d'information?

2 Me ÉRIC FRASER :

3 Je vais peut-être, Maître Ouimette, vous demander
4 de relire lentement votre demande d'engagement pour
5 qu'on puisse prendre l'ensemble des composantes.

6 Me JEAN-FRANÇOIS OUIMETTE :

7 Aucun problème. C'est ce que j'ai essayé de faire.
8 J'essaie de me tenir au texte écrit pour être bien
9 certain qu'on se comprenne. Alors, je vais
10 reprendre l'engagement qui serait demandé au
11 complet. Alors ça serait de fournir un tableau
12 montrant l'évolution depuis deux mille dix (2010)
13 de chacun des éléments du tableau qui serait, bien,
14 du tableau que je vous ai donné tantôt, là, du
15 tableau qui seraient inclus dans le mécanisme,
16 ainsi que du total, sur une base comparable, donc
17 ajusté pour les changements des normes comptables,
18 ainsi qu'une projection pour les cinq prochaines
19 années.

20 Et on aimerait que ce tableau-là soit
21 complété par les données historiques et projetées
22 pour chacune de ces années, en parallèle avec
23 l'évolution de la base de tarification historique
24 et projetée ainsi que le nombre d'abonnements
25 historiques et projetés.

1 M. LUC DUBÉ :

2 R. Bien, on va vérifier, dans le fond, ce qu'on peut
3 fournir comme information, je ne suis pas certain
4 que tout est disponible mais on va, s'il y a des
5 éléments qui ne sont pas disponibles, on le
6 mentionnera dans notre réponse.

7 Me JEAN-FRANÇOIS OUIMETTE :

8 Et peut-être préciser, Madame la Présidente, que si
9 les gens d'Hydro-Québec ont des questions,
10 évidemment, le personnel de la Régie est toujours
11 disponible pour y répondre, pour qu'on s'entende
12 bien pour que l'engagement soit répondu selon les
13 besoins. Alors je vous remercie.

14 LA PRÉSIDENTE :

15 Donc on confirme que c'est l'engagement numéro 4.

16 Me ÉRIC FRASER :

17 Oui, engagement numéro 4. Je vous remercie.

18

19 E-4 (HQD) : Fournir un tableau montrant
20 l'évolution depuis 2010 de chacun des
21 éléments du tableau qui seraient
22 inclus dans le mécanisme, ainsi que du
23 total, sur une base comparable, donc
24 ajusté pour les changements des normes
25 comptables, ainsi qu'une projection

1 pour les 5 prochaines années. Aussi,
2 que ce tableau soit complété par les
3 données historiques et projetées pour
4 chacune de ces années, en parallèle
5 avec l'évolution de la base de
6 tarification historique et projetée
7 ainsi que le nombre d'abonnements
8 historiques et projetés (demandé par
9 la Régie)

10

11 Me JEAN-FRANÇOIS OUIMETTE :

12 Q. [103] Alors maintenant, concernant le choix des
13 facteurs Y et Z, je vais peut-être l'aborder à
14 l'aide de la décision encore une fois de la
15 Commission de l'Alberta, je vais vous référer à
16 cette décision-là, D-2012-237, que vous avez
17 sûrement encore sous les yeux, à la page 134.

18 Mr. JAMES M. COYNE :

19 A. And which paragraph?

20 Q. [104] Le paragraphe 631. En fait, j'aimerais avoir,
21 évidemment, c'est une question générale, vos
22 commentaires sur le paragraphe 631, mais entre
23 autres la première phrase, qui dit :

24 The ability to recover costs outside
25 of the I-X mechanism should be an

1 extraordinary remedy for cost
2 recovery.

3 On aimerait avoir votre, vos commentaires sur cette
4 phrase-là en particulier de la décision de
5 l'Alberta, s'il vous plaît, à savoir si vous êtes
6 d'accord ou non, ou si ça, enfin, je vais vous
7 laisser commenter mais si c'est une citation, une
8 phrase qui peut s'appliquer dans le contexte du
9 Distributeur.

10 A. I haven't read this section of the decision for
11 some while so I'm just catching up to it
12 specifically. The, I would say that, I'm troubled
13 by a few things that I see here in terms of that
14 sentence, I would say that,

15 The ability to recover costs outside
16 of the I-X mechanism should be an
17 extraordinary remedy for cost
18 recovery.

19 I would, I don't think is appropriate here. What
20 strikes me as odd about this is that they're
21 including Y factors under that, that is more
22 typical of the type of standard that we see for Z
23 factors, and there, they're talking about both Y
24 and Z. And Ys are typically treated as flow-
25 throughs, almost universally so, and the reason for

1 that is that these costs have been determined to be
2 beyond Management's control.

3 And I can see that's one of the criteria
4 that they include in the following paragraph, or
5 the following page, when they list the criteria,
6 "The costs must be material" is not a typical
7 criteria for a Y factor, those are just simply
8 deemed to be costs or appropriate to flow through,
9 because they're beyond Management's control.

10 So I think that the Commission, in this
11 case, as I reread this quickly, I should say, seems
12 to be mixing criteria for Z and Y factors. That's
13 much more appropriate for a Z factor than it is for
14 a Y factor.

15 3) The costs should not have a
16 significant influence on the inflation
17 factor in the PBR formulas.

18 Again, I don't see the relevance of that to a Y
19 factor.

20 4) The costs must be prudently
21 incurred.

22 I think applies to any cost that is going to be
23 passed through to customers.

24 (11 h 18)

25 Cost being of a recurring nature.

1 I think that is appropriate for a Y factor. So, I
2 think one has to look at those criteria separately
3 for Y and Z. They typically would be different
4 criteria for a Y and a Z factor, 'cause they serve
5 different purposes.

6 And I would add that taking this now to the
7 specific recommendation for HQD, the recommendation
8 that we have made is that the exclusions that
9 currently exist, because they are ones that the
10 Régie has already considered and approved, continue
11 to serve that same role in this programme as Y
12 factor exclusions. So I hope that's responsive to
13 your question.

14 Q. [105] Je voulais effectivement vous demander de
15 passer en revue les critères et nous faire vos
16 commentaires. Vous l'avez fait. Je vous suggérerais
17 de faire l'exercice également pour les facteurs Z.
18 À la page 110 de la même décision, le paragraphe
19 524... Je vais vous laisser le temps de les lire.

20 (11 h 20)

21 Mr. JAMES M. COYNE:

22 A. With our brief review of these criteria, they
23 strike me as reasonable at first glance. They
24 should be attributable to some event outside
25 management's control, that's the very purpose of a

1 Z factor.

2 A materiality threshold is appropriate. It
3 prevents just recurring filings for small events.
4 It should not have a significant influence on the
5 inflation factor in the PBR formulas. I guess I'm
6 not immediately troubled by that but I also have a
7 hard time understanding how that would occur. It's
8 not one that I would typically include as a
9 criteria for a Z factor.

10 All costs claimed as a suggestment must be
11 prudently occurred, and of course, that's the
12 standard by which any cost has to be passed through
13 and approved. And the impact of the event was
14 unforeseen is the very purpose, again, of a Z
15 factor.

16 So, to me, four of the five seem
17 reasonable. I'd want to give consideration to
18 number 3, as to whether or not it really is
19 necessary. And for practical matter, I'm not sure
20 how it would ever show, whether or not that event
21 is having an impact on the inflation factor. But I
22 think it's a good place to start in terms of
23 examining appropriate criteria for a Z factor.

24 We had proposed... we had considered by the
25 way that, in phase 3, we would be defining these

1 specific parameters with these types of standards.

2 So, we had considered that work to be done.

3 Q. [106] Et j'aimerais peut-être que l'on discute de
4 la question du seuil de matérialité. Ma
5 compréhension de la décision de l'Alberta, c'est
6 que pour établir si un coût fait partie des
7 facteurs Y ou Z, il y a un certain seuil de
8 matérialité à respecter qui est quarante (40)
9 points de base sur le taux de rendement sur les
10 avoirs propres, je pense.

11 J'aimerais peut-être vous entendre sur
12 l'application d'un seuil comme celui-ci dans le
13 cadre du MRI du Distributeur. Est-ce que, selon
14 vous, c'est une méthode qu'on devrait utiliser, si
15 on veut, si je peux appeler ça une méthode, là,
16 mais est-ce que c'est quelque chose qu'on devrait
17 utiliser dans le cas du MRI du Distributeur?

18 A. In response, it is typical to have a materiality
19 threshold. It can be expressed either in dollar
20 terms, i.e. twenty thousand dollars (\$20,000) or
21 four hundred thousand (400,000), or some amount
22 like that, or expressed in ROE terms.

23 I'm a little bit cautious about expressing
24 it in ROE terms because the Régie has already
25 determined that an eight point two percent (8.2%)

1 rate of return on equity is just unreasonable. So,
2 I'm a little bit reluctant to express a deduct from
3 that ROE in that manner for a Z factor. But it's
4 not an inappropriate way to consider what that
5 magnitude should be. So, quite frankly, this is
6 something we wanted to give consideration to in
7 terms of the phase 3 recommendation. Whether or not
8 that should be a dollar amount or a... I'd be
9 surprised if we came back with an ROE threshold,
10 though, for that reason. I would be concerned
11 about... even though the net impact, one could
12 argue, could be... end up being the same, if it's a
13 deduct from ROE, but to take it as a benchmark off
14 of ROE would give me just some cause for concern,
15 again, because of the just unreasonable standard
16 that the Régie has already used in setting of that
17 return.

18 (11 h 25)

19 So, again, work to be done in terms of the
20 level of the materiality, but I'd be more inclined
21 to express it in a dollar basis than I would on an
22 hourly basis.

23 Q. [107] Et est-ce que vous faites référence autant au
24 facteur Y et facteur Z?

25 A. In this case, I'm only referring to the threshold

1 for the Z factor.

2 Q. [108] Okay.

3 A. Because we do not believe that it's necessary to
4 have or appropriate to have one for the Y factor,
5 if those are determined to be flow-throughs, then
6 there shouldn't be an economic limit on when they
7 flow through.

8 Q. [109] Okay.

9 A. And that's true for another reason because Y
10 factors flow in both directions, so if customers
11 had been overcharged for something that's in a Y
12 factor account, we would want to make sure that
13 they were refunded in the next period and, for the
14 same reason, the shareholder would recover if they
15 had under-collected in rates the Y factor account.
16 So, I think it's fair to both customers and the
17 shareholder to make that Y factor a flow-through.

18 Q. [110] Et ça sera ma dernière ligne de questions.

19 Concernant maintenant le facteur de croissance des
20 clients aux charges d'exploitation, aux OPEX dans
21 la formule paramétrique, est-ce que vous pourriez
22 préciser, à votre connaissance, quels sont les
23 coûts qui sont inclus dans les OPEX ou dans les
24 « envelope expenses » de HQD.

25 A. I'm not sure if I understand the question, but is

1 your question: what cost would be included in
2 the envelope which is about one point seven billion
3 dollars (\$1.7 G).

4 Q. [111] Exact.

5 A. Yes. In summary form, if you turn to page, and the
6 company can provide us greater details if required,
7 if you turn to page 4 of the PowerPoint
8 presentation that we opened with on Monday morning
9 - and perhaps I now sense your question. Is your
10 question of the nine hundred and eighty million
11 (980 M), how does that relate to total OPEX, is
12 that your question?

13 So, the included amount it's just to re-
14 ground us. The included amounts in the proposed
15 formula would be the OPEX amount of nine hundred
16 and eighty million (980 M) expressed in two
17 thousand sixteen (2016) revenue requirements plus
18 the amortization amount of six hundred and eleven
19 million (611 M), taxes of eighty-four million
20 (84 M) and corporate expenses of thirty million
21 (30 M).

22 So, does your question go to the nine
23 hundred eighty million (980 M)? Are you looking for
24 more definition of what's in that nine hundred
25 eighty (980)?

1 Q. [112] Oui, effectivement, je vais préciser la
2 question. La question s'adresse au neuf cent
3 quatre-vingts millions (980 M) que vous avez dans
4 votre tableau, neuf cent quatre-vingts millions
5 (980 M) pour les OPEX. Évidemment, on ne vous
6 demande pas d'aller dans les détails, mais on
7 aimerait juste que vous nous indiquiez les grandes
8 catégories de coûts qui sont incluses dans ce neuf
9 cent quatre-vingts millions (980 M).

10 M. LUC DUBÉ :

11 R. Bien, en fait, le neuf cent quatre-vingts millions
12 (980 M), si on veut reprendre peut-être les termes
13 qu'on utilise, je pourrais prendre quelques
14 rubriques qui sont incluses dans ce neuf cent
15 quatre-vingts millions (980 M) là.

16 Q. [113] Les grandes rubriques, effectivement.

17 R. Mais si j'y vais de façon résumée depuis quelques
18 années, depuis deux mille huit (2008) en fait,
19 c'est ce qu'on appelle dans notre dossier tarifaire
20 les activités de base au niveau de nos charges
21 d'exploitation et dans ça, principalement, j'ai de
22 la masse salariale, j'ai mes coûts de service
23 partagés, donc mes fournisseurs internes.

24 C'est sûr qu'on pourrait vous en donner
25 plus, mais c'est vraiment, le neuf quatre-vingts

1 (980) qui est là représente vraiment ce qu'on a
2 actuellement dans le cadre réglementaire actuel,
3 dans notre formule, et qui représente les activités
4 de base du Distributeur au niveau des charges
5 d'exploitation.

6 Q. [114] O.K. Puis quand on parle, par exemple, de
7 masse salariale, on évalue à combien environ le
8 pourcentage sur les neuf cent quatre-vingts
9 millions (980 M), un chiffre approximatif serait
10 suffisant.

11 R. Bien, je pense qu'on peut reprendre... Je ne veux
12 pas aller dans la présentation de nos experts, mais
13 la page suivante, le neuf cent quatre-vingts
14 millions (980 M), on peut raisonnablement prendre
15 la tarte qui avait été représentée à l'époque,
16 c'est-à-dire que sur deux mille seize (2016), la
17 masse salariale représentait quarante-deux pour
18 cent (42 %). Ça, je pourrais valider, là, mais
19 d'après moi, ça représente le neuf cent quatre-
20 vingts millions (980 M) cette tarte-là, en fait, à
21 la page 5, je crois.

22 Q. [115] Non, on n'a pas besoin de faire confirmer,
23 c'était pour avoir, vraiment, un chiffre global.
24 J'aimerais peut-être que vous nous expliquiez le
25 lien que vous faites entre la croissance des OPEX

1 de HQD et la croissance des clients.

2 (11 h 31)

3 Mme FRANÇOISE METTELET :

4 R. Moi je vais y aller au niveau croissance des
5 abonnements, et qu'est-ce que ça induit comme
6 charge additionnelle pour...

7 Q. [116] Oui. D'accord.

8 R. ... pour le Distributeur. C'est sûr et certain que,
9 et on l'a démontré, ça fait... ça remonte à bien
10 longtemps, là, à la Régie, que le meilleur
11 inducteur de coût pour le Distributeur, c'était
12 l'abonnement du client. Parce que dès lors où
13 l'abonnement du client, le client appelle, c'est
14 sûr que s'enclenche... s'enclenche tout le
15 processus pour... D'abord il y a un appel, donc il
16 y a des coûts d'appel. Ensuite, on a les coûts de
17 distribution qui s'enlignent. Fait que c'est
18 vraiment... c'est vraiment le déclencheur principal
19 du coût pour le Distributeur.

20 Q. [117] O.K. Et diriez-vous qu'il y a un lien direct
21 entre l'augmentation des abonnements et les coûts?
22 Autrement dit, si, par exemple, vous avez une
23 croissance d'un pour cent (1 %) des abonnements,
24 est-ce que, de façon générale, vous allez avoir une
25 augmentation de un pour cent (1 %) de vos OPEX?

1 R. C'est sûr qu'il y a une tendance très lourde à ce
2 que la croissance des abonnements se reflète par
3 une augmentation de nos coûts. Vous voulez
4 certainement faire référence à une partie coûts
5 fixes, coûts variables, mais de façon globale,
6 l'ensemble de nos coûts augmente, donc c'est un mix
7 des deux, là.

8 Q. [118] Alors, peut-être une dernière question pour
9 terminer. Enfin, peut-être que je vais suggérer,
10 pas une réponse, mais... Nous, notre compréhension,
11 c'est qu'il n'y aurait pas nécessairement une
12 augmentation aussi directe entre la croissance des
13 abonnements et les coûts. Alors on aimerait savoir
14 comment le MRI proposé capte ou encourage, jusqu'à
15 un certain point, la réalisation d'économies
16 d'échelle par HQD.

17 Mr. JAMES M. COYNE:

18 A. I wanted to confirm, we share the same
19 understanding on this. Our anticipation was that
20 when we propose specific parameters along with a
21 company in phase 3, that we would be proposing a
22 growth factor - that's the G in the formula - and
23 that we'll be providing a basis of evidence for
24 that, that shows that it's an appropriate
25 relationship between growth and OPEX, and growth

1 and customer accounts. So that's... We see that as
2 being the opportunity to make the case for what
3 that appropriate G factor is at that time. It's a
4 fair question. And the expectation is that the
5 company is expected to show returns to scale, to
6 the extent it can, and that should be reflected in
7 the overall structure of the parameters that are
8 established in phase 3. And the X factor serves to
9 promote continued efficiencies; the G factor should
10 be selected to show the legitimate relationship
11 between costs associated with serving accounts and
12 the resulting implications on its included OPEX. So
13 we see that's where X and G get tied together, is
14 in the analysis that supports the selection of
15 those parameters in phase 3.

16 (11 h 37)

17 Q. [119] Alors, ça termine pour nos questions. Alors
18 merci au panel pour vos réponses.

19 LA PRÉSIDENTE :

20 Merci, maître. Maintenant, nous avons quelques
21 questions ici des régisseurs. D'abord, Maître
22 Duquette?

23 INTERROGÉS PAR LA FORMATION :

24 Me LISE DUQUETTE :

25 Bonjour au panel, merci de votre participation

1 cette semaine et de vos réponses à l'ensemble des
2 questions. J'en ai encore quelques-unes, mais avant
3 de passer aux questions, peut-être juste une
4 attente envers maître Fraser : maître Hébert s'est,
5 je ne veux pas dire « commis », mais s'est lancé
6 sur une interprétation de ce qu'est une audience et
7 est-ce que ça a besoin d'être public ou écrit, dans
8 votre présentation, vous utilisez le mot
9 « consultation », alors évidemment, je m'attends,
10 dans votre plaidoirie, à ce que, en rapport avec
11 l'article 25, avec l'article 1 du Règlement sur les
12 définitions d'« audience » et de « consultation »;
13 alors voilà, je ne voulais pas oublier.

14 Alors mes questions, je m'excuse à
15 l'avance, elles sont un petit peu dans le désordre,
16 mais c'est le désavantage de passer en dernier,
17 alors c'est des précisions et des conversations. Je
18 vais commencer, et puis je vais changer du français
19 à l'anglais, là, je m'excuse :

20 Q. [120] Mr. Coyne, I would just like to go with that
21 Y factor and that materiality threshold, you said
22 that usually, Y is a flow-through, and you're not
23 comfortable with materiality threshold, but in its
24 proposition, HQD is asking for... c'est budget
25 spécifique... and other kinds of budgets to be

1 included as Y factors, and those budgets have
2 already materiality thresholds attached to them;
3 for a specific budget, I believe it is five million
4 (\$5M) threshold, and I believe for one variance
5 accounts, it's fifteen million (\$15M) I think for
6 the... le déversement; I don't know if there are
7 others.

