

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 22 SEPTEMBRE 2016

VOLUME 7

CLAUDE MORIN  
Sténographe officiel

COMPARUTIONS

Me JEAN-FRANÇOIS OUIMETTE Me  
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procureurs de la Régie;

MISE EN CAUSE :

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

INTERVENANTS :

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

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

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

Me ÉRIC DAVID  
procureur de Option consommateurs (OC);

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

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

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

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

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LISTE DES ENGAGEMENTS

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E-1 : (AQCIE-CIFQ) Expliquer la réponse en lien avec la question et la réponse 1.5 de la pièce C-AQCIE-CIFQ-39 considérant que ce sont les variations de coûts plutôt que les coûts globaux qui seraient alloués, considérant que les méthodes d'allocation existantes n'allouent pas les variations de coûts, mais bien les coûts globaux, sur quelle base ce partage serait-il réalisé? (Demandé par la FCEI)	25
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1 L'AN DEUX MILLE SEIZE (2016), ce vingt-deuxième  
2 (22e) jour du mois de septembre :

3

4 PRÉLIMINAIRES

5

6 LA GREFFIÈRE :

7 Protocole d'ouverture. Audience du vingt-deux (22)  
8 septembre deux mille seize (2016), dossier R-3897-  
9 2014 Phase 1. Établissement d'un mécanisme de  
10 réglementation incitative assurant la réalisation  
11 de gains d'efficience par le distributeur  
12 d'électricité et le transporteur d'électricité.

13 Reprise de l'audience.

14 LA PRÉSIDENTE :

15 Alors, bonjour à tous. Bienvenue à cette quatrième  
16 journée d'audience. Avant de vous donner la parole,  
17 Maître Turmel, j'aimerais faire un bref retour sur  
18 la journée d'hier.

19           Alors, suite aux objections soulevées hier  
20 après-midi la Régie désire préciser ses intentions  
21 quant à la conduite de l'audience. Nous  
22 appliquerons avec une certaine souplesse les règles  
23 de contre-interrogatoire habituelles puisque le  
24 docteur Lowry est l'expert pour l'ensemble des  
25 intervenants. Ainsi, la Régie aimerait clarifier le

1 type de questions au docteur Lowry qu'elle entend  
2 permettre aux intervenants.

3 La Régie entend autoriser les questions de  
4 clarification sur le rapport de PEG; les questions  
5 de validation lorsque l'intervenant est en  
6 désaccord ou accepte avec des nuances les positions  
7 ou recommandations présentées par le docteur Lowry;  
8 les questions concernant des affirmations des  
9 experts de Concentric.

10 Par ailleurs, la Régie demande aux  
11 intervenants d'éviter les questions qui ont pour  
12 but de renchérir sur une position de l'expert avec  
13 laquelle l'intervenant est en accord. La Régie  
14 demande aux intervenants de porter une attention  
15 particulière à la formulation de leurs questions et  
16 souhaite entendre la question avant d'avoir, le cas  
17 échéant, à statuer sur les objections.

18 Nous vous remercions à l'avance pour votre  
19 collaboration au bon déroulement de l'audience.  
20 Merci. Alors, Maître Turmel.

21

22

1 PREUVE DE L'AQCIE-CIFQ (suite)

2

3 L'AN DEUX MILLE SEIZE (2016), ce vingt-deuxième  
4 (22e) jour du mois de septembre, ONT COMPARU :

5

6 MARK NEWTON LOWRY, economist and president of PEG  
7 Research, place of business located at 22 East  
8 Mifflin Street, suite 302, Madison, Wisconsin  
9 53703;

10

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

14

15 PIERRE VÉZINA, ingénieur, directeur énergie et  
16 environnement pour le CIFQ, ayant une place  
17 d'affaires au 1175, avenue Lavigerie, bureau 201,  
18 Québec (Québec);

19

20 LESQUELS, sous la même affirmation solennelle,  
21 déposent et disent :

22

23 CONTRE-INTERROGÉS PAR Me ANDRÉ TURMEL :

24 Q. [1] Bonjour Madame la Présidente. Bonjour aux  
25 Régisseurs, en ce jeudi première journée de

1 l