8 But since there is already thresholds built
9 in the Y factor, and those thresholds are, I won't
10 say newer, but they're different, shouldn't we
11 establish a common materiality threshold for the Y
12 factor?

13 Mr. JAMES M. COYNE :

14 A. I needed to understand precisely how those accounts
15 are working today. So my understanding is that,
16 there is a materiality threshold required to create
17 an account that we would consider a Y-factor
18 account, and I believe that's still appropriate.
19 But once the account is created, it becomes a
20 hundred percent (100%) flow-through, so the
21 incremental amounts don't have to meet a
22 materiality threshold once the account is created,
23 and I think that's appropriate. And if that is what
24 the AUC was referring to in terms of creation of an
25 account, then I no longer have that concern.

1 Q. [121] Thank you. Maybe a more general discussion
2 with you, Mr. Coyne, while I have you here. You
3 said that, in page 2 of your presentation, that
4 your mandate was to define, together with HQD, a
5 model that achieves the objectives of Section 48.1
6 of the Law, one of those objectives is to, let's
7 say, discover, chase, capture and exploit the
8 elusive concept of streamlining the regulatory
9 processes while respecting the Law, so I say that
10 because it is and always, everybody is looking for
11 that concept and how to apply it.

12 We heard yesterday from Me Hébert and Mme
13 Mettelet some suggestion to do exactly that, but I
14 would like to hear from you conceptually about
15 streamlining, would it be your opinion that the
16 fewer annual reviews of itemized costs is made by
17 the Régie, the more the regulatory processes are
18 streamlined?

19 A. And to be sure I understand your question, so
20 you're asking the fewer items that are reviewed on
21 an annual basis, would that then reflect
22 streamlining?

23 Q. [122] More specifically, the less items there are
24 in the Y factor, so we don't have to see it year
25 after year, and that would be covered under the

1 umbrella of the formula, that would not be for more
2 streamlining because we won't have to... you
3 wouldn't have to submit all the data, you wouldn't
4 have to review it, and you would spare all the
5 questions, the IRs that comes with the submitting
6 of the data, and then a decision about those data.
7 If you apply the formula to it, wouldn't it be
8 shorter than streamlining? Conceptually?

9 A. I think the simple answer to that is yes, but the
10 problem with that is that, if these categories were
11 determined to be a Y factor because they were
12 beyond management's control, right, assuming that's
13 the case, and you then decided that you would put
14 them in the formula, you're now creating a weaker
15 MRI programme because you're now asking the company
16 to control costs that you have presumably deemed or
17 not under its direct control, so I think you're
18 compromising regulatory efficiency for the
19 efficiency of the MRI programme, the incentive that
20 it would create. So, I guess that would be the most
21 direct way to answer your question.

22 But I think, secondly, my expectation would
23 be that, once the Régie, with appropriate
24 stakeholder input, has determined something is
25 appropriate for Y factor exclusion, usually those

1 things become reasonably non-controversial. The
2 only one that continues to remain controversial
3 that we see is pension expense, and that's because
4 it's... it brings a whole host of social welfare
5 considerations into play in terms of the how the
6 utility is treating its employees, and as capital
7 markets fluctuate, it can whipsaw with that
8 expenses in a given year.

9 But by and large, the flow-throughs that
10 are in Y factor accounts are not terribly
11 controversial, and I wouldn't consider those to be
12 ones that would require a significant amount of
13 Régie time to review on an annual basis, so I don't
14 see those as being running counter at all to the
15 idea of regulatory efficiency. And Mr. Yardley,
16 looks like you may want to comment.

17 MR. ROBERT C. YARDLEY:

18 A. This is one of my favourite topics, so... I have
19 provided advice on streamlining to commissions, not
20 for free, on behalf of customers. So, because I see
21 a lot of... and the reason for that is simply
22 because there's a lot of reporting that is
23 established and stays in place for years, long
24 after it has any purpose, and no one, no regulator
25 goes back, typically we're focussed on the current

1 issues before us. We don't go back and ask the
2 question, "did these reports we ordered fifteen
3 (15) years ago, some prior commissions still serve
4 any purpose?" So that's, sort of as a generic way,
5 we want to focus on the things that are important.
6 And there are any number of... if you had the
7 ability and the time to go back and look at
8 everything, you probably would find any number of
9 areas where streamlining could be... could occur,
10 and I think one of the parties actually made some
11 suggestions in this case.

12 But with respect to the Y factors, I don't
13 really see, in this case, the issue arises when the
14 party that's creating the data is providing data to
15 the stakeholders and to the Régie that it's not
16 quite expecting or doesn't understand. So you would
17 first, if you first make the determination that, as
18 my colleague suggested, you know, does it deserve Y
19 factor treatment? That's the most important thing.
20 And then, the next question is, okay, if we're
21 going to get data every year, let's make sure we
22 understand what's coming, it's what we need, and
23 then the company would create its accounting
24 systems to create that data automatically. And when
25 you receive it, you'd be getting what you expected

1 with any explanation, if there was anything that
2 you might not have expected. So, I would see that,
3 that exercise would contribute more to streamlining
4 than trying to limit, reduce the number of factors.

5 MR. JAMES M. COYNE:

6 A. If I might add, if your comment pertained
7 specifically to the supply costs or the
8 transmission costs, which would be...

9 Q. [123] No, exactly. That is not, to me, the problem,
10 because... well, it has been discussed a lot, but
11 it is mostly the other Y factor that's specific
12 budget, and everything like that, because this is
13 small items, that has not been... my understanding
14 is that it has been deferred from the parametric
15 formula because it differed somewhat from that. But
16 that doesn't mean that they don't have control over
17 it, and this is why I'm wondering if they should be
18 in the Y factor, because they have control over it.
19 As a fuel cost, for example, that is supply, I
20 admit. I'm not talking about the heritage pool, and
21 something like that, but the fuel cost, you said,
22 you know, the notion of control is, they have
23 partly control on it, but then you said on the part
24 that they don't have control, if it's predictable,
25 then it should not be there, it should be under the

- 1 I-X. So if you have a part, if it's in part under
2 the control, as they said in the response to the
3 information request, that they have a part of
4 control in there, and the other part is
5 predictable, why shouldn't it be under I-X?
6 (11 h 48)
- 7 a. Specifically to fuel cost.
- 8 Q. [124] Well, fuel cost and...
- 9 A. Yes. As an example.
- 10 Q. [125] ... my... a favorite of mine is the
11 efficiency programme. Of course, the thirty-five
12 million (35 M) part, the management part that goes,
13 not the investment, the capital. But why shouldn't
14 be that under the I-X? Because they do have control
15 over that thirty-five million dollars (\$35 M) and
16 it's predictable. So, why shouldn't it be under the
17 I-X, plus G, might I add?
- 18 A. Perhaps. The company may want to address that but I
19 could add generalized comments about when it's
20 appropriate to include those or not.
- 21 M. LUC DUBÉ :
- 22 R. Juste une précision au niveau... vous faisiez
23 référence, dans le fond, au niveau de l'efficacité
24 énergétique. Juste une précision par rapport à ça.
25 Si on remonte, puis là, ma mémoire fait peut-être

1 défaut, mais c'est en deux mille douze (2012), je
2 pense qu'il y a eu séparation, dans le fond, des
3 coûts en lien avec le programme d'efficacité
4 énergétique.

5 Q. [126] Hum, hum.

6 R. Et c'était en lien avec une norme au niveau de la
7 transition aux IFRS, mais si on y va d'un principe
8 général, puis vous l'avez dit, vous n'avez pas de
9 problème, mettons, au niveau des investissements
10 mais au niveau d'échange, c'est peut-être un niveau
11 de contrôle suffisant. Si on revient, par contre,
12 au principe général, à l'époque, avant deux mille
13 douze (2012), qui est, on s'entend, la répartition
14 charge inverse, c'est vraiment en lien avec une
15 normalisation comptable, on s'entend que c'est les
16 mêmes genres de coûts qui sont engagés au niveau de
17 coûts en efficacité énergétique.

18 Q. [127] Non, je comprends cette notion-là, sauf que
19 les charges qui sont dedans sont sous votre
20 contrôle... j'espère.

21 R. Je ne dis pas qu'elles ne sont pas notre contrôle.
22 Je dis juste que je ne pense pas que c'est la
23 volonté. Pourquoi on l'exclut? C'est qu'on ne veut
24 pas nécessairement faire... ce que je comprends,
25 c'est de promouvoir, en fait, l'efficacité

1 énergétique, et je ne pense pas, en tout cas, que
2 c'est la volonté de dire : est-ce qu'on veut
3 vraiment affecter un facteur X à ces dépenses-là
4 alors que le but, c'est d'augmenter ou de trouver
5 des nouveaux programmes pour bonifier, en fait, les
6 gigawattheures ou térawattheures économisés.

7 Q. [128] C'est parce que les charges étant sous votre
8 contrôle, si vous ne voulez pas diminuer les coûts
9 de PGEÉ, c'est tout à fait sous votre contrôle, si
10 vous ne voulez pas les couper. Là, la façon dont
11 vous parlez, c'est que vous voulez vous protéger...
12 vous voulez protéger Hydro-Québec contre votre
13 propre équipe de gestion.

14 R. Il faut faire attention. Juste revenir sur le type
15 de coûts qui est présentement aux charges.

16 Q. [129] Hum, hum.

17 R. C'est tous les coûts de... entre autres, une grande
18 partie des coûts, c'est le coût de promotion, en
19 lien avec les programmes d'efficacité énergétique
20 qui sont en place. Et pourquoi la normalisation
21 comptable, donc je reviens là-dessus, a par le
22 passé dit : « Bien, c'est ce type de coûts-là. On
23 n'est pas capable... » Je ne veux pas rentrer dans
24 un terme comptable, mais dans le fond pourquoi
25 c'est rendu aux charges, ces éléments de coûts-là?

1 C'est que, d'un point de vue comptable, on a plus
2 de difficulté à évaluer les avantages économiques
3 futurs liés à ces dépenses-là pour être capable de
4 capitaliser ces coûts-là au niveau d'un actif.

5 Et par contre, si je me mets d'un point de
6 vue promotion, je ne dis pas que ces coûts-là ne
7 sont pas contrôlables, par contre, je ne pense pas
8 que c'est la volonté d'Hydro-Québec de diminuer ces
9 coûts-là de promotion pour faire promouvoir les
10 programmes en place. Donc, je pense que ça vient à
11 l'encontre un peu même des programmes qui sont en
12 place au niveau de la promotion des programmes
13 d'efficacité énergétique.

14 Q. [130] Écoutez, je ne veux pas me lancer dans une
15 argumentation avec vous. Mon point était tout
16 simplement de souligner que c'est un poste pour
17 lequel vous avez un contrôle. Si on se fie sur les
18 critères donnés par monsieur Coyne, c'est un poste
19 sur lequel... devrait donc être dans la formule. Ça
20 permettrait également de parvenir, si on veut, à un
21 certain allègement réglementaire, en ce qui me
22 concerne, puisque c'est sous la formule. Il y a
23 d'autres postes à ce sujet-là, on parlait des
24 « fuel costs », mais si c'est traité comme une
25 charge, et c'était ma compréhension que la formule

1 I-X, donne une certaine... une flexibilité
2 opérationnelle à Hydro-Québec de gérer l'ensemble
3 de ses charges qui sont dans cette formule.

4 To that point, to that flexibility, Mr.
5 Coyne, would it be your opinion that the
6 flexibility to the management team in the OPEX
7 offered by the formula participates to that
8 streamlining?

9 Mr. JAMES M. COYNE:

10 A. If I understood your question, yes. It's desirable
11 to give the management team as much flexibility as
12 possible to be able to manage across the various
13 cost buckets that it has in covered costs. And in
14 some areas, there may be greater opportunity and
15 efficiency than others. And you want creativity to
16 come from the management team in terms of how it's
17 managing each of the costs that adds up to a very
18 big number at the end of the day, one point seven
19 billion dollars (\$1.7 B) and the proposed covered
20 costs.

21 So, I think. Just everyone of us can relate
22 to, just in terms of running our households, we
23 have choices we make about what we consume, and
24 those resources that we use. That's an imperfect
25 comparison to make...

1 Q. [131] Uh-huh.

2 (11 h 54)

3 A. ... to running such a large company, but there are
4 trade-offs there. So, you want the management to be
5 in a position to make those choices and be as
6 flexible as possible within the constraints it has
7 of operating its system and meeting its reliability
8 in customer needs. So, yes, it's a good outcome,
9 flexibility is key.

10 Q. [132] Would it be also your opinion that the
11 multiplication of items in the Y factor, instead of
12 putting them under the umbrella of the formula,
13 does not contribute to the simplicity of the
14 processes because Hydro-Québec was saying, you
15 know, "We were looking for simplicity." Do you
16 think that the multiplication of Y-itemized costs
17 in the Y factor contributes to that simplicity?

18 A. I think it's unavoidable. There's no programme that
19 doesn't have a pretty substantial list of Y factors
20 and that has to do with performance-based
21 ratemaking design. You want to empower the utility
22 to control those things and manage those things
23 that they do have control over and acknowledge the
24 fact that they exercise less control or no control
25 over other items.

1 So, it's not perfect, there's nothing about
2 MRI design that is perfect, but by carving out
3 those things that are legitimately Y-factored, it
4 allows the utility to focus on those things under
5 the covered items most intently because you're
6 deeming that that's an area that, because of their
7 control, they have the ability to exercise and
8 develop greater efficiencies.

9 But that's not to say that Y-factor items
10 don't continue to get reviewed and I don't know
11 that after MRI, you ever end up with simplicity.
12 I'm not sure that that's possible, but the idea...

13 Q. [133] I'm not sure also.

14 A. We're directionally heading towards something with
15 a three-year rate filing that's more streamlined
16 than what's in place today and the expectation
17 would be that it's not inappropriate, I think for
18 the Régie to ask, do we have the appropriate items
19 today that are exclusions and if that is of concern
20 to the Régie, that certainly could be a topic of
21 discussion for phase 3.

22 Q. [134] Or phase 1. Just to come back to a previous
23 question because I didn't quite catch your answer,
24 about the fuel cost, if it's partly under the
25 control of Hydro-Québec and the other part is

1 predictable, should it be a Y factor?

2 A. With fuel cost they typically are because the cost
3 component is something that is volatile and set in
4 international markets, and here, we're talking
5 about the price of number 2 oil primarily and so,
6 it would be difficult... I'm not sure that that
7 price is predictable unless you have an active risk
8 management policy in place where you're buying an
9 afford market but if you do, that creates risk as
10 well.

11 So typically, for that reason, the price of
12 fuel fluctuation is a pass-through for any electric
13 utility. I'm not aware of one where it's not but
14 there's another issue I think you're raising and
15 suggesting that using diesel itself is a decision
16 that the company makes in terms of meeting the
17 loads in these autonomous networks and if your
18 suggestion is that over time other fuels can be
19 substituted for diesel, that efficiency demand-side
20 management can be used as a tool to reduce the use
21 of that diesel, then I think those are appropriate
22 expectations.

23 In our recommendations regarding
24 performance metrics, we suggested it might even be
25 possible to design a performance metric around that

1 specific issue. So that may be, I think, a more
2 appropriate way to deal with it than the suggested
3 fuel itself is controllable. I think that would be
4 a stretch, again, because of the cost factor
5 component of it, (A), and (B), it will take some
6 time to substitute wind, biomass and other fuels
7 for or to oil.

8 But I think developing a metric around
9 movement in that direction, there could be a metric
10 such as percentage of loads satisfied through
11 diesel. It might be an appropriate way to measure
12 that progress.

13 Q. [135] Thank you. And just to go back to, not go
14 back but to go to SQI, Mr. Yardley, maybe that's
15 more of your area, but I was wondering about
16 efficiency programmes and I was... PEG suggested
17 that CDM was an indicator and the SQI possible for
18 that and I was wondering if it's a matter of
19 importance to HQD and should it be excluded from
20 the Y factor, at least the thirty-five million
21 (35 M), I will say that this way.

22 Should it be an SQI instead and we should
23 follow the performance of the Distributor on its
24 efficiency energy programme instead of putting in
25 the Y factor?

1 Mr. ROBERT C. YARDLEY:
2 A. Yes, that's a very good question, and I think we'll
3 find it's certainly worth considering. And there
4 have been many metrics, several along the
5 efficiency lines proposed by various parties. I
6 didn't count them all up, but there are certainly a
7 wide number of metrics that have been proposed, and
8 some of them, the objective is very good, as it is
9 in this case, and the issue will be when we get to
10 Phase 3, we'll have that... we may decide we'd like
11 to have this particular -- I'll just use this one
12 as an example -- we'd like to have this mechanism.
13 And we'll end up having a conversation about... in
14 terms of the amount of efficiency that we end up
15 acquiring, it depends on the actions of customers,
16 how they respond to efficiency offers. And so, in
17 terms of defining the metric, we'll have to wrestle
18 with that issue, because we could obviously achieve
19 a lot of efficiency by, you know, spending more
20 money, you know, increasing the promotion for
21 efficiency, and so forth. So, it's certainly worth
22 considering, but when we get to the metric
23 definition, I think that's when we'll have real
24 examples to have these types of conversations. The
25 same would apply to a wide number of metrics, as I

1 listen the conversation that's been taking place.

2 Q. [136] Thank you. Maybe another question for you,
3 it's about ESM. I didn't see it in the formula from
4 nobody, I mean, nobody proposed where the ESM
5 mechanism should be in the formula. And if I'm not
6 mistaken, in your report, you said that ESM should
7 be either up front in the rates, or at the end of
8 the MRI, through... or through ESM, and you do not
9 precise exactly when it should be... should it be
10 put in the formula, just to say Gazifère has an ESM
11 in its formula, we're at the end of it, you know,
12 it's Y plus Z minus ESM, the sharing mechanism.
13 Should we put it there, or should we wait the three
14 years to give back that amount of money.

15 A. Okay, so the way it would typically work is the ESM
16 is kind of the umbrella variance account, in a way.
17 Things happen, we don't expect them, and at the end
18 of the day, earnings are either higher or lower
19 than we thought. So it's a variance because it
20 provides protection both to customers and to the
21 shareholder.

22 So, typically, the way it would work is,
23 each year, it would be applied, so the... each year
24 after the fact. This would be one of the after the
25 fact, after the end of first... as we're preparing

1 for year 2, we would look at earnings that occurred
2 within year 1, as reported, and apply the ESM
3 formula at that point. And so there would be, the
4 adjustment to rates would consist of application of
5 the I-X, changes in variance, and accounts, and so
6 forth, and then, as a last step, there would be an
7 ESM calculation.

8 Q. [137] Yes. So, if I understand you correctly, if
9 you go to page 5 of HQ presentation, there's a
10 formula there, you would do minus return to the
11 customer whatever they earned through your
12 efficiency?

13 A. Without looking at that sheet, that's the way it
14 typically works.

15 (12 h 04)

16 Q. [138] Okay. I'm sorry, I'll just go through my
17 notes, I don't want to repeat some questions.
18 Peut-être juste deux petites questions rapides,
19 Maître Hébert, Monsieur Dubé.

20 Monsieur Dubé, juste pour être... j'imagine
21 que tout ce qui existe en termes de compte d'écart
22 puis compte de frais reportés demeurent. Vous ne
23 demandez pas à ce qu'il y ait des annulations, je
24 ne sais pas si on pourrait dire ça de même, des
25 annulations de compte d'écart et de compte de frais

1 reportés, en des retraits en raison de la formule
2 du mécanisme de réglementation incitatif?

3 M. LUC DUBÉ :

4 R. Effectivement, dans notre proposition en fait on
5 propose le maintien des comptes d'écarts qui sont
6 en place dans le cadre réglementaire actuel.

7 Me FRANÇOIS G. HÉBERT :

8 R. Et je poursuivrais en mentionnant que, évidemment,
9 on en a proposé un nouveau dans le dossier
10 tarifaire. Et si la Régie avalisait cette demande-
11 là, bien, ils seraient inclus avec les autres
12 comptes don't on parle.

13 Q. [139] Maître Hébert, sur la question du
14 fonctionnement réglementaire, je veux juste bien
15 comprendre, ce que vous nous proposez, c'est qu'à
16 la fin de l'année ou dans le rapport annuel, vous
17 soumettriez ça de façon administrative. Ma
18 compréhension du « earning sharing mechanism » que
19 vous proposez, c'est qu'il y aurait... puis, là, je
20 m'excuse si je fais de l'anglais/français, un
21 « score card » qui est fait et puis, à partir de
22 ça, ça déterminerait le partage des écarts de
23 rendement qui aurait lieu. Toujours encore si on se
24 fie sur Gazifère, Gazifère, il y a une décision
25 faite par une formation sur l'atteinte de ces

1 objectifs-là et ensuite, du montant qui se
2 retrouvait dans la dernière patte de la formule,
3 donc moins le remboursement aux consommateurs. Est-
4 ce que vous prévoyez dans votre rapport annuel
5 qu'il faudrait une formation à ce moment-là pour
6 faire une décision comme ça ou une lettre
7 administrative? Et c'est là, je ne suis pas sûre,
8 là, de votre proposition.

9 R. Est-ce que vous me demandez si ça devrait être une
10 fermeture réglementaire formelle?

11 Q. [140] Bien, en fait, ce que vous aviez en tête,
12 parce que vous me parlez de rapport annuel mais,
13 avec le « score card » puis le ESM, la façon...
14 puis vous nous amenez à regarder Gazifère. Je veux
15 juste voir. Ça me semble incohérent sur la façon de
16 fonctionner. Ça fait que je voulais juste avoir ce
17 que vous aviez en tête à ce propos-là.

18 R. Je pense que c'est une application assez
19 mathématique de la formule qu'on aura à faire. Je
20 pense que la Régie peut très bien, ou le personnel
21 technique de la Régie peut très bien arriver à la
22 conclusion que la formule a bien été appliquée et
23 puis que les résultats qui en découlent sont juste.
24 Évidemment, tout ça, je le mentionnais, va être
25 révisé par nos vérificateurs externes également.

1 Alors, lorsque ce sera déposé, je pense que le
2 personnel technique de la Régie sera à même
3 d'analyser la bonne application de cette formule-
4 là.

5 Q. [141] Alors, à ce moment-là, si c'est administratif
6 cette partie-là, est-ce que ces chiffres-là
7 seraient revalidés dans le dépôt annuel suivant le
8 chiffre du remboursement?

9 R. Tout à fait.

10 Q. [142] O.K. Je vais juste voir, là, dans la séquence
11 du calendrier réglementaire comment tout ça
12 fonctionne. Il ne me reste pas beaucoup de
13 questions. Je suis désolée. Ah! Oui. Je m'excuse.
14 Voilà!

15 Sur l'amortissement du PGEE, ce qui serait
16 dans le Y, parce qu'il serait comme dans la même
17 catégorie, là, « public policy », ce que j'ai
18 compris, c'est que s'il était dans un Y, c'est que
19 c'était plus en raison des politiques. Mais les
20 critères répondent plus aux mêmes critères que de
21 la base des autres amortissements, je veux dire, un
22 amortissement c'est un amortissement. Pourquoi
23 celui-là serait exclu de la formule, alors que les
24 autres sont inclus? Je veux dire, c'est... J'essaie
25 juste de comprendre.

1 Mme FRANÇOISE METTELET :

2 R. La raison pour laquelle on voulait exclure
3 l'efficacité, puis toute l'efficacité,
4 investissement et charge de la formule, c'est pour
5 continuer à inciter le Distributeur à investir dans
6 ses programmes d'efficacité énergétique. Si on le
7 met dans la formule, bien entendu, il va être
8 limité à l'évolution de la formule. Donc, ça va
9 être un désincitatif pour le Distributeur à faire
10 de l'efficacité énergétique.

11 Q. [143] Bien, c'est parce que c'est vous le
12 Distributeur, c'est vous qui décidez ce que vous
13 faites avec ces budgets-là. C'est là où j'ai une
14 difficulté, là, de compréhension. Parce que
15 normalement, ça va être les associations de
16 consommateurs qui vont demander au Distributeur :
17 s'il vous plaît ne couper pas la qualité de
18 service, et on va mettre des indicateurs pour
19 s'assurer que vous ne coupez pas la qualité de
20 service. Vous l'avez dit vous-même tantôt, Madame
21 Mettelet : c'est à ça que ça sert. Et, là, j'ai
22 l'impression que vous cherchez à vous protéger de
23 vous-même. J'essaie de comprendre cette logique-là
24 de votre part. Parce que vous les maîtrisez ces
25 budgets-là. C'est pas...

1 (12 h 10)

2 Me FRANÇOIS G. HÉBERT :

3 R. C'est une bonne question. Mais j'aimerais faire
4 juste un pas en arrière. Évidemment, quand on
5 implante un MRI, encore faut-il qu'il y ait un
6 cadre qui est assez stable. On sait tous qu'il y a
7 un nouvel organisme qui va être créé prochainement,
8 quand vous disiez qu'on contrôle les budgets et
9 tout ça, il y aura certainement une incidence sur
10 la façon dont on traite l'efficacité énergétique au
11 Québec, là, et le rôle qu'Hydro-Québec aura à jouer
12 au sein de cette nouvelle institution-là, qui est
13 le TEQ.

14 Alors pour l'instant, puis je ne réponds
15 pas précisément à votre question, le Distributeur
16 est d'avis que dans un contexte plus instable, puis
17 ce n'est pas qu'on ne souhaite pas faire de
18 l'efficacité énergétique, vous savez qu'on en a
19 fait au-delà d'un milliard (1 G\$) dans les
20 dernières années puis on va continuer à en faire,
21 mais dans un contexte plus instable, je pense que
22 la prudence commande qu'on l'exclue.

23 On verra, c'est un premier pas vers la
24 réglementation incitative, mais c'est quand même,
25 pour avoir lu un peu sur le nouveau rôle que le TEQ

1 jouera, que la Régie pourra jouer aussi et que les
2 distributeurs, que ça soit gazier ou Hydro-Québec,
3 joueront au sein de cette nouvelle institution-là,
4 je pense qu'il serait prudent, sans relâcher les
5 efforts d'efficacité énergétique, on les poursuit,
6 vous le voyez dans notre Dossier tarifaire 2017-
7 2018, mais je pense qu'il serait prudent à ce
8 stade-ci d'exclure ces questions-là. Puis, encore
9 une fois, on pourra se raviser éventuellement.

10 Q. [144] Oui puis, et j'apprécie la conversation, là,
11 c'est juste, j'explore diverses options, là.

12 R. Hum-hum.

13 Q. [145] Et puis là où m'amène votre réponse, c'est en
14 termes de prudence, si on veut se fier aux critères
15 que vos experts nous donnent pour ce qui va dans la
16 formule, ce qui va dans les Y, est-ce qu'on ne
17 devrait pas dire, bien, en ce moment, c'est comme
18 ça, c'est plutôt stable, on comprend, si jamais la
19 loi devait passer et que le TEQ est créé et qu'il
20 vous impose, est-ce que ça ne devrait pas être un Z
21 à ce moment-là, qui est changement législatif en
22 vertu du Z?

23 Mr. JAMES M. COYNE :

24 A. If I might add on this issue, the reason why it's
25 typical to carve out energy efficiency spending is

1 that, it's typically subject to a different type of
2 test than, of course, an I-X. Under I-X, you're
3 looking for the company to spend as little as
4 possible in order to still maintain its service
5 quality and reliability, but that's not true with
6 ESM, typically, the desire there is to have the
7 company spend as much as justified by either a
8 societal benefits test or an economic benefits
9 test.

10 So those are typically the way those
11 programme expenditures are measured, and they're
12 measured it at the outset and justified on that
13 basis. And if anything, the incentives go the other
14 way, where you incent the company to spend more as
15 long as those programmes are providing services
16 that satisfy either a societal benefits test, which
17 is the broadest one. And the societal benefits
18 test, as you may well know, says that a programme
19 expenditure is a good idea if the savings that
20 accrue directly to the customers and the savings
21 that accrue more broadly in terms of a lower carbon
22 footprint or other externalities are justified.

23 So it would be... it would be counter, it
24 would be counter to what you're trying to
25 accomplish with an I-X to constrain those

1 expenditures as long as they're still providing
2 those net societal benefits that meet that test. So
3 you typically measure them in a different way, and
4 for that reason, they're almost always excluded,
5 for that reason.

6 Q. [146] Thank you.

7 A. And especially because, when you think about
8 utilities, and I think that's probably specifically
9 true for HQD, that they're in the business of
10 providing electricity to meet customer demands. So
11 it's a new way of thinking about electric utility
12 providers, distributors, and gas distributors to
13 have them thinking about less is more and, so it
14 would be counterproductive to try to change that
15 cultural aspect of utility management as well. And
16 you would not want them to think that this is a
17 constrain function, but of course, you want those
18 dollars spent efficiently, but you measure them
19 differently, typically.

20 Q. [147] Thank you. Two small questions, just maybe a
21 precision on your part, Mr. Coyne. You talked about
22 input costs this morning, about the IP forecast and
23 IP... (IPC, est-ce que c'est en français ou en
24 anglais, je... c'est CPI, merci, je ne me souviens
25 plus ce qui est français puis anglais, ça ne va pas

1 bien), entre le... forecast and the actual.

2 You said that morning about the cost for
3 the employees that, you know, if the labour cost
4 doesn't compensate enough, if you have engineers
5 and everything like that, you should not take that
6 input and maybe a more precise input, you were not
7 suggesting that a national labour index, such as,
8 national and provincial such as for Enbridge, does
9 not include those costs, do you?

10 (12 h 15)

11 You came back. You said you came back on
12 control, but about a labour wage index, you would
13 not suggest that what was taken for Enbridge, for
14 example, is not... I think it was the Ontario
15 labour cost, maybe?

16 A. It was. It was the all-waged labour index for
17 Ontario, as I recall.

18 Q. [148] That, an index like that, provincial or
19 national, would be appropriate for a company like
20 Hydro-Québec?

21 A. Yes, the... Two distinctions. One is that would be
22 a broader index than the utility would typically
23 face.

24 Q. [149] Hum, hum?

25 A. And so you're right, that may include some

1 engineers, but not enough, compared to what a
2 utility faces, and they're left with that
3 challenge. The other challenge that this company
4 faces is that it exercises less control over its
5 labour contract negotiations that does an Enbridge,
6 that doesn't have a government entity or it doesn't
7 have a corporate entity that's negotiating those
8 costs.

9 Q. [150] Hum, hum.

10 A. The management of Enbridge is doing so directly. So
11 it's a differ... It's a matter of controlled
12 difference as well.

13 Q. [151] That I understand. Just because...

14 A. Yes.

15 Q. [152] ... you surprised me this morning by saying
16 that it might not be equal, so... But that was...

17 A. Yes.

18 Q. [153] You know, Enbridge does that, and Enbridge is
19 a similar company to Hydro-Québec, so I guess it
20 was... That's what surprised me.

21 A. You're right. That difference exists there, as it
22 does here. The distinction is in terms of the...

23 Q. [154] Control.

24 A. ... the government and the corporate role that
25 don't exist.

- 1 Q. [155] Okay. And last question... I'm sorry. Last
2 question is with your... votre plan stratégique. Je
3 comprends... the answer, this morning, that you
4 gave about the price cap. I was just wondering,
5 when you made... We stopped and reported the
6 hearings last March because you were revising the
7 strategy. I think your arrival was one of the
8 reasons of that. Did you discuss that strategic
9 planning, and maybe review your conclusion about
10 revenue price cap in that context? Ou, en tout cas,
11 les gens d'Hydro ou les gens de Concentric, un ou
12 l'autre, vous avez fait une revue de votre
13 stratégie. C'était à peu près au moment où la
14 stratégie, votre stratégie corporative est sortie,
15 alors je me demandais si vous aviez revu vos
16 recommandations à la lumière de cette stratégie-là.
- 17 A. I just wanted to make sure we understood your
18 question in the right context. We have... I guess
19 you could say that we have... we did not... we did
20 understand the government decree. We did not go
21 back and consider that our proposal needed to be
22 changed as a result of that. You have inflation
23 built in, in the revenue cap, and as we discussed
24 earlier this morning, depending upon the form of I
25 or X that's ultimately built into the programme,

1 the significant components of rates, which would be
2 supply costs, and also the distribution service
3 costs that are covered under the programme, in all
4 probability, are gonna be constrained to something
5 that looks like inflation.

6 The one caution to that is that we have
7 not... we have not made a specific X-factor
8 recommendation or productivity factor
9 recommendation. That needs to still be determined.
10 And as we have talked earlier, productivity trends
11 in the electric distribution industry are coming
12 down. So the most recent numbers indicate that
13 they're negative, which would suggest that electric
14 distributors have input costs that are rising at a
15 rate that are greater than inflation. So, it's a
16 challenge for an electric distributor, given its
17 requirements in terms of system reliability and
18 integrity, and the new services it's being asked to
19 overlay in its system in terms of integrity and
20 cyberprotection, things of that nature.

21 So, running at the rate of inflation itself
22 is a challenge, if you measure it according to
23 those numbers, but at least, as we see it, I think
24 the governor's mandate is not inconsistent with our
25 proposal.

1 (12 h 21)

2 Q. [156] That's fine. I just wanted to know, I just...
3 Just because price caps seemed more straightly
4 aligned with what the strategic planning is trying
5 to achieve so... But if you're convinced that a
6 revenue cap can achieve that, I guess it's your
7 strategy to go there. So, I just wanted to know
8 what was your consideration in the matter.

9 A. And it should be noted that even with the price
10 cap, there's no guarantee that the rate is going to
11 increase at a below the rate of inflation because
12 two reasons: you still need to set the I and X
13 parameters associated with price cap and, secondly,
14 if you're in a situation where sales are declining,
15 unless you're expecting, and that could be in one
16 or more sectors, for example, in the industrial
17 sector. Those costs still have to be allocated to
18 other rates, unless you're implicitly reducing the
19 shareholder return which, I would assume, is not
20 the objective as the fair return standard would
21 still be assumed to be in place.

22 So, it's still no guarantee that a price
23 cap would guarantee that the rate would increase
24 with inflation.

25 Q. [157] Thank you. That will be all.

1 A. Mr. Yardley, I think, would like to add more.

2 Q. [158] Oh.

3 Mr. ROBERT C. YARDLEY:

4 A. I think we have the variance accounts as well.

5 Presumably, the price cap, we're not clear exactly
6 how it will be implemented, but if it was
7 implemented and applied only to the cost under the
8 formula, then you'd be adding to that positive or
9 negative changes in variance accounts.

10 LA PRÉSIDENTE :

11 Q. [159] Merci. J'implore votre clémence pour une
12 question additionnelle qui concerne l'établissement
13 du facteur X. Advenant que la Régie retienne
14 l'approche du jugement éclairé, et en l'absence
15 d'une étude de productivité, êtes-vous d'avis qu'il
16 est possible pour Hydro-Québec Distribution de
17 déposer des données institutionnelles qui
18 permettraient un tel jugement éclairé sur le
19 facteur X.

20 Mr. JAMES M. COYNE:

21 A. Yes, we do. And to explain, we have not discussed
22 this explicitly with the division, but what we
23 would recommend is that the Régie go from phase 1
24 to phase 3 and make it clear that it would like to
25 see sufficient evidence in support of the

1 parameters that will be established in phase 3.

2 And as we see it, in this phase, you're
3 deciding on the basic construct of the approach so
4 you might determine that an I-X is appropriate and
5 you might decide that an I-X, including the
6 following items, as we have proposed is appropriate
7 - and there should be a Y and a Z and an X-factor -
8 and your expectations would be that that X-factor
9 should be substantiated with the following type of
10 evidence.

11 And one type of evidence would be evidence
12 of the company's productivity over time and as
13 measured through, it could be measured through a
14 total factor productivity study applied to the
15 company which would be a reasonable approach to
16 take, and also evidence, that the company would
17 submit illustrating its ability to continue to
18 provide historic productivity in the future or
19 deviations and, if there are reasons for those
20 deviations, what they would be.

21 For example, if it has a new smart grid
22 programme, which I don't know that it does, but it
23 would make an argument as to deviation, any
24 deviations from history that are appropriate in the
25 future and I believe that that, plus benchmarking

1 evidence, the company does benchmark its operations
2 today, I think, it would be appropriate submittals
3 in that regard and then, the question is: does the
4 Régie need to see an industry benchmarking study?

5 And as we have discussed, there are
6 industry benchmarking studies out there for the
7 Régie to avail itself of and I think it would be
8 appropriate to review those results and determine
9 what, if any, weight to place on them. As I
10 mentioned, Alberta is in the process of completing
11 an update and has invited new evidence to be
12 submitted so those studies will be there.

13 And those industry studies could be used as
14 another benchmark or guide as to whether or not the
15 type of evidence it submitted by the company is
16 consistent with those and if there's a reason for
17 deviations from industry trends, it should be able
18 to justify that.

19 (12 h 27)

20 And our recommendation also considers the
21 cost and length of time required to delve into a
22 full-blown industry analysis of productivity, I
23 would note that in the case of Alberta, as I
24 mentioned, that process took over two years, never
25 considering all the parameters, but a central focus

1 of that is that productivity study. And, as I
2 mentioned, there were six competing experts. The
3 total cost of that evidence that was submitted by
4 the experts, not including, not including NERA that
5 was retained by the AUC itself, was two and a half
6 million dollars (\$2.5 M). Okay.

7 The total cost, including the lawyers and
8 legal fees associated with that process was five
9 and a half million dollars (\$5.5 M). And so, I
10 would ask, you know, is that money, time, and
11 resources well spent by the Régie, when the same
12 types of studies that are out there, for the same
13 controversies, would be associated with them?

14 So, in our estimation, we believe that it
15 would be a more efficient means to proceed to
16 invite the parties to submit the evidence that it
17 deems to be appropriate, but the Régie can provide
18 guidance around that. And I'm suggesting the type
19 of guidance that I think would be appropriate. And
20 the final concluding thought is that if the parties
21 felt as though it was appropriate to submit an
22 industry TFP study, then they would be free to do
23 so. And, so... but we didn't want to make it an
24 absolute requirement and expectation in this phase
25 2 context because we didn't see it as being value

1 added, or regulatory efficiency, or streamlining.
2 By any means, we thought it went in the opposite
3 direction. Mr. Yardley, I think, wants to add to
4 my...

5 Mr. ROBERT C. YARDLEY:

6 A. In case you haven't noticed, I have this annoying
7 way of letting Mr. Coyne know that I have something
8 to offer. So, in the middle of his response, so
9 while he's focussing on his response, I'm annoying
10 him. Sorry about that.

11 So, with respect to the smart meters,
12 that's actually a great example, because the
13 company has alluded to this four hundred million
14 (400 M) of savings that have been realized. And so,
15 one question is: well, how much of that... We all
16 know that there's been a smart meter programme and
17 smart meters do, when you transition, generate a
18 lot of savings. Those savings are primarily
19 operational, at first. And so, the question that I
20 asked was: well, of the four hundred million
21 (400 M), you know, how much of that is smart
22 meters? Because that would... And the answer, I
23 believe, was seventy-three (73), if I recall the
24 number correctly. But... so, it told me at that
25 point that at least that four hundred million

1 (400 M) wasn't narrowly focussed on sort of one
2 programme, that it had to have been broader than
3 that. So that's a relevant... so, that would be a
4 relevant piece of information that Hydro-Québec
5 would want to present, so we can consider what the
6 remaining opportunity is.

7 Then, with respect to the smart meter
8 programme, they did not have automatic... many
9 utilities, when they switched to AMI, the smart
10 meter programme, will have already had AMR, which
11 is the ability to have trucks drive around and read
12 meters automatically. So, what that does is it
13 reduces that seventy-three million (73 M)
14 significantly. But there will still be some
15 potential new programmes using the smart meters
16 that will generate efficiencies. And one of the
17 parties has suggested that that would be some large
18 number. And I would suggest it might not be
19 because, really, the operational savings will
20 already be reflected in the rebasing. But that's
21 the type of... I just mentioned this, not to make a
22 point about their likelihood, but that's the type
23 of discussion that needs to take place, so we all
24 understand, you know, really, what the opportunity
25 for incremental efficiencies is.

1 Q. [160] Merci.

2 Me LISE DUQUETTE :

3 Q. [161] Juste... parce que je comprends que c'est la
4 recommandation de monsieur Coyne que vous fassiez
5 une étude de productivité à partir des données
6 corporatives. Si je ne l'exprime pas comme il le
7 faut, vous me corrigerez. Avez-vous l'intention de
8 suivre la recommandation? Et si oui, le produire,
9 et dans quelle phase, et sous quelle forme, l'étude
10 en question, pour déterminer le facteur X?

11 Me FRANÇOIS G. HÉBERT :

12 R. C'est une excellente question. Mais j'aimerais
13 prendre un engagement pour ne pas vous induire en
14 erreur, parce que c'est quand même un travail qui
15 est colossal, important.

16 Q. [162] Oui.

17 R. Et j'aimerais ça en discuter avec mes collègues
18 pour ne pas vous induire en erreur, Maître
19 Duquette. Alors, on va prendre l'engagement de
20 répondre à cela par écrit?

21 Q. [163] Oui. Alors, ce sera l'entreprise numéro 5,
22 j'imagine?

23 LA GREFFIÈRE :

24 Oui, l'engagement numéro 5.

25

1 E-5 (HQD) : Répondre à la question : avez-vous
2 l'intention de suivre la
3 recommandation? Et si oui, la
4 produire, et dans quelle phase, et
5 sous quelle forme, l'étude en
6 question, pour déterminer le facteur
7 X? (demandé par la formation)

8

9 LA PRÉSIDENTE :

10 Alors, ça complète nos questions pour l'éminent
11 panel. Alors, merci pour votre éclairage et la
12 justesse des informations que vous nous avez
13 données. Alors, nous reprendrons dans une heure.

14 SUSPENSION DE L'AUDIENCE

15 REPRISE DE L'AUDIENCE

16

17 (13 h 37)

18 Me GUY SARAULT :

19 Alors, rebonjour, Madame la Présidente, Monsieur,
20 Dame les Régisseurs. On en est rendu à la preuve de
21 l'AQCIE et du CIFQ. Alors, vous avez sur le banc,
22 en commençant de gauche à droite, monsieur Pierre
23 Vézina, directeur énergie du CIFQ, monsieur Luc
24 Boulanger, directeur exécutif de l'AQCIE et notre
25 témoin expert Mark Lowry, docteur Mark Lowry de

1 PEG. Alors, on va d'abord assermenter les témoins
2 et on aura des affidavits et documents à produire
3 après.

4

5 PREUVE DE L'AQCIE-CIFQ

6

7 L'AN DEUX MILLE SEIZE (2016), ce vingt et unième
8 (21e) jour du mois de septembre, ONT COMPARU :

9

10 MARK NEWTON LOWRY, economist and president of PEG
11 Research, place of business located at 22 East
12 Mifflin Street, suite 302, Madison, Wisconsin
13 53703;

14

15 LUC BOULANGER, administrateur, directeur exécutif
16 de l'AQCIE, ayant une place d'affaires au 1010,
17 Sherbrooke Ouest, Montréal (Québec);

18

19 PIERRE VÉZINA, ingénieur, directeur énergie et
20 environnement pour le CIFQ, ayant une place
21 d'affaires au 1175, avenue Lavigerie, bureau 201,
22 Québec (Québec);

23

24 LESQUELS, après avoir fait une affirmation
25 solennelle, déposent et disent :

1 INTERROGÉS PAR Me GUY SARAULT :

2 Q. [164] Alors, nous avons déjà remis à madame la
3 greffière quatre documents. Il y a d'abord trois
4 affidavits de documents suivant l'article 29 du
5 Règlement sur la procédure de la Régie. Alors,
6 comme pièce C-AQCIE-CIFQ-79... 0079 plutôt, c'est
7 l'affidavit de documents du docteur Mark Lowry;

8

9 C-AQCIE-CIFQ-0079 Affidavit de documents de Dr.

10 Marc Newton Lowry

11

12 comme pièce C-AQCIE-CIFQ-0080, l'affidavit de
13 documents de monsieur Luc Boulanger;

14

15 C-AQCIE-CIFQ-0080 Affidavit de documents de M. Luc

16 Boulanger

17

18 comme pièce C-AQCIE-0081, l'affidavit de documents
19 de monsieur Pierre Vézina;

20

21 C-AQCIE-CIFQ-0081 Affidavit de documents de M.

22 Pierre Vézina

23

24 et comme pièce C-AQCIE-0082, la présentation

25 PowerPoint du docteur Lowry que vous voyez

1 présentement à l'écran.

2

3 C-AQCIE-CIFQ-0082 Présentation PowerPoint de Dr.

4

Marc Newton Lowry

5

6 Alors, avant de demander au docteur Lowry de faire
7 la présentation PowerPoint de son... résumant son
8 opinion professionnelle dans le dossier, je
9 demanderais à monsieur Luc Boulanger de prononcer
10 une petite allocation... allocution, pardon,
11 d'ouverture. Merci.

12

M. LUC BOULANGER :

13

R. Alors, merci, Maître Sarault. Madame la Présidente,
14 Madame, Monsieur les membres du tribunal. Alors,
15 voici. Alors, j'ai quelques préoccupations que
16 j'aimerais livrer...

17

Q. [165] Pardon.

18

R. ... au banc au nom de l'AQCIE et du CIFQ. Je
19 m'excuse.

20

Q. [166] Écoutez, je m'excuse, Monsieur Boulanger.

21

Sauf erreur de ma part, mon confrère me dit que

22

j'ai omis de faire reconnaître le docteur Lowry

23

comme témoin expert, mais je pense que ça a déjà

24

été fait dans des décisions déjà rendues par la

25

Régie dans le présent dossier. Mais, s'il faut le

1 refaire, alors je redemande qu'on le reconnaisse
2 comme témoin expert.

3 LA PRÉSIDENTE :

4 S'il vous plaît. Nous reconnaissons le docteur
5 Lowry comme témoin expert.

6 Me GUY SARAULT :

7 Bien, expert en matière de réglementation
8 incitative.

9 LA PRÉSIDENTE :

10 Expert en réglementation incitative. Merci.

11 Me GUY SARAULT :

12 Je pense que... O.K.

13 Q. [167] Alors, je m'excuse de l'interruption
14 inattendue, Monsieur Boulanger.

15 R. Aucun problème.

16 Q. [168] Je vous prierais de reprendre là où vous en
17 étiez. Merci.

18 R. Aucun problème. Alors, donc j'aimerais donc faire
19 part des préoccupations que nous avons. Au cours
20 des deux dernières journées, on a eu l'occasion
21 d'entendre beaucoup de commentaires dans
22 l'exposition de la preuve du Distributeur. Il y a
23 un commentaire que je retiens entre autres, c'est
24 celui de maître Sicard. Maître Sicard à un moment
25 donné en s'adressant à la Régie, elle a parlé de la

1 préoccupation qu'elle avait qu'il y avait une
2 iniquité entre les parties en présence et surtout
3 en ce qui concerne l'asymétrie de l'information.
4 Alors, une asymétrie d'information qui est non
5 seulement au niveau des usagers, mais également au
6 niveau de la Régie.

7 (13 h 43)

8 Alors, c'est une préoccupation qu'on a.
9 Puis je pense qu'on devrait essayer dans toute la
10 mesure du possible de se prémunir contre ça. Puis
11 c'est un petit pour ça qu'on a institué cette
12 requête en mécanisme de rendement incitatif.

13 Maintenant, toujours en fonction de cette
14 asymétrie, le Distributeur a proposé que plusieurs
15 postes budgétaires soient exclus de la
16 réglementation, entre autres parce qu'il y a un
17 « regulatory oversight ». Alors, la Régie fait sa
18 job. Elle a le pouvoir. Alors, dans la mesure où la
19 Régie fait sa job, bien, à ce moment-là, ça donne
20 la garantie que tout est beau.

21 Mais notre préoccupation n'est pas vraiment
22 à ce niveau-là. Notre préoccupation, c'est ce qui
23 se passe avant que la Régie soit saisie d'un
24 dossier. Ce qu'on aimerait pouvoir s'assurer, c'est
25 que le cheminement que le Distributeur fait

1 lorsqu'il présente ses dossiers, déjà quand il
2 présente son dossier, il a l'« incentive », la
3 motivation de présenter l'option qui est la
4 meilleure, l'option qui est la plus efficiente et
5 l'option qui va rapporter le plus de bénéfices
6 aussi bien à l'actionnaire qu'aux usagers.

7 Alors, ça, c'est une préoccupation qu'on a.
8 Et je pense que cette asymétrie fait en sorte qu'on
9 devrait, lorsqu'on établit les caractéristiques du
10 MRI, surtout en Phase 1, ce serait dans la mesure,
11 et, ça, c'est une préoccupation que maître Duquette
12 avait ce matin, dans la mesure où les critères de
13 prévisibilité ou les critères de contrôle s'y
14 retrouvent, même si c'est partiel. À ce stage-ci du
15 MRI, on devrait les inclure.

16 Parce qu'à un moment donné on va arriver en
17 Phase 3. Puis en Phase 3, c'est là qu'on dit que le
18 détail... que le diable est dans les détails. C'est
19 en Phase 3, je pense, qu'on devrait à ce moment-là,
20 quand on va essayer d'établir la mécanique précise
21 comment mesurer, quels sont les facteurs qu'on va
22 retenir. C'est peut-être qu'à ce moment-là on va se
23 rendre compte, ah, ça, c'est vrai, on ne peut pas
24 vraiment, il faut qu'on mette ça sur un facteur Y
25 ou un facteur Z. Mais ce n'est pas d'entrée de jeu

1 d'exclure tout un pan d'activité sous prétexte que,
2 à sa face même, ce n'est pas « monitoring », ça ne
3 peut pas être suivi par un processus de... par un
4 mécanisme de rendement incitatif.

5 L'autre commentaire que nous aimerions
6 faire, et je pense que c'est vital, c'est que ça
7 prend une étude de productivité. Ça en prend une.
8 Je comprends qu'on a des préoccupations en matière
9 de coûts, puis on veut être efficient. Mais on ne
10 peut pas à un moment donné sous prétexte qu'on peut
11 avoir un « inform judgement », aller à
12 l'aveuglette, puis dès le point de départ décider
13 le facteur X sans qu'on ait vraiment fait selon les
14 règles de l'art ce qui doit être fait.

15 Et je m'inscris en faux aux déclarations du
16 docteur Coyne quand il nous cite les coûts
17 inhérents à la réglementation, puis il prend comme
18 exemple l'Alberta. On sait tous qu'en Alberta,
19 c'est différent du Québec. Ils n'ont pas les mêmes
20 valeurs puis ils n'ont pas les mêmes façons
21 d'opérer. Ils vont facilement dépenser cinq
22 millions de dollars (5 M\$) pour une cause
23 tarifaire. Ici, ce n'est pas comme ça qu'on
24 fonctionne. On est capable de fonctionner en
25 contrôlant les coûts de façon significative par

1 rapport aux autres juridictions.

2 Et qui plus est, il est facile de dire, ah,
3 ça coûte cher, faisons pas cet exercice-là.

4 Évidemment, c'est dans l'intérêt du Distributeur de
5 continuer à bénéficier de cette asymétrie
6 d'information. Alors, moins d'informations qu'on a,
7 plus c'est facile pour eux de présenter leur
8 agenda. Et je vous répète que les gens qui paient
9 la réglementation, ce sont les usagers. Nous sommes
10 des usagers. Et nous sommes prêts à assumer les
11 coûts pour s'assurer que le processus va être un
12 processus qui va être « flawless ». Alors, c'est la
13 position que nous prenons là-dessus. Et ça termine
14 mes remarques.

15 Me GUY SARAULT :

16 Merci, Monsieur Boulanger.

17 Q. [169] ... Mr. Lowry, I believe it's your turn to
18 take the microphone and proceed to your PowerPoint
19 presentation. Thank you.

20 MR. MARK NEWTON LOWRY:

21 A. It's a challenge to follow up on that colourful
22 beginning, but I will try. I will compensate by
23 speaking longer. I'm afraid to say that this
24 presentation will probably take a little over an
25 hour.

1 The goal of the presentation is to provide
2 the Régie with highlights of my research, testimony
3 and responses to data requests regarding the key
4 characteristics of an appropriate mécanisme de
5 réglementation incitative for Hydro Quebec
6 Distribution.

7 I emphasize the word "highlight" because
8 some of the smaller issues I will not be addressing
9 in this presentation in order to have more time to,
10 not only to emphasize some of the bigger points,
11 but to emphasize some of the most recent
12 developments in Canadian MRIs that I've been very
13 much involved with in the last year or so.

14 I will begin by discussing some of the key
15 features of the context for regulation here in
16 Quebec that I think are important in the design of
17 an MRI. I will then turn to a discussion at a high
18 level of what, in my view, an MRI is all about, and
19 then we'll start to drill in to some of the
20 important design issues, the single most important
21 of which is the attrition relief mechanism, but I
22 will also take time to talk about some of the other
23 important issues, and to have a brief summary of my
24 recommendations.

25 So, starting with the context, I would like

1 to emphasize that, from my point of view, HQD is a
2 very large power distributor that provides nearly
3 all power distribution and, importantly, power
4 procurement services in the province of Quebec. The
5 economy of Quebec is diverse and includes
6 everything from the large vibrant commercial sector
7 of Morel to a very large industrial sector that
8 plays an important role in supporting the economies
9 of less urban regions of the province with, for
10 example, high-paying jobs.

11 As for the regulatory system of Hydro
12 Quebec, this is what stands out from my review of
13 it. Frequent rate cases that use forward test
14 years; there is an index-based envelope for O&M
15 expenses that's been discussed quite a bit in this
16 hearing. There are passthrough and/or variance
17 accounts for power supply, transmission, pension
18 and benefit, and amortized demand side management
19 expenses.

20 My analysis of this regulatory system is
21 that it is one that involves unusually high
22 regulatory cost, and weak incentives for Hydro
23 Quebec to contain its capital expenditures, which
24 we'll sometimes call CapEx in this presentation;
25 weak incentives to contain its power supply and

1 transmission expenses; and also, weak incentives to
2 suppress its peak loads, which are a key driver of
3 the company's cost.

4 Now, I also took note of important aspects
5 of the regulatory system of Quebec, including, of
6 course, Article 48.1 of the act which authorizes
7 the Régie, which requires an MRI for the
8 distributor and not for distribution in order to
9 ensure efficiency gains. To me, that's an important
10 distinction because the distributor is involved in
11 several activities in addition to distribution, and
12 I don't know that the Article 48.1 was intended to
13 confine the application of incentives to the
14 distribution services. In fact, if you go just a
15 couple of other articles in the act, you'll find
16 express attention to, say, transmission services,
17 and not to the transporter. So, in my opinion, the
18 act was... this provision was intended to apply to
19 all of the company's services.

20 At any rate, as has been discussed several
21 times, the MRIs are supposed to fulfill three (3)
22 objectives: ongoing improvement in performance and
23 service quality; cost reduction beneficial to both
24 consumers and the distributor; and a streamlining
25 of the rate-making process.

1 (13 h 53)

2 I also note Article 73, for several
3 reasons, and one is that it falls under the heading
4 of obligations of the distributor and not the
5 obligations of the Régie to the distributor. The
6 Article states that the distributor must obtain
7 authorization to construct assets subject to the
8 conditions, and in the cases determined by
9 regulation by the Régie. My interpretation of
10 article 73, although I'm not a lawyer, is that this
11 language is flexible enough that the Régie should
12 not consider itself obliged to continue the current
13 rate-making treatment of larger capital projects,
14 which effectively involves a preapproval of
15 construction budgets.

16 I also note, finally, that demand side
17 management and conservation seem to be especially
18 important in Québec. One reason being is that cost
19 here is unusually sensitive to peak demand because,
20 in addition to the fact that distribution and
21 transmission system are well known to be very
22 sensitive to peak demand, there is this peculiar
23 heritage pool arrangement in the province that is
24 linked to peak demand, and not to a block of
25 kilowatthours. And so, there is a particular

1 desirability to reduce load at peaks, such as occur
2 in the winter months.

3 Of course, there's also a very strong
4 support for DSM by Québec policymakers. There has
5 been for a long time. The most recent energy policy
6 statement only reemphasized its key role in the
7 province.

8 All turn now to a high level discussion of
9 multiyear rate plans and MRIs generally. I have
10 recommended a comprehensive MRI for Hydro-Québec
11 Distribution that features a multiyear rate plan
12 and also more incentivisation of some of the
13 tracked Or Y factored costs than exists currently.

14 A multiyear rate plan, in my opinion, best
15 satisfies article 48 because it is well-known to
16 have the potential to generate strong performance
17 incentives and lower regulatory cost. Additionally,
18 demand side management can be encouraged in this
19 context very easily and, in fact, so too can
20 marketing flexibility, which might seem a little
21 bit counterintuitive, but they actually can both be
22 encouraged in my view. Of course, multiyear rate
23 plans are widely used in distribution regulation,
24 not only in North America, particularly in Canada,
25 but also around the world.

1 So, in this presentation, I am going to
2 suspend use ordinarily of the term "multiyear rate
3 plan" and just talk about MRIs as if they were the
4 same thing.

5 Alright, so what are the key
6 characteristics of an MRI that would be part of an
7 agenda for phase 3? Well, any MRI has five things
8 that are absolutely essential ingredients. One
9 would be a rate case moratorium. And that will
10 typically be three or four years, meaning that the
11 overall plans are typically four to five years.
12 There is an attrition release mechanism that
13 automatically escalates rates for changing business
14 conditions without tracking the utility's actual
15 costs. Now, MRIs also usually include some cost
16 trackers. In this province, they're sometimes
17 called "pass-through" and "variance accounts". A
18 very common example would be for energy that's
19 procured by the utility.

20 There are also almost always some targeted
21 performance incentive mechanisms. We'll be talking
22 about those. And, of course, there must be, or
23 usually are, some plan termination provisions. Now,
24 in addition to these, you often times but by no
25 means always see a number of other plan provisions

1 that include an earnings sharing mechanism, off
2 ramp provisions, revenue decoupling and marketing
3 flexibility. So, in this presentation, I'm going to
4 talk a little bit about each of these, or almost
5 all of these things.

6 Now, before I go further, I would like to
7 address a confusion that has arisen from both the
8 written evidence and the oral testimony of Hydro-
9 Québec. I would like to clarify that what we're
10 talking about, when we talk about capital cost, is
11 as the table of the revenue requirements that was
12 passed around earlier today, includes the main
13 categories are a return on ratebase, the
14 depreciation, and the taxes.

15 Now, the return on ratebase is the product
16 of a rate of return on ratebase and the ratebase.
17 Similarly, to a first approximation, you can
18 describe depreciation expenses as a depreciation
19 rate times the value of the ratebase. And you can
20 describe taxes as a tax rate times earnings.

21 (13 h 58)

22 Now, a very important point to understand
23 is that attrition relief mechanisms in MRIs usually
24 address all three kinds of this capital cost. In
25 other words, they almost always address the return

1 on rate base.

2 Now, some plans permit revenue adjustment
3 for a change in the rate of return, but I assure
4 you that even that is by no means ubiquitous in PBR
5 plans. Not the least reason being that it is, to
6 some degree, reflected in the input price inflation
7 measure of the plan. So, it is fine for... And it
8 gets complicated because sometimes the rate of
9 return on a rate base is called the cost of
10 capital. So it might seem that if one says that
11 it's common for there to be a Y factoring of
12 changes in the cost of capital, that does not mean
13 that it's common to have a Y factoring of the
14 return on a rate base. In fact, that is very
15 uncommon.

16 Similarly, usually through a Z factor
17 provision, there could be some adjustment to
18 revenue for a change in the tax rate, or there
19 could be a change in the revenue for a change in
20 depreciation rates, that for some reason results in
21 a change in accounting standards. So in my opinion,
22 it's a very unusual argument to say that because
23 the utility does not control the rate of return,
24 that the entirety of the return on a rate base
25 should be Y-factored.

1 Okay. We're gonna talk now about the design
2 of the attribution relief mechanism. I thought you
3 might be interested in seeing this figure, which
4 actually doesn't come out of my evidence. If you
5 wonder why indexed-based mechanism form of PBR has
6 not been more widely used in the United States, one
7 of the prob... or one of the explanations is that
8 for many years, most utilities in the United States
9 were vertically integrated. And in the old days,
10 the cost trajectory of a vertically integrated
11 utility had kind of a stair step pattern. Each
12 riser, or uptick in the cost, was due to the
13 completion of a solid fuel power plant that would
14 usually involve a great deal of capital. Now once
15 that was in the rate base, there would be... that
16 asset would begin to depreciate, slowing costs to
17 virtually a flat level, and then there would be
18 another solid fuel power plant added.

19 And when you have that type of a cost
20 trajectory, it's very hard to design an indexed-
21 based mechanism that would not involve overearning
22 in some periods and underearning in others, and so
23 this was not something that was likely to evolve
24 from a vertically integrated utility.

25 Now energy distributors are rather

1 different from this. The typical energy distributor
2 would just have a gradual growth in cost. Not only
3 do they input price inflation, but for the gradual
4 spread of energy-using facilities throughout its
5 service territory, a shopping mall here, a new
6 housing development there.

7 Occasionally, some individual utilities
8 could have occasion for some sort of a capex surge
9 that would cause its cost to grow a little more
10 rapidly for a few years, but this isn't to say that
11 they don't achieve the long-term productivity
12 trend. Typically, after that capex surge, its cost
13 would grow much more slowly for a number of years,
14 until it finally achieved the long-term
15 productivity trend of the industry.

16 All right. Now there are three common
17 approaches to attrition relief mechanism design.
18 The one that both Concentric and PEG has
19 recommended is the indexed approach, so let's talk
20 some about that. The basic idea is that rate
21 escalation is indexed to inflation, and other
22 external cost drivers based on statistical cost
23 research, and mathematical cost theory indicates a
24 useful expression for designing one of these
25 revenue cap indexes. That would be that the trend

1 in cost is equal to the trend in input prices,
2 minus the trend in productivity, plus the trend in
3 the scale of the utility.

4 Now scale of a power distributor has many
5 dimensions, and they include the number of
6 customers served, the line kilometres, peak demand.
7 So a formula could be pretty complicated. But
8 fortunately, the number of customers trend is very
9 highly correlated with the other two trends, and in
10 particular it's correlated with peak demand, which
11 is actually the single most important driver of the
12 cost of power distribution.

13 So, all of this leads to this type of
14 revenue cap index formula, which is what I would
15 recommend for Hydro-Québec Distribution. That the
16 growth of its revenue equal inflation minus an X
17 factor, plus the growth in the number of customers
18 of Hydro-Québec, plus the sort of Y and Z factors
19 that have been discussed earlier in this
20 proceeding.

21 (14 h 05)

22 Now, there are some differences between
23 this proposal and what Concentric has proposed and
24 one of them has to do with the inflation measure.
25 In my opinion, the better inflation measure is one

1 that, to the extent possible, reflects the external
2 input price trend of Quebec utilities.

3 And so, for this purpose, if there's going
4 to be some sort of a macroeconomic inflation
5 measure, it would be preferable that it be one for
6 the province of Quebec because the Canadian number
7 is going to be distorted by different economies in
8 other provinces and, in particular, it could be
9 more rapid when Alberta is booming and it could be
10 slower, even, when Alberta is in a recession like
11 it is right now.

12 Of course, the labour treatment is
13 ordinarily an external labour price index such as
14 the labour price index for the utility industry of
15 Quebec or for the industrial sector of Quebec, that
16 would probably be better, but it is very, very
17 unusual for there to be a labour price index that
18 is equal to the escalation of the company's own
19 labour prices. It's very rare, it's not used, to my
20 knowledge, in any Canadian province.

21 There are a number of companies that have
22 used this approach, for example - this general
23 approach - for example, Enbridge Gas Distribution
24 and Southern California Gas, who are the largest
25 gas distributors in the United States and Canada

1 respectively, both have used this. Alberta
2 utilities are currently using this.

3 Some variant on this theme is used by
4 Fortis BC, Gazifère, of course, just was operating
5 under this sort of a formula and a similar formula
6 had been improved in principle for Gaz Métro before
7 the suspension of that initiative in order to
8 address issues like cost allocation and rate design
9 for that company.

10 So, many advantages to this approach:
11 prompt, automatic relief for inflation and customer
12 growth. As I've said, power distributors typically
13 have relatively gradual productivity growth. A very
14 important point that HQD's productivity growth
15 should be especially gradual because it serves the
16 entire province.

17 To give you an example, a small municipal
18 power distributor in Ontario might need to replace
19 a substation or to build a substation and it has
20 exactly one substation so that, you can imagine,
21 that would have a big effect on its costs. But of
22 course, Hydro-Québec, being such a mammoth
23 operation, has dozens and dozens of substations and
24 as a portfolio, it is unlikely that a whole bunch
25 of them need to be replaced or significantly

1 upgraded at the same time.

2 Another nice thing about this formula is
3 that all the parties have agreed so far that the
4 number of customers is a great escalator for a
5 revenue cap index for Hydro-Québec so that item is
6 off the table. It's nice to sidestep the whole job
7 of cost forecast by having indexes.

8 And here's a very important point that the
9 utility, with this approach, must grapple with an
10 external productivity growth standard as well as an
11 inflation index. In other words, you start to
12 expose the utility to some of the external price
13 pressures that every other type of company in
14 Quebec has to contend with routinely.

15 Now, there are some negatives to this
16 approach. It does require some statistical cost
17 research and we'll talk in a little bit about how
18 it can be somewhat complex and controversial. It
19 doesn't easily accommodate capex surges so, if
20 there is one, there might be a request for
21 supplemental revenue. And if there is such a
22 request, and a cost tracker must be approved, there
23 are a lot of problems with these trackers which I
24 will be discussing momentarily.

25 Notwithstanding these disadvantages, this

1 is an approach that I recommend and it's also the
2 approach that Concentric recommends, the only
3 difference being the coverage of the index proposed
4 by the two experts in this case.

5 Now, let's talk a little bit about the X
6 factor because that is another area where I
7 disagree with a lot of the things that Concentric
8 said. Concentric proposes that there not be
9 separate consideration - as I understand them - of
10 the base productivity trend and a stretch factor
11 and I think that these should be itemised and
12 separately considered.

13 So, let's talk about each of these
14 individually. A base productivity trend commonly
15 reflects industry productivity research or maybe a
16 particular peer group but it does not, it is not
17 based on judgement. This has been made continually
18 that this is normal. In fact, it's abnormal, in my
19 experience in both the United States and Canada.

20 (14 h 10)

21 The Base Productivity Trend to be based on
22 much of anything other than the industry or peer
23 group productivity studies. And if you look, for
24 example, to ALTA, Alberta, to BC, and Ontario,
25 there was no role for judgement in any of those

1 plans.

2 Notwithstanding that, it is, I would like
3 to say that in addition to learning about the
4 industry productivity trend, it is very pertinent
5 to know how Hydro-Québec has done with its
6 productivity. It would be interesting to know, for
7 various reasons, if it's a little more rapid, if
8 it's a little slower, I have no idea, I've heard
9 some good things about the down-sizing of their O&M
10 expenses, their cost growth has not been
11 extraordinary in the last some odd years, so they
12 don't start out this process suspected of grotesque
13 cost inefficiencies, but it would be very nice to
14 notice, both for purposes of studying the base
15 productivity trend and also for the stretch factor.

16 Now I would like to emphasize next that I
17 was very confused by the discussion of the last two
18 days about what exactly Hydro-Québec is proposing
19 with regards to these productivity studies. At
20 first, I thought there was going to be no studies
21 at all and now, I guess there is going to be one of
22 the company's productivity trend, I wasn't clear
23 whether they reserved the right to file a
24 productivity study.

25 But at any rate, my feeling is that an

1 independently funded study is highly desirable.
2 I've talked about this at length in my testimony,
3 the various advantages, and I'm happy to talk about
4 this further.

5 In the absence of an independent study,
6 there is a very good chance that Hydro-Québec will
7 file a study anyways, and experience has shown that
8 when the other side only gets to critique a study,
9 it's a very ineffective process. We learned this,
10 for example, in Ontario when Mr. Coyne submitted a
11 multi-factor productivity study on behalf of
12 Enbridge Gas Distribution, and my company was
13 called upon to critique it but not to have a
14 separate budget for its own study.

15 And I think that the Ontario Energy Board
16 subsequently realized that that was a very
17 ineffective way of doing things and so, for
18 example, just recently, Ontario Power Generation
19 filed a productivity study, and we were
20 commissioned by the Ontario Energy Board to file,
21 to prepare a counter study.

22 Now there's been a lot said about X factor
23 controversies in Canada, and around, and just as if
24 this is a general phenomena, and I would like to
25 shed a little perspective on this. I've been

1 involved in this field for many years, and in fact,
2 it used to be that there were just one or two
3 companies anywhere in North America that prepared
4 these studies, and we prepared them for utilities
5 because it was utilities that wanted this form of
6 regulation.

7 But in the United States, going all the way
8 back into the nineteen nineties (1990s), the
9 utilities had no scope for a study that produced an
10 unusually slow productivity trend, because frankly,
11 they were very lucky to get approval of these plans
12 at all. In fact, they continued to be rejected to
13 this day, there was one rejected in Massachusetts
14 just two or three years ago, in which I was a
15 witness, in which the industry productivity trend
16 was on the order of positive seventy-five (75) or
17 eighty (80) basis points, and it was rejected by
18 the Massachusetts Commission.

19 So you just can't get away with a
20 lowballing figure on productivity in the United
21 States. Now in Canada, things have been different,
22 because the regulators have been so enthusiastic
23 about this general approach to regulation, they're
24 basically often times compelling the utilities to
25 go under these systems.

1 And the utilities have seen fit to, for one
2 reason or another, to seek about for different
3 productivity numbers than have been produced by
4 utilities in the past. And they typically did this
5 by engaging people who have never done productivity
6 studies before to take another look and see what
7 they come up with as an estimate.

8 And so, indeed, there have been a number of
9 negative productivity results reported by utility
10 witnesses, and the kinds of things that they have
11 done in order to come up with these negative trends
12 would be to have a controversial peer group, have a
13 controversial sample period, and also to use some
14 sort of an exotic capital cost methodology that's
15 very different from the way capital cost is
16 measured in our cost of service regulation. Through
17 things like this, many... several utility
18 consultants have come up with these negative
19 numbers in recent years.

20 I'll come back to the punch line of that
21 story in a minute, but before I do, let's talk just
22 a little bit about the stretch factor. The
23 rationale for a stretch factor is that due to
24 strong performance incentives created by MRI
25 utilities should be able to achieve productivity

1 growth in excess of the industry norm. However,
2 customers may not see the benefit of this superior
3 productivity growth unless it is guaranteed to
4 them, and there are a couple of reasons why. For
5 one thing, there's no guarantee that the utility
6 will actually achieve that productivity growth. I
7 mean, it could be that they have special
8 circumstances that make it impossible, and it could
9 be that they're just not very successful at their
10 cost management.

11 Another problem though is that utilities
12 may achieve the productivity growth between the
13 planned periods, but somehow find a way not to
14 share it with their customers. A common strategy,
15 for example, would be strategic deferrals in which
16 they defer certain expenses throughout one plan,
17 and then seek to obtain supplemental funding for
18 those deferred expenses in either the re-basing
19 year, or through cost trackers in later plans. Of
20 course we all know about the potential for
21 exaggerated cost forecasts to occur in the next
22 rate case as well. So, for these reasons, it's
23 possible that the customer would never see these
24 productivity gains.

25 Now, a common stretch factor range has been

1 around zero point two percent (0.2%), zero point
2 five percent (0.5%), they've tended to be at the
3 lower end of that range in recent years. And if
4 you're seeking about for precedence for explicit
5 stretch factors, well, every single one of the
6 provinces that has this system in Canada has them
7 today. And it's important to note that it's not
8 just for first generation plans. And indeed, if the
9 Commission wants to specify that a stretch factor
10 be considered in the final plan, I encourage them
11 not to say that these stretch factors are there
12 just for a first generation plan to pick up the
13 lowest of low-hanging fruit that might exist at the
14 very outset of a sequence of PBR plan. That's a
15 mistake that the Alberta utility commission made,
16 and now, as we get into a new generic proceeding
17 for second-generation PBR, you know, all the
18 utilities are saying, well, you said that this is
19 just for the first generation, even though in both
20 British Columbia and in Ontario, stretch factors
21 are used routinely in later generation plans.

22 I would also note before I leave this topic
23 that Ontario stretch factors are based on a fairly
24 sophisticated econometric cost bench-marking model,
25 and I'll be talking more about the idea of bench-

1 marking later on in the presentation.

2 So, here, we come back to our punch line
3 that I promised, well, the... Concentric presented
4 this table on which it showed some of the range of
5 study results, and they didn't... the range of
6 results was an interesting one, because, for
7 British Columbia, the lower bound was zero because
8 the consultant had recommended a zero X factor, but
9 what was the actual estimated productivity trend in
10 the study that that newcomer to productivity
11 measurement had reported, why, it was negative four
12 percent (-4%). It was a negative four percent (-4%)
13 productivity trend but they recommended a zero
14 percent (0%) base productivity trend.

15 So, at any rate, although there has been a
16 wide range of results in recent years in Canada,
17 not in the United States, regulators have never
18 agreed to any of these negative productivity
19 trends, and the idea that everyone knows that the
20 productivity trend is now negative, that is
21 anything but the case. In fact, no North American
22 regulator has ever acknowledged a negative
23 productivity trend.

24 It's also interesting to note, well, what
25 do the utilities actually propose? And in Alberta

1 right now, they are proposing negative trends, they
2 all are, but in Ontario, Ontario Power Generation
3 just proposed a zero percent (0%) base productivity
4 trend, and Fortis B.C., just two (2) or three (3)
5 years ago proposed a zero point five percent (0.5%)
6 base productivity trend.

7 Now, I want to talk a little bit about the
8 alternative forecasting approach because it's
9 pertinent to the whole idea of getting some
10 supplemental revenue for capital. This is an
11 approach where revenue escalation is based on a
12 multi-year cost forecast. So, typically it's going
13 to be something like three percent (3%) in two
14 thousand eighteen (2018), two and a half percent
15 (2-1/2%) in two thousand nineteen (2019), and in a
16 proceeding to approve this type of an attrition-
17 relief mechanism, the controversy is going to
18 centre on controllable costs, like OpEx and CapEx.

19 You see some of these plans in Ontario, and
20 a couple of other Canadian provinces. You also see
21 it in the United States, in California and New York
22 and Washington state.

23 So, let's talk a little bit about the pros
24 and cons of this approach. One thing that's nice
25 about it is that it does accommodate a CapEx surge

1 if one is coming down the pike. It also sidesteps
2 the whole index research thing. And, after all,
3 Quebec does have a forward test year tradition so
4 that everyone in this room has a little bit of
5 experience of looking over the horizon and making
6 forecasts.

7 (14 h 20)

8 Dr. MARK NEWTON LOWRY:

9 A. But there are also many disadvantages. One, a
10 smaller one perhaps is that these fixed stair steps
11 don't reflect real-time inflation if there was a
12 hyper-inflationary episode, but the other ones are
13 more important. And let me start with this very
14 important one that multi-year cost forecasts are
15 difficult to review.

16 A lot has been said in this proceeding how
17 it can even be optimal for the Commission just to
18 consider a company's cost forecast and sign off on
19 it. It's actually what's characterized as optimal.
20 But of course it's very difficult for a Commission
21 to recognize an efficient cost trajectory for
22 capital cost or for power supply, it's a burden
23 placed on a Commission, and it's not at all
24 surprising that they would struggle with that
25 burden.

1 Of course, it doesn't help matters that the
2 utilities are incentivized to exaggerate their cost
3 growth, so it is, there's a lot of problems there.
4 Of course, why would a Commission want to pre-
5 approve some sort of a capital cost budget so that
6 they are reducing their ability to call into
7 question that budget at a later date.

8 Another problem is that it's so hard for a
9 Commission struggling with this type of an approach
10 to ascertain what's the value to customers, how do
11 we know whether this is a good deal, how do we
12 know, when we drive home at night, that we did a
13 good job in permitting a five percent (5%) increase
14 for Hydro-Québec? It's very hard.

15 And, of course, the utility is going to
16 elude an industry productivity growth standard if
17 it were to go down this pike, I can assure you that
18 there's just no way that something based on their
19 forecasts, even as amended by the Régie, is ever
20 going to reflect the productivity growth of the
21 industry.

22 So, of course, regulators that have been
23 doing this for a while are well aware of these
24 problems, and so, as they gain experience with this
25 approach, they increasingly resort to paying money

1 for independent engineering and benchmarking
2 studies and to develop their own independent views
3 of what the company's cost forecast should be.

4 And even where that is not done, the
5 regulators may require the utility to, in its cost
6 forecast, to integrate, to the extent possible,
7 benchmarking or productivity-based budgeting, or to
8 use formulas wherever you can in your cost
9 projections where we can then assess the
10 reasonableness of the forecast.

11 Now briefly note that there's also this
12 hybrid approach where you would use indexing for
13 O&M expenses and just reserve your forecast for
14 capital. And this is an approach with a long
15 history going back to the nineteen eighties (1980s)
16 in California. I mention it here because I think
17 the Commission has an interest in this because they
18 asked questions about what about the Hydro, the
19 Toronto Hydro C-factor approach, and basically,
20 this is one of these hybrid approaches.

21 And all my analysis about the forecasting
22 approach applies here, except that at least here,
23 the O&M expenses are subject to indexing in the
24 Toronto Hydro approach.

25 Okay, so let's go to the other issues, and

1 if you're going to go with an index-based attrition
2 relief mechanism, then you better be familiar with
3 the issue of capital cost trackers, so that's why I
4 start with this one. Because if a utility does
5 have, experienced a cost surge, then there, a capex
6 surge, then they might very well ask for some
7 supplemental revenue.

8 And I'm going to, just for fun, I'm going
9 to use the example of Hydro-Québec's office
10 building. Now if you want to see whether an office
11 building might be too fancy for a utility, look at
12 the one that was recently built by EPCOR in Canada,
13 I mean, those of you who are in the back rows, just
14 for fun, Google "EPCOR office building, Edmonton",
15 and you'll see this wonderful palace that they
16 recently built.

17 Meanwhile, just down the street from here,
18 we have Hydro-Québec's kind of run-down offices.
19 I'm sure the real estate is appreciating underneath
20 them, but it looks like they could use a new office
21 building in a few years time. And -- even I feel
22 sorry for them -- and so would there be a cost for
23 them to get extra money under an indexing plan to
24 build a new office building? It's a fair question.

25 So I want to talk about some of the pros

1 and cons of these capital cost trackers, but let me
2 just say that this has been a very very big issue
3 in Alberta, and Mr. Coyne made reference to, there
4 is a generic proceeding right now in which they are
5 very unhappy with the decisions that they made
6 about capital cost trackers, and they are trying to
7 figure out what to do next in a mid-term review in
8 Year 4 of a 5-year plan.

9 (14 h 25)

10 It has also been an issue in Ontario, and
11 they're continually revising their approach, and no
12 one is to say that it's a perfect approach that
13 they've done there either. So there are some
14 reasons to have capital cost trackers and one would
15 be that some CAPEX is idiosyncratic. Now, what I
16 mean by that is that utilities in a productivity
17 sample are always building stuff. And so, that's
18 one of the reasons that the X factor is as low as
19 it is. But some... maybe a utility could be called
20 upon to do something in the way of capital spending
21 that's just like what other utilities in the sample
22 would be. So, that would be an idiosyncratic type
23 of CAPEX for which maybe they deserve some extra
24 money. Lots of times, people also agree that
25 mandated CAPEX might need to be passed through; for

1 example, for a major highway relocation, or subway
2 construction, or something like that.

3 Of course, there's a general argument that
4 if you do have some trackers for some CAPEX, you're
5 reducing the company's operating risk and maybe
6 that's what it takes to make indexing possible, as
7 long as those benefits of the lower risk are shared
8 with the customers. But there are three pros I put
9 here and then, there's a whole page of the
10 negatives for the capital cost trackers. Let's
11 start with the fact that the CAPEX surge is going
12 to include the CAPEX that is incurred by utilities
13 routinely in the productivity sample. Let's take
14 the office building. Of course, all the office
15 buildings are reflected in the productivity trend
16 of the productivity study. So, why give someone
17 extra money when it's built-in to the productivity
18 trend already? Nextly, that, yes, there could be a
19 capital revenue shortfall when that office building
20 first hits the books. Let's say it's in year 3 of a
21 plan. But in every future plan, that same asset is
22 going to create surpluses for the company because
23 between rate cases, it is going to get escalation
24 by I minus X plus G . And yet, its cost is gradually
25 decreasing because of depreciation. Of course,

1 utilities are prone to highlight their capital
2 revenue shortfall while ignoring surpluses. I
3 really can't emphasize enough that how multiyear
4 rate plans create a whole new set of games that
5 utilities can play to bolster their earnings a
6 little bit in a way the revenue department of a
7 utility is like a revenue maximization unit of the
8 utility... the rate department is because they can
9 think of all these ways to ask for some extra money
10 for the same services. So, they'll naturally tend
11 to highlight. The problem is they may not talk much
12 about the surpluses.

13 Finally, of course, companies are
14 incentivized to exaggerate their CAPEX needs. And
15 there's extensive discussion of that in my
16 evidence, using the two examples of Britain and
17 Australia, which are quite hair-raising.

18 So, overall, there might be some role for
19 capital cost trackers, but you must understand
20 there's a very material risk of over-compensation.
21 And that's exactly what the Alberta Utility
22 Commission is grappling with right now.

23 Now, in addition to these problems, first
24 of all, if you have that capital... if you have a
25 capital cost tracker and it's a fairly wide one,

1 well, this is going to permit the utilities to
2 evade the utility productivity growth standard.
3 They certainly have in Alberta. I mean, it's
4 basically just gone right out the window. I mean,
5 they've had a request for supplemental revenue
6 approved in Alberta, and we've done research on
7 this to find that the impact of that on revenue
8 requirement is comparable to that of a US power
9 distributor that was directly hit by a hurricane.

10 There has been, of course, required
11 implicit approval of CAPEX plans. Again, our
12 Commissions would prefer not to do that. It's, of
13 course, again, difficult for the Commission to
14 ascertain the need for a CAPEX surge. You know,
15 things that are particularly hard for a Commission
16 to get their arms around are things like, some
17 proposals for accelerated replacement investment.
18 Why? You didn't do it... you weren't doing it up to
19 now, and suddenly you're in a hurry. Or one of
20 these asset management programmes. That's something
21 that is very hard for a Commission to know the
22 prudence of and the long-term wisdom of.

23 Of course, also, are there are any true-ups
24 to actual plan additions that's going to weaken
25 performance incentives. And that's also been a

1 problem in Alberta. Now, there are a lot of
2 remedies for capital trackers. If you do have them,
3 the most important one is to just limit the scope
4 of CAPEX that is eligible for tracking but you can
5 also be incentivizing the tracker by, for example,
6 having a hard CAP on the supplemental revenue. You
7 could also... just... and these are examples out of
8 my testimony, just raise X every time they asked
9 for some supplemental capital revenue, so that, in
10 the long term, the customers guarantee to benefit
11 of industry productivity growth, raise it by just a
12 little bit so that over the course of thirty (30),
13 forty (40) years, that the utility... the customer
14 is going to be compensated for offering that
15 supplemental revenue.

16 (14 h 30)

17 So, my recommendations are that there be no
18 capital cost tracker for Hydro-Québec Distribution,
19 I would permit... I would, if it was me, permit Z-
20 factoring of idiosyncratic and mandated capital
21 costs. And if the Commission is going to allow
22 capital cost trackers, then I wouldn't say too much
23 about it in the conclusion of this phase 1, because
24 the issue has not really been that thoroughly
25 discussed in this proceeding. Just say that

1 there'll be some allowance for this. In some form.

2 Okay, let's turn next to marketing
3 provisions. Price cap, the price cap approach to an
4 MRI can encourage better marketing in a couple of
5 different ways, and one is stronger marketing
6 incentives. So I understand that with a price cap,
7 the utility is more on the hook for, if there is a
8 loss of system use for some reason, or because of
9 its bad marketing, or for its inattentive service,
10 it's simply gonna have to absorb that between rate
11 cases.

12 On the other hand, you know, with current
13 rate designs which have fairly high usage charges
14 for Hydro-Québec, they can benefit from good
15 marketing and attentive service.

16 There is also, under a price cap, greater
17 ease for the Commission to permit a certain amount
18 of marketing flexibility. Because the rate cases
19 there, and we hold every four or five years, costs
20 that don't have to be allocated so frequently
21 between service classes, and also that the core
22 customers are going to be insulated from rate and
23 service offerings to other classes between rate
24 cases. So if some discount were offered to a large
25 industrial customer, that the residential customer

1 is gonna be protected from that.

2 Well, these advantages of price caps are
3 offered to a large industrial customer that the
4 residential customer is going to be protected from
5 that. Well, these advantages of price caps are so
6 great for marketing flexibility that in fact many
7 price cap plans have marketing flexibility,
8 particularly well-known to be true in the telecom
9 industry; it's one of the reasons that the telecomm
10 industry, including companies here in Canada, went
11 to price caps.

12 In the context of an electric utility, it
13 would more likely be in the form of light-handed
14 regulation of discounts and optional rates and
15 services.

16 Now, I'm going to switch gears and talk
17 about what's almost the opposite of marketing
18 flexibility, the opposite of promoting use of your
19 system, what about encouraging conservation?
20 Because that's something that's also important in
21 power distribution regulation. My analysis of Hydro
22 Quebec's current regulatory system is that they
23 have weak incentives to embrace all distributed
24 energy resources, and by "distributed energy
25 resources," I mean demand side management,

1 experimental rate designs with high usage charges,
2 or time-sensitive usage charges, and also
3 distributed generation and storage. All of these
4 things are not encouraged by the regulatory system.

5 What are the problems? Well, for one, Hydro
6 Quebec has a throughput incentive with its current
7 fairly high usage charges, such that it benefits
8 from rising system use. And it's important to note,
9 and I think it was not emphasised by the Concentric
10 witnesses, that this is a problem that looms larger
11 in a multi-year rate plan than it does when you're
12 having annual rate cases.

13 Relatedly, if Hydro Quebec was to use its
14 new AMI systems to have a lot of weight, a lot
15 higher usage charges in pique periods, like in the
16 winter months than it does the rest of the year,
17 well, the revenue would be more vulnerable to
18 winter weather conditions. And that's something
19 that they're also discouraged from doing. In fact,
20 I think they've never proposed using their AMI for
21 time-sensitive base rates is my understanding.

22 Of course, also we talked about how, with
23 frequent rate cases and a lot of cost trackers,
24 they have weakened the company's cost containment
25 incentives, and if you don't have an incentive to

1 contain your cost, then you're going to be less
2 likely to use things like demand side management as
3 a tool in cost containment.

4 Of course utilities in general are
5 indifferent to environment externalities, so put
6 all that together and you have cause for concern.
7 But there's help to the rescue, what I'm going to
8 call a four (4)-legged stool that supports
9 distributed energy resources. Some of these happily
10 are already on the go here in Quebec. There is
11 already a tracking of demand side management
12 expenses. There is a DSM performance incentive
13 mechanism in the form of the amortization of DSM
14 expenses. Now, you can then add to this a
15 comprehensive MRI that has a multi-year rate plan,
16 and maybe some incentivization of the cost tracker
17 costs, and add to that revenue decoupling, then you
18 have a state-of-the-art system for encouraging the
19 utility to embrace efficient distributed energy
20 resources.

21 Now, what I do mean by revenue decoupling?
22 Well, I think most of you know that it uses
23 variance accounts and rate riders to help the
24 actual revenue of the utility track the allowed
25 revenue. And there are a lot of advantages to

1 decoupling. It eliminates the throughput incentive,
2 and it can immediately and entirely eliminate that
3 incentive. It can also immediately and entirely
4 eliminate the risk of rate designs that foster
5 demand side management. There's a general risk
6 reduction because you're automatically compensated
7 for, say, downturns in the demand due to the
8 business cycle.

9 And another nice thing is that you can
10 eliminate revenue forecast controversy in a forward
11 test year rate case. Now, mention was made with the
12 first panel about a tendency of Hydro Quebec,
13 despite many, many years of frequent rate cases,
14 they always seem to over earn. And part of the
15 reason for that, I wouldn't be surprised, is
16 because of conservative estimates of their revenue
17 growth, and this would simply not be a problem in
18 the future if you had revenue decoupling.

19 (14 h 38)

20 Now, there is some downside to revenue
21 decoupling too, and one is that some loads actually
22 merit the encouragement, so you don't... and I've
23 mentioned price-sensitive industrial customers;
24 there are also some uses of electric power today
25 that are actually environmentally beneficial, like

1 electric vehicles. Electric vehicles might be
2 discouraged in Quebec by the chilly weather, but
3 it's encouraged by a large metro area, like
4 Montreal, on the other hand. So, for these reasons,
5 revenue decoupling usually does exclude large
6 volume customers. So, my recommendation is to have
7 revenue caps and decoupling for most Hydro Quebec
8 customers, and to have price caps and marketing
9 flexibility for large industrial customers, and
10 also for environmentally benign uses such as
11 particularly electric vehicles. The question was
12 asked repeatedly of the Concentric witness, "Is
13 there any incentive for having this mix of revenue
14 caps and not revenue caps?" and here's the answer.

15 First of all, of course, I've already
16 mentioned that price caps are widely used in MRIs
17 for both energy and telecom utilities. A comment
18 was made several times that price caps are becoming
19 less common. I kind of wish that was true because
20 I'm an advocate for revenue decoupling but, in
21 fact, price caps are still used for power
22 distributors in Alberta and in Ontario. They were
23 also used in all of the MRI plans in Mr. Coyne's
24 native State of Massachusetts.

25 I've already noted that revenue decoupling

1 often excludes are large volume customers and,
2 finally, this question that was asked, "Well, is
3 there any place where they mix, have an MRI that
4 has decoupling for some customers and not for
5 others." and an example would be the State of New
6 York, it's one state that's got that.

7 Plan termination provisions, usually a plan
8 is going to have a provision for a rate case at the
9 end. But if you do have that provision, there are
10 problems that should be recognised. Of course, as
11 always at that rate case, cost and billing
12 determinant forecasts can be exaggerated. But also,
13 cost containment incentives are really going to
14 weaken in the last plan years if a rate case is
15 looming. Why, for example, would you spend any
16 money in the last year of a plan on something
17 that's going to cut your cost in the future, if the
18 benefit of that is just going to be passed through
19 to the customer in the next rate case.

20 Also, we are basing along with cost
21 trackers invite these strategic cost deferrals that
22 we talked about. And the general approach to trying
23 to address this problem that is being developed but
24 is still very much a work in progress is the
25 efficiency carryover mechanism and I recommend that

1 efficiency carryover mechanism be on the list of
2 characteristics for consideration in the third
3 generation of this proceeding.

4 Now, the basic idea of an efficiency
5 carryover mechanism is that the revenue requirement
6 will not be trued up a hundred percent (100%) to
7 the utility's cost in the rate case. But you want
8 to do that in a certain way and the way is to
9 effectively, if you think about the intuition of
10 it, you will want to reward utilities when
11 customers get good value in the next plan. You
12 might also consider penalising the utilities if the
13 customers don't get good value, get poor value in
14 the next plan.

15 How do you know when you've got good value
16 and bad value? Well, some sort of a benchmark - not
17 necessarily statistical benchmarking - but some
18 kind of a benchmark has to be used and a number of
19 experiments have been done with that. I mentioned
20 one in my testimony, for example, involving
21 National Grid in the State of Massachusetts.

22 In many ways the rationale for the
23 efficiency carryover mechanism : encourage lasting
24 cost savings, discourage the strategic deferrals
25 and also that, just from the strengthening of the

1 performance incentives that the ECM can achieve,
2 potentially you can have shorter plan periods. So,
3 I know that Concentric is advocating a three-year
4 plan period and I've advocated four. But even with
5 a four-year plan period, if you had a proper
6 efficiency carryover mechanism, you would kind of
7 supercharge the incentive properties of a plan
8 that's even that short.

9 I'm getting close to the end. Our
10 performance metrics. I discuss in my testimony how
11 metrics have many uses in a plan and I like to
12 think of the concept of a performance metrics
13 system that includes some metrics for which there's
14 only monitoring, some metrics that have a target
15 but don't have any money attached to it and,
16 finally, a proper performance incentive mechanism
17 that actually has some money riding on it.

18 And if you want a nice example of that sort
19 of a full-fledged system, just look at what they
20 have under the RIIO system of regulation in
21 Britain, it's a good example.

22 So, what would be on a short list of these
23 performance metrics? That's a question the Régie
24 asked in commissioning me to do this study. Well,
25 at the traditional uses of the performance

1 incentive mechanisms was to address concerns that
2 arise because a company is under stronger cost
3 containment pressures than in the past. So, things
4 like reliability, customer service and workers
5 safety. In my opinion, all of those merit some sort
6 of dollars attached to achievement of a certain
7 target.

8 (14 h 43)

9 Now, I also note in my testimony that
10 whether or not utilities are under MRIs, it's very
11 common in the United States for there to be some
12 sort of a performance incentive mechanism for
13 demand-side management. So, and you might wonder,
14 well, even in the context of PBR, yes, or an MRI,
15 yes, certainly; in fact, it's a very customary in
16 New York and California, for example, both have
17 this feature. So I recommend that there be some
18 such mechanisms for Hydro-Québec. Now, in a sense,
19 Hydro-Québec already has one such mechanism because
20 they are permitted to amortize their DSM expenses.
21 I don't know for sure if that's the ideal way of
22 doing it, but it is certainly a step in the right
23 direction.

24 But my concern is greater, is that that
25 type of amortization of expenses is not going to

1 reach some very important other types of DSM
2 activities that don't really cost much money and
3 yet can have a lot of impact on Demand Side
4 Management.

5 Things like peak load management doesn't
6 really cost a lot of money, particularly after the
7 AMI is installed, but then also, miscellaneous
8 market transformation initiatives that the utility
9 could attempt, in order... in an effort to tilt
10 markets in the direction of, for example, markets
11 for conservation equipment and services, tilt
12 markets in ways that encourage Demand Side
13 Management.

14 Now I also think that HQD needs an upgrade
15 on its cost performance metrics. It routinely
16 presents a few in its rate cases, but I think they
17 need to be upgraded. For example, in as much as
18 we're interested here in starting under some sort
19 of index-based multi-rate plan, we should start
20 properly measuring their O&M productivity, capital
21 productivity, and multifactor productivity. Mr.
22 Coyne often mentioned, in his commentary, partial
23 factor productivities, and by that is meant the O&M
24 and the capital productivity, but also, you know,
25 the multifactor productivity.

1 As well, there is a lot to be said for
2 getting started on statistical benchmarking, and
3 that does not necessarily have to be confined to
4 cost because the data on reliability are getting
5 better all the time in the United States, such that
6 it's quite feasible now to do a transnational
7 econometric study of Hydro-Québec's reliability as
8 well.

9 Power supply, one of the last issues to
10 address, my review of this situation is that Hydro-
11 Québec Distribution has weak incentives to contain
12 its power supply costs. One problem is the tracker
13 treatment of these costs; the other problem is that
14 Hydro-Québec Production is the principal supplier;
15 put these two together and the incentives are just
16 weak. And I think it's, not only, there's simply no
17 Commission that is going to be able to, that is
18 going to make sure that a power supply plan is done
19 well -- the example of the Bécancour power plant
20 was mentioned with the earlier panel, and it's just
21 an example of where things have gone wrong in the
22 past.

23 There are various ways to strengthen power
24 supply incentives, the power supply performance
25 incentive mechanism is one way to go. But in my

1 evidence, I don't really confine myself to that,
2 some sort of incentivized cost tracker could also
3 be suitable for the purpose. I also provide, in
4 answers to data requests, a whole lot of ideas
5 about how such programs can be implemented.

6 I would like to note... okay, and, of
7 course, I've already talked about the performance
8 incentive mechanism for peak load management, I
9 mean, that is the part of Hydro-Québec's power
10 supply costs that they have the most control over.
11 So, you know, just having some sort of better
12 incentives for peak load management would be very
13 helpful.

14 Now as for the precedents, there was
15 discussion -- what are the precedents for this?
16 Well, for one, as I mentioned in my testimony,
17 there are numerous precedents for gas supply cost
18 performance incentive mechanisms. I've come to find
19 out from the last panel that Concentric has
20 actually testified in support of these mechanisms,
21 and a comment was made that, "Well, that's a
22 different industry because they are relatively
23 liquid gas markets."

24 Well, it's true that the markets are better
25 developed in the gas industry, but just adjacent to

1 Quebec, there are well-developed markets in both
2 Ontario, and particularly in New York State. And
3 the Régie itself filed a set of questions about gas
4 supply management that implicitly was using New
5 York State benchmarks to appraise the power supply
6 costs of Hydro-Québec.

7 And one thing that's important to note
8 about when you use some of these market prices in
9 the design of one of these things is that, the
10 utility can often really reduce its risk by just
11 mimicking what the benchmark is, I mean, if they
12 were to, you know, acquire their power the same way
13 that the benchmark works, then they would really
14 contain their risk.

15 Now, you hope that they will be more
16 imaginative than that and they'll learn how to take
17 a few chances away from that, but I'm just pointing
18 out that one of the reasons that it worked for the
19 gas distributors is that they could effectively
20 mimic the gas procurement strategy that was in the
21 benchmark if they wanted to. Now, has there ever
22 been a utility that had both an energy-procurement
23 incentive mechanism and a MRI, and the answer is
24 yes, it's happened on numerous occasions in the
25 state of California. The California utility,

1 California gas distributors were a leader in the
2 development of these gas supply incentive
3 mechanisms, and it's interesting to note that,
4 where they were approved in California, that it was
5 an explicit understanding -- I could point to
6 decisions where this was actually stated -- that
7 one of the benefits of this is to reduce the need
8 for prudence reviews of gas procurement incentives.
9 In other words, it makes the commission's review
10 easier if they know that there are some incentives
11 working in the right direction.

12 I would also note that I provided in my
13 testimony a number of examples where electric
14 utilities have had these things. It's true that I
15 don't know that there are many examples of any
16 where they were actually under an MRI, but part of
17 the reason for that is that, look, it's the power
18 distributors that would be most likely to have an
19 MRI for this, but the power distributors in the
20 United States do not have a monopoly on the power
21 procurement service. In fact, their regulator would
22 like the customers to wander off and choose their
23 own power supplier.

24 So, when the company is providing a power
25 procurement service, it's in the flavour of a

1 provider of last resort, and the attitude of the
2 commission oftentimes is, look, you know, if you
3 don't like what you get out of this system, you can
4 go to a competitive market supplier.

5 So, putting all this together, I have these
6 performance metric recommendations. I think it
7 would be great to have performance incentive
8 mechanisms for SAIDI and SAIFI, they ought to be
9 based on an IEEE 1366 standard so that there can be
10 more comparability with what's going on in the
11 United States. One of the problems with the design
12 of these things is averaging in urban and rural,
13 and of course, here in Quebec, you know, it's a
14 classic... I mean, it's unusual, in fact, that
15 there's this large metro area, large and wonderful
16 metro area, but then this large rural area as well,
17 and so, really, you know, you need to be having
18 separate metrics for the separate regions.

19 The usual run of customer service
20 mechanisms, as customer service metrics, I'm in
21 favour of somehow expanding the scope of the DSM
22 performance incentive mechanisms, and finally,
23 something for power supply costs, if not a
24 performance incentive mechanism, then some type of
25 incentivized tracker.

1 Now, over on the other side, I have a whole
2 bunch of other things that would be perfectly fine
3 to put into a performance metric system, and I
4 think a lot of the very capable interveners groups
5 here in Quebec might have their own ideas for some
6 other ones that I've missed here; that would be a
7 great thing to address in Phase 3 is the exact
8 nature of this whole performance metric system.

9 So, just about done. Here is just a summary
10 of all of my recommendations, and I only note here
11 that I've skipped a couple of topics. I skipped
12 talking about earning sharing, or off-ramps, and
13 maybe a couple of other things, and I'm happy to
14 field questions about those. But I hope, through
15 this presentation, that I have kind of highlighted
16 what I think are the key issues in designing... in
17 coming up with characteristics for Phase 3.

18 LA PRÉSIDENTE:

19 Thank you.

20 Me GUY SARAULT:

21 Q. [170] Just a slight typo that I believe I picked up
22 during your presentation, Dr. Lowry.

23 A. Do tell.

24 Q. [171] Okay. Pages 20 and 21, okay, you present, at
25 page 20, forecasting as alternative approach number

1 1, and you continue on page 21 with alternative 2
2 forecasting.

3 A. You're right.

4 Q. [172] It should be alternative 1 continued, because
5 alternative 2 is hybrid at page 22, correct?

6 A. Yes, thank you.

7 Q. [173] Okay. Have you anything to add over and above
8 your presentation?

9 A. No.

10 Q. [174] Thank you.

11 (14 h 55)

12 M. LUC BOULANGER :

13 R. ... dans mon enthousiasme débordant...

14 Me GUY SARAULT :

15 Q. [175] Excusez-moi, je ne vous avais pas aperçu...

16 R. Oui, j'ai essayé de vous signaler, malheureusement,
17 vous ne me regardiez pas.

18 Q. [176] Je suis désolé. Je m'en excuse, vous êtes mon
19 client.

20 R. Ne vous en faites pas, vous n'êtes pas le seul.

21 Alors j'ai oublié de mentionner un point tout à

22 l'heure, dans mon enthousiasme débordant. Alors

23 Hydro-Québec a pris position en ce qui concerne les

24 comptes de frais reportés que dans son mécanisme,

25 ils demeuraient tels quels, qu'ils en proposaient

1 même un autre dans le prochain dossier tarifaire,
2 alors on n'a pas vraiment cette position-là.

3 Je pense que dans le cas du MRI,
4 exactement, il nous faudrait revoir quels sont les
5 comptes de frais reportés qui pourraient être
6 abandonnés au profit du MRI. Et je pense entre
7 autres à l'exemple que vous avez donné, Maître
8 Duquette, qui était le « fuel cost ».

9 Alors le « fuel cost », c'est nous qui
10 avions obtenu, l'AQCIE à l'époque, ce compte de
11 frais reportés et ce que nous essayions de viser à
12 l'époque, c'était de capturer la différence entre
13 le prix projeté puis le prix réellement payé. Parce
14 qu'on avait constaté que, année après année, le
15 prix projeté était toujours plus élevé que le prix
16 réellement payé et, évidemment, on perdait ça. Avec
17 le compte de frais reportés, bien, évidemment, on
18 récupérait la différence entre les deux.

19 Dans un mécanisme de MRI, ce qu'on vise, ce
20 n'est pas le prix vraiment payé, c'est le meilleur
21 prix possible qui pourrait être payé. Et on serait
22 disposés certainement à donner un « incentive » si
23 jamais le Distributeur, dans ses acquisitions de
24 « fuel », était capable de battre un index. Alors
25 je pense que c'est non seulement contrôlable mais

1 il y a des stratégies d'achats qui pourraient
2 permettre de pouvoir être plus efficaces là-
3 dedans.

4 Alors c'est un exemple que je vous donne,
5 en bâtissant sur ce que vous aviez annoncé, et je
6 soupçonne que dans d'autres comptes de frais
7 reportés, on pourrait les examiner de façon précise
8 pour voir si on serait mieux servis avec un
9 mécanisme de MRI qu'avec le compte de frais
10 reportés comme tel.

11 Dr. MARK NEWTON LOWRY:

12 A. Now I have to say something else, that is that,
13 speaking of fuel costs, that is one of the smaller
14 issues I didn't mention, but yes, potentially, fuel
15 costs would not have to be tracked and could be, I
16 didn't actually propose in my evidence that they be
17 included amongst the Y-factored items, and if
18 you're concerned about fluctuations in the price of
19 fuel, you could add a price of fuel to the
20 inflation measurement.

21 LA PRÉSIDENTE :

22 Merci. Alors ça complète la présentation?

23 Me GUY SARAULT :

24 Là, je regarde attentivement et je pense que,
25 effectivement, que ça complète. Merci.

1 LA PRÉSIDENTE :

2 Alors j'inviterais maintenant maître Cadrin, ou
3 souhaitez-vous...

4 CONTRE-INTERROGÉS PAR Me STEVE CADRIN :

5 Alors bonjour. Steve Cadrin, pour AHQ-ARQ. Merci
6 beaucoup.

7 Q. [177] Dr. Lowry, my first question would be the
8 following. We have seen that the MRI proposed by
9 HQD provides incentives for only fourteen point two
10 percent (14.2%) of its costs. To our knowledge,
11 unlike your report, HQD proposes no financial
12 incentive, or performance indicators, in regards to
13 the remaining eighty-five point eight percent
14 (85.8%) of the costs. Is that your understanding
15 too of HQD's proposal?

16 Dr. MARK NEWTON LOWRY:

17 A. Well, I'll accept that specific figure subject to
18 check...

19 Q. [178] It's...

20 A. ... I will accept that number subject to check; in
21 other words, you're probably right. Because most,
22 there are so many Y factors, including the power
23 supply and the transmission, and then even a lot of
24 the cost to base rate inputs is effectively
25 excluded. For example, the labour costs are

1 effectively excluded, as is the return on the rate
2 base. So it's a very small percentage that would
3 actually be covered, you're right.

4 Q. [179] Percentages set aside, a large part of the
5 costs, and we'll provide the numbers when we get to
6 our testimony, a large part of its costs is under
7 the scrutiny of the Régie, do you believe that it
8 is the best...

9 (15 h)

10 Me ÉRIC FRASER :

11 Je m'excuse, Madame la Présidente, ça participe
12 d'un problème qu'on a discuté. Là, j'ai
13 l'impression d'entendre des contre-interrogatoires
14 de complaisance où on fait ressortir notre thèse
15 via l'expert. J'ai un problème. Il y avait une
16 tradition à l'effet qu'on interdisait ça puisque ce
17 n'était pas du « fairplay » compte tenu que tout le
18 monde qui utilise l'expertise de monsieur Lowry à
19 leur escient vont revenir avec des questions
20 fermées pour lui faire répéter des choses en leur
21 faveur. Alors, ça me pose un petit problème.

22 Mais je ne voudrais pas contraindre les
23 gens de pouvoir poser des questions, mais encore
24 faudrait-il que ce soit des questions de
25 clarification au bénéfice de tous. Mais lorsqu'il

1 s'agit de contre-interrogatoires de complaisance,
2 j'ai un problème et je m'objecterais à ce type de
3 questions.

4 Me STEVE CADRIN :

5 Madame la Présidente, si je peux me permettre
6 d'interrompre votre délibéré qui est commencé.
7 Qu'est-ce qu'il y a, Maître Fraser? Est-ce que je
8 peux vous aider?

9 Me ÉRIC FRASER :

10 Bien ce n'est pas un délibéré...

11 Me STEVE CADRIN :

12 Je n'ai pas eu la chance de vous parler, je
13 m'excuse, puis je n'ai pas voulu vous interrompre
14 surtout pas pendant que vous aviez une discussion
15 entre vous, régisseurs, devant. Alors, avant que
16 vous rendiez votre décision, j'apprécierais peut-
17 être vous parler quelques instants si vous le
18 voulez bien. À moins que ce ne soit pas utile,
19 parce que l'objection est rejetée. Je m'excuse,
20 c'est parce que j'essaie d'être poli. Généralement
21 quand les gens se confèrent entre eux...

22 LA PRÉSIDENTE :

23 Je vais prendre la parole. J'allais vous dire que
24 nous rejetons l'objection pour l'instant, mais sous
25 réserve que les questions que vous allez poser

1 visent à appuyer la preuve de l'AHQ-ARQ. Alors si
2 vous pouvez procéder si ça vise des questions qui
3 veulent appuyer votre preuve.

4 Me STEVE CADRIN :

5 D'accord. Bien, je prends note de la directive.
6 Mais je peux vous dire que j'étais déjà conscient
7 de la possibilité d'une objection sur la
8 complaisance des questions. Donc j'étais prêt. Et
9 les questions sont, selon moi, alignées comme vous
10 venez de le décider. Maintenant, j'étais dans les
11 questions d'ouverture juste pour placer les... Je
12 vais avoir de la difficulté à finir mes discussions
13 aujourd'hui.

14 Me ÉRIC FRASER :

15 Vous pouvez continuer.

16 Me STEVE CADRIN :

17 Vous êtes prêt. D'accord. Alors, simplement pour
18 vous dire tout simplement que, là, peut-être pour
19 éclairer mon confrère, je place certains jalons
20 avant de poser ma question, je dirais, principale.
21 Mais quand même il faut que ce soit placé dans le
22 sujet quelques instants. C'est peut-être là où on
23 est peut-être un peu prématuré dans cette
24 discussion-là. Mais ceci étant dit, j'ai entendu
25 votre décision, j'en suis bien conscient.

1 Me ÉRIC FRASER :
2
3 Simplement, si je comprends aussi votre décision,
4 les questions devront être ouvertes lorsqu'il
5 s'agit d'appuyer la preuve. Comme je vous disais,
6 il y a toute la question si on procède en contre-
7 interrogatoire, là, on peut aller loin. Là, si
8 c'est pour bonifier la preuve, bien, j'imagine, et
9 je compterais à ce que les questions soient
10 ouvertes. Et si les questions sont fermées et elles
11 visent à bonifier la preuve, je vais m'objecter
12 puis formellement.

12 Me LISE DUQUETTE :
13
14 Bien, en fait, je veux juste... Vous permettez. Des
15 questions ouvertes. C'est parce que, des fois, il y
16 a des questions qui sont plus de base. Vous
17 confirmez, c'est ça. Donc, évidemment, les oui,
18 non, on s'entend que ce n'est pas nécessairement
19 des questions ouvertes. Mais à moins que vous
20 vouliez voir monsieur Lowry dans la preuve de
21 chacun des intervenants, ce qui est l'autre
22 possibilité si vous voulez. Alors, à ce moment-là,
23 monsieur Lowry deviendrait le témoin de tout le
24 monde dans chacun. Mais je ne suis pas sûre que
25 c'est ça que vous recherchez.

1 Me ÉRIC FRASER :

2 Non, ce n'est pas ça que je recherchais.

3 Me LISE DUQUETTE :

4 À ce moment-là, comme c'est le témoin expert de
5 tous les intervenants, il faudrait qu'il puisse
6 poser ses questions qui font avancer son mémoire à
7 lui. Parce que l'AHQ-ARQ a quand même leurs
8 positions à eux qui peuvent différer de celle de
9 l'AQCIE.

10 Me ÉRIC FRASER :

11 Juste une petite seconde, Madame le Régisseur.

12 Me LISE DUQUETTE :

13 Puis je veux juste être claire. On essaie de
14 protéger les droits de tout le monde ici. C'est
15 juste que c'est une situation à laquelle vous êtes
16 habitué, mais on a retenu un expert pour l'ensemble
17 des intervenants. Il faut que les procureurs de
18 chacune des parties puissent avoir accès à cet
19 expert pour leur propre preuve.

20 Me ÉRIC FRASER :

21 J'étais sous l'impression qu'il y avait eu des
22 consultations et que cet enjeu-là avait été discuté
23 entre les intervenants dans la mesure où il y avait
24 un expert qui avait été retenu, et que le
25 témoignage de l'expert, bien qu'administré par un

1 procureur, aurait fait office de témoignage pour
2 l'ensemble des preuves pour lesquelles il y avait
3 accord.

4 À partir du moment où il y a désaccord,
5 puis habituellement les désaccords sont exprimés
6 dans les mémoires et on les connaît pas mal. Et je
7 n'ai pas de problème lorsqu'il y a un désaccord à
8 ce qu'une partie vienne être contre-interrogée
9 monsieur Lowry pour faire éclaircir les accords.
10 (15 h 07)

11 Mes préoccupations demeurent les mêmes, je
12 n'ai pas de solution, je n'ai pas, malheureusement,
13 je constate le problème, je n'ai pas de solution à
14 vous proposer. Malheureusement, je ne l'ai pas non
15 plus provoqué et, à ce moment-là, ma simple réserve
16 c'est que je serai, il est possible que je me lève
17 souvent pour m'objecter et je sais que ce n'est
18 jamais pour accélérer le processus mais j'ai des
19 droits à protéger ici puis, malheureusement, la
20 situation est un peu complexe alors je voulais
21 simplement en aviser la formation. Je vous
22 remercie.

23 LA PRÉSIDENTE :

24 Alors nous vous entendrons.

25

1 Me STEVE CADRIN :

2 Q. [180] Merci. So, I will rephrase the question from
3 the written question that I have because I lost
4 track of where I was going. So, I'll just read it
5 back to you. How many times in the evidence, and
6 since Monday, HQD and Concentric mentioned that for
7 this large part of the costs, that they are under
8 the scrutiny of the Régie, it is the best incentive
9 to ensure that these costs are the lowest they can
10 possibly be for customers. With all due respect to
11 the Régie and to the regulation agencies, do you
12 believe from your experience and expert's view that
13 this is sufficient or that additional financial
14 incentives directed to HQD will be even more
15 profitable?

16 A. Well, I think that the word profitable has a
17 different meaning in French but yes, it would be
18 more desirable. It would certainly improve
19 incentives and, as I've said, I mean, let's just
20 start with the fact that a large share of the cost
21 of base rate inputs is excluded from their
22 proposal. I mean that makes the proposal especially
23 unusual.

24 Of course, many plans in the past have not
25 incorporated this consideration of the power supply

1 but there are peculiar circumstances here in Quebec
2 that make that more appropriate, as I've said,
3 because this is a company that has a monopoly on
4 power supply and is procuring all of that power.
5 So, there's this unusually large need for some sort
6 of incentivisation of that.

7 Q. [181] I think you're following maître Duquette's
8 question. We've talked about streamlining the
9 regulatory process or rate-setting process so my
10 question will be in addition, would you say that
11 such an approach by HQD - which is going in front
12 of the Régie for a large part of its costs and
13 saying there, "We have done what we need to do." -
14 significantly meets the objectives of the law in
15 regard to the streamlining of the rate process?

16 A. Well, the law doesn't say that all activities
17 necessarily have to be subject to incentivised
18 regulation. But you raise a point that just the
19 cost of what they purpose to do on the capital
20 side. Now Mr. Coyne had talked about how unwieldy
21 the capital cost process had become in Alberta and
22 he's quite right about that.

23 But the first thing that went through my
24 mind is, "Well, you haven't seen nothing yet until
25 you see what they have in mind for Quebec."

1 because, really, I mean, the current system is
2 involving a very high level of regulatory cost,
3 always be worrying about these individual capex
4 proposals. So, I mean, it's... and substantially
5 higher regulatory cost, what they're proposing.

6 Q. [182] Following up on a question that was asked to
7 you by the Régie, I'm going to go and talk to you
8 about document 76 in your proof. Sorry, it's answer
9 to DDR number 2 - or IR number 2, if you prefer.

10 A. Of the Régie's IR number 2?

11 Q. [183] Yes.

12 A. Okay.

13 Q. [184] I'm sorry.

14 A. Okay.

15 Q. [185] C-AQCIE-CIFQ-0076 pages 31 to 33, answer 6.3.

16 A. Okay.

17 Q. [186] I just want to understand more your answer
18 that you provided at the time for the Régie. And
19 I'm going to read you the passage, the quote where
20 I want you to maybe elaborate more on this answer.

21 Dr. Lowry believes that the numerous
22 power supply products available to HQD
23 today facilitate development of
24 sophisticated and sound power supply
25 strategies...

1 Underlining,
2 ... given the right incentives. Since
3 the market conditions are volatile,
4 the chosen strategy will never be
5 optimal in a given year with the
6 benefit of hindsight. However, over
7 many years sound strategies will yield
8 material benefits that can be shared
9 with customers.

10 Can you elaborate more on this answer? "Given the
11 right incentives" what do you mean?

12 A. Well, I think that oftentimes until a utility is
13 subject to stronger incentives, they themselves
14 don't realise what is possible, and this is a very
15 good example. I mean, not only is this not
16 something addressed in frequent rate cases, this is
17 something that's been tracked since forever. And I
18 think that they would surprise themselves if a
19 proper incentive could be developed that would give
20 them a reward for doing a good job as well as
21 potentially a penalty for a bad job.

22 There is this sort of voyage of discovery
23 that utilities go under when they are under
24 incentivized regulation that very much applies
25 here.

1 Q. [187] And going on to the part of your answer where
2 you're talking about the chosen strategy will never
3 be optimal in a given year, et cetera, et cetera,
4 are you stating that a current strategies can be
5 improved, or have you addressed, or assessed the
6 actual strategies?

7 A. Well, I know a little bit about what the strategies
8 are that they have pursued, but just speaking as an
9 economist, I think that, well, two (2) things,
10 first of all, that, of course with the incentives,
11 they're likely to do better. There's already been a
12 discussion with the first panel about evidence of
13 over supply, excessive supply commitments that were
14 entered into by Hydro Quebec, so... but I also make
15 this argument that, you know, it's hard to judge a
16 particular strategy by the outcome of one (1) year
17 because, you know, you could have a little bit of
18 bad luck with one (1) year, but over the course of
19 multiple years, for sure you should get a better
20 outcome if you can get the incentives right without
21 subjecting them to undue risk. And I'm not saying
22 it's easy, but it's worth a try.

23 Q. [188] Do you have an opinion on how could one
24 verify first that the strategies are in the best
25 interests of customers?

1 A. I think it's very hard. I'm not specifically an
2 expert in this area, so I would not be the person
3 to ask that of, but I'm sure it's very hard to
4 identify an optimal strategy. I don't know how they
5 Régie could do it. It would be very difficult for
6 any regulator to do that. And particularly since
7 this is a very complex activity of procuring power
8 at various terms, under various options on the
9 market. There's also a problem in the gas industry.
10 I mean, there are many, many choices that a gas
11 distributor could make, and so it was very
12 difficult for... and in fact, at the time that
13 these incentive plans blossomed was just when the
14 options multiplied for the gas distributors making
15 a commission like California just say, gees, I hope
16 there's some way we can incentivize this so we
17 don't have to do as much after-the-fact guessing.

18 Q. [189] And if they are applied correctly, the same
19 question, how could one verify if they are applied
20 correctly, if they are after the fact, as you said?

21 A. You mean that how...

22 Q. [190] How could one verify if they are applied
23 correctly?

24 A. It's hard. It's hard. Of course, with prudence
25 reviews, lots of times you want to be looking at

1 was it reasonable at the time, and then you do want
2 to also look at it with the benefit of hindsight,
3 but of course this is all very hard, and so, the
4 more you can inject incentives, the better for
5 everyone.

6 Q. [191] We've talked about this next topic I'm going
7 to discuss with you with the first panel, with Mr.
8 Coyne and Mr. Yardley. So, are you aware that
9 HQD... again, questions leading up to the real
10 question. So, are you aware that HQD purchases
11 short-term energy on a daily basis, mainly during
12 winter, one (1) or two (2) days ahead, for example?

13 A. Well, that makes sense, because they're
14 supplementing the supplies available for... from
15 the heritage pool, and those are going to be... the
16 need for that is going to be larger in the winter
17 months because it's a winter-peaking utility.

18 Q. [192] So they have to buy, they have to make
19 decisions one (1) or two (2) days ahead for...

20 A. Yes.

21 Q. [193] ... what's coming in the winter basically, or
22 peak periods?

23 A. Yes.

24 Q. [194] I'm going to suggest to you just a number,
25 again, we'll get into it in our proof so it can be

1 verified afterwards, but I'm going to just ask your
2 thoughts on that. Can we suggest to you from the
3 available information provided by HQD in its rate
4 cases that we've been through, that these short-
5 term energy purchases total more than nine hundred
6 million (900 M) between two thousand thirteen
7 (2013) and two thousand fifteen (2015), have you
8 seen that in rate cases, were you aware of that
9 coming to this case?

10 A. Well, I know in general about the approximate size
11 of those purchases relative to the total cost, I
12 didn't know about that particular three (3)-year
13 period, but I've examined the breakdown of the
14 costs of their power procurement between heritage
15 pool and some of the other categories of costs that
16 they purchase.

17 (15 h 17)

18 Q. [195] Is it your understanding that such purchases,
19 short-term purchases that we're talking about right
20 now set apart the number, we'll get to that, are
21 under the control of HQD?

22 A. Well, they're partially under their control, I
23 mean, the actual prices are not. And also, the
24 demand, the quantity demanded is only partially
25 subject to their control, it's subject to their

1 influence, so they have some control, and they have
2 many options for meeting this surge, and that is
3 where they have a choice.

4 So they really have two areas where they
5 have some control, and one is the options that they
6 choose for meeting the demand surge, and the other
7 is the, somehow controlling the demand surge. And
8 that's, you know, and the latter is one where I've
9 already settled quite a bit in my discussion today
10 and in my evidence about the importance of trying
11 harder in that area.

12 Q. [196] You started talking about it, so I'll get
13 into this question now: in the past, we have
14 observed instances during peak periods where some
15 of these purchases -- we're talking about short-
16 term purchases again of energy -- were dispatched
17 while the heritage energy was under utilized by a
18 significant margin.

19 In order to evaluate the magnitude of such
20 overspendings, we then designed -- and I mean by
21 "we", not me but Mr. Raymond -- designed an after-
22 the-fact indicator using the available hourly data.
23 We will refer you to the answer from HQD to a
24 question from the Régie similar to Question 5 that
25 was asked to you by the Régie in the second

1 round...

2 Me ÉRIC FRASER :

3 Je vais tout de suite m'objecter, on est en train
4 de faire une espèce d'hypothèse qui déborde
5 complètement de l'expertise de monsieur Lowry, qui
6 est très générale. Et là, on va poser une question
7 où on a, où on fait une série d'hypothèses où on va
8 demander si l'indicateur que monsieur Raymond
9 aurait fait sur une question précise
10 d'approvisionnements, on lui demandera son opinion.

11 Je m'objecte littéralement, on déborde de
12 son expertise, on déborde de son rapport, on n'est
13 pas capable de se lier à son rapport, de se lier à
14 ses réponses, ça m'apparaît exorbitant comme
15 question, et qui va au-delà de la preuve qui a été
16 déposée.

17 Me STEVE CADRIN :

18 Merci.

19 LA PRÉSIDENTE :

20 Allez-y.

21 Me STEVE CADRIN :

22 J'attendais vos indications pour parler. Alors dans
23 un premier temps, la question n'a pas encore été
24 posée, là, ça serait peut-être bien d'attendre la
25 question avant puis après ça, peut-être qu'on

1 verra, effectivement. Mais ceci étant dit, ce n'est
2 pas un jeu de cache-cache, là, puis d'attente, là,
3 cette question-là, effectivement, je veux demander
4 une certaine opinion du...

5 LA PRÉSIDENTE :

6 Un instant. Alors poursuivez votre argumentation
7 pour l'instant puis on verra si on...

8 Me STEVE CADRIN :

9 D'accord. Alors ce que j'allais dire, donc
10 effectivement, on va parler de certains éléments
11 qui peut-être titillent mon confrère et qui l'ont
12 fait se lever immédiatement, mais la question que
13 j'allais poser, puis je vais peut-être vous la dire
14 de toute façon, ça va être plus simple comme ça.

15 Alors ce que j'allais référer d'abord,
16 c'était à une réponse qui a été fournie à la Régie,
17 c'est la question numéro 5. Alors si je ne me
18 trompe pas, elle a, elle dure pas loin de cinq
19 pages, si ce n'est pas plus, là, c'est de 10 à 16,
20 les pages qui sont visées. Mais j'allais dire, et
21 je vais vous la lire, la question :

22 Without reading it, the answer from
23 HQD...

24 en fait, from Mr. Yardley and Mr. Coyne,

25 ... we understand from HQD's answer

1 5.1 that they believe that there are
2 no practical ways to evaluate after
3 the fact the performance of HQD in
4 regards to the short-term energy
5 purchases.

6 And, ma question : « Do you have an opinion on this
7 regard of an after-the-fact performance review of
8 energy, short-term energy purchases? »

9 Et, si je peux me permettre de compléter
10 peut-être l'argumentation qu'on puisse répondre au
11 complet, quant à moi, le docteur Lowry est, ce que
12 j'en ai compris, là, un expert du processus
13 régulatoire, j'ai utilisé le mot...

14 Me GUY SARAULT :
15 Réglementation incitative.

16 Me STEVE CADRIN :
17 ... réglementation incitative, et là, j'allais dire
18 les mauvais mots. Alors, quant à moi, il doit
19 toucher ce genre de question-là, ça fait partie du
20 « scope » de son expertise et de son expérience,
21 selon moi, et c'est ce que j'en comprenais de toute
22 façon. Et là, je lui demande de commenter une
23 réponse qui a été faite par les autres experts d'en
24 face sur cette question-là.

25 Alors ça serait assez spécial que, d'un

1 côté, certains experts peuvent s'exprimer, ceux
2 d'HQD, et de l'autre côté, l'expert, appelons-le
3 des intervenants pour les fins de la discussion,
4 n'ait pas le droit d'en parler, qu'il n'a pas la
5 même expertise alors qu'il a le même chapeau de, je
6 dirais, d'expertise, ou le même « scope »
7 d'expertise; excusez-moi, je passe de l'anglais au
8 français mais ça... mon cerveau fonctionne comme ça
9 parfois, là.

10 Alors je trouve ça spécial que, d'un côté,
11 ils peuvent répondre pendant cinq pages et plus
12 puis que là, monsieur Lowry ne peut même pas en
13 parler.

14 LA PRÉSIDENTE :

15 Maître Fraser?

16 Me ÉRIC FRASER :

17 Je maintiens mon objection. Le préambule qui a été
18 fait, le préambule qui a été, qui a été présenté
19 est clairement, démontre clairement qu'une
20 expertise en approvisionnements est requise pour y
21 répondre, ça déborde le « scope » de son, vous me
22 pardonnerez pour l'anglicisme, du rapport qui a été
23 déposé. Et... je maintiens mon objection.

24 (15 h 25)

25

1 LA PRÉSIDENTE :

2 Compte tenu qu'elle est déjà énoncée, nous allons
3 autoriser la présente question. Après cette
4 question, avez-vous plusieurs autres questions?

5 Me STEVE CADRIN :

6 Et y a-t-il beaucoup d'autres objections, je vous
7 dirai.

8 LA PRÉSIDENTE :

9 Je veux savoir combien vous avez de questions après
10 celle-ci.

11 Me STEVE CADRIN :

12 Il y a deux sujets. Celui-là était une question
13 ouverte dans son sens le plus pur et la prochaine
14 va être une question, je dirais, avec des points
15 plus précis alors moins longue. En minutes, je ne
16 peux pas vous... Bien, une dizaine de minutes,
17 honnêtement.

18 LA PRÉSIDENTE :

19 Bon, bien alors on va poursuivre...

20 Me STEVE CADRIN :

21 On pourrait finir.

22 LA PRÉSIDENTE :

23 ... pour l'instant.

24 Me STEVE CADRIN :

25 Q. [197] D'accord. Do you remember the question or do

1 I need to rephrase it?

2 A. I think you better rephrase it.

3 Q. [198] Okay. Well, basically, we go back to the
4 testimony that was provided by the first panel. And
5 without reading the answer that's quite wrong given
6 to our question, I'm going to say again the
7 question. We understand from HQD's answer that they
8 believe that there are no practical ways to
9 evaluate, after the fact, the performance of HQD in
10 regard to the short-term energy purchases. Do you
11 have an opinion on this regard?

12 A. Well, one thing I would like to say is that, in my
13 testimony, I talk about how with savings in time
14 that result from the MRI, that the Régie and other
15 parties will have more time to devote to things
16 like power supply issues and should take the time.
17 I emphasise the fact that part of a better
18 regulatory system would be putting more effort into
19 power supply planning.

20 I don't like to say that, I wouldn't want
21 to say that, after the fact, analysis has no role
22 in a regulatory proceeding but I would agree with
23 the Concentric witnesses that, in a prudence
24 review, oftentimes a very heavy emphasis is placed
25 in what was known at the outset. And unfortunately,

1 if the commission is obliged to sign off on their
2 plan, it, as I've said, reduces their scope to
3 punish them if the plan doesn't work out. So...

4 Q. [199] Okay. I understand. So, next question. As we
5 expressed Monday in a discussion with Mr. Coyne and
6 Mr. Yardley, our clients have concerns about
7 possible oversupply of resources in regard to peak
8 capacity and about the absence of financial
9 incentive for HQD not to plan for oversupply.

10 In the context of an MRI, how would you
11 suggest to provide financial incentives to HQD not
12 to plan for oversupply?

13 A. Well, as I've said, we just opened the door to a
14 lot of different possible ways of addressing power
15 supply management as well as I put a very strong
16 emphasis in my testimony on just peak load
17 reductions that would make it less necessary to
18 make those expenditures for the demand surges. But,
19 you know, that sort of my recipe.

20 Q. [200] We also exposed another concern about HQD
21 presenting and filing for the procurement of
22 capacity resources that were unnecessary and,
23 therefore, denied in the past by the Régie. We
24 thought about five hundred megawatts (500 MW) that
25 was denied by the Régie out of a thousand (1,000)

1 that was asked for.

2 How could an MRI provide a financial
3 incentive for HQD to present and file to the Régie
4 optimal supply plans, as optimal as they can be, as
5 opposed to requesting unnecessary resources or
6 oversupplying itself?

7 A. Well, that's mostly a phase 3 issue. I've presented
8 in my answers to information requests a lot of
9 possible ideas for the design of such a mechanism.
10 But I would also say that what could work just fine
11 might be something that was just kind of cooked up.
12 If you've got to the bottom line of what it was
13 that you didn't want HQD to do, and you offered a
14 reward for not doing it, then that could, it's
15 something that's a little more simple and less
16 mechanistic might just be the thing because,
17 there's no question, this is a complicated area.

18 So, I think this is an area, I've been
19 pleasantly surprised in this proceeding how
20 articulate numerous lawyers have been on this issue
21 of power supply management and I think that there
22 would be a lot of good ideas just coming from the
23 people in this room in terms of how to most
24 effectively to strengthen the incentives.

25 (15 h 30)

1 Q. [201] I'll go back to your presentation of today in
2 page 17. That will be my last question.

3 A. Okay.

4 Q. [202] Page 17. We've heard the testimony yesterday
5 about... today, in fact, about productivity issues
6 and productivity studies. They are very expensive.
7 We were given numbers as to five million dollars
8 (\$5 M) would be the total cost of a productivity
9 study that was made I think in Alberta, if I get it
10 right. There was many intervenors. Do you feel this
11 amount has some relevance to productivity study
12 that can be done here, first?

13 A. I'm glad you asked that question because I was
14 surprised at the dollar figure that he threw out. I
15 believe that what he might be referring to is the
16 sum of all of the charges of all of the witnesses
17 for the utilities and intervenors, and the consumer
18 groups, in that proceeding for all issues. Now,
19 this was a proceeding where starting from limited
20 expertise, the Alberta Utilities Commission was so
21 bold as to design and new rather sophisticated
22 regulatory system that applied to, I think, five
23 power distributors, four or five power
24 distributors, two gas distributors. And mind too
25 that there were several individual utilities. And

1 each of those utilities hired their own consultant.
2 And most of them, or all of them, gave testimony.
3 So, that was a much more complicated proceeding,
4 than this one probably would be. That type of a
5 dollar figure just for productivity seems very,
6 very high to me. I mean, it's nowhere near what we
7 charge for that type of a study. I don't know
8 what... in the event that there was a counter
9 study, I don't know what cost Hydro-Québec would
10 incur because I don't know if they would choose to
11 hire somebody like so many utilities have an
12 Alberta, that has never actually done a power
13 distribution productivity study, a rigorous one,
14 and that they're starting from scratch and if they
15 were charging high rates, they could be... amount
16 to a very large amount of money. So, I don't know.
17 A lot depends on who Hydro-Québec would chose to
18 hire for such an undertaking, and the kinds of
19 rates they charged.

20 Q. [203] We're not getting into your estimate of your
21 fees in a productivity study for now. Just so I get
22 it right, that particular case, they were designing
23 for the first time, or they were trying to make a
24 productivity study fit for five utilities, you
25 said?

- 1 A. Five... was it four or five power distributors...
2 two gas distributors, in other words, all the
3 larger utilities in the province, yes.
- 4 Q. [204] At the same time, so they each have their own
5 studies.
- 6 A. And it was an entire regulatory system. That was
7 just one of many issues. So, I think that the fee
8 he was mentioning was for all consulting services
9 on all of these issues, for all of these utilities.
- 10 Q. [205] Okay. Have you checked if they have... all
11 those utilities have their own expert in that case?
12 Or...
- 13 A. Well, I was one of the biggest main witnesses in
14 the proceeding. So, I'm pretty familiar with it.
15 Yes, they almost all had... I'm trying to remember,
16 but I think all of them had their own witnesses.
- 17 Q. [206] Expert witness just to, let's say, fight
18 their case; this is a lawyer talking now.
- 19 Q. [207] Yes. And a lot of them got their two cents in
20 on the X factor issue, even though none of them...
21 most of them had not much experience in the area,
22 limited experience, but they got their two cents in
23 on that issue. And one or two of them filed their
24 own sort of study. There was a study done of
25 Ontario power distributor productivity trends, for

1 example, was introduced into evidence. So, that was
2 an unusual case.

3 Yes, you also do have to remember if some
4 of these dollar figures seem high, that you are
5 trying to design a whole new approach to regulation
6 here that would make rate cases only have to be
7 held every four or five years.

8 (15 h 35)

9 What is all the work that goes onto an
10 individual rate case for Hydro-Québec, there must
11 be quite a large sum of money. I'd hate to know the
12 total page count of all the regulatory documents.
13 And it's just one of those rate case proceedings.
14 So, if you... you know, you're just going out the
15 learning curve to assist and it's going to
16 ultimately replace several rate cases, you know,
17 you would expect there to be some startup costs.

18 Q. [208] Thank you very much for your answers. That'll
19 be all. Thank you.

20 LA PRÉSIDENTE :

21 Merci beaucoup. Alors, nous allons suspendre
22 jusqu'à demain matin, neuf heures (9 h). Merci.

23

24 AJOURNEMENT DE L'AUDIENCE

25

1 SERMENT D'OFFICE

2

3 Nous, soussignés, ROSA FANIZZI, et CLAUDE MORIN,
4 sténographes officiels, certifions sous notre
5 serment d'office que les pages qui précèdent sont
6 et contiennent la transcription fidèle et exacte
7 des témoignages et plaidoiries en l'instance, et
8 ce, conformément à la Loi.

9 Et nous avons signé,

10

11

12

13

14 ROSA FANIZZI

15

16

17

18

19

20 CLAUDE MORIN

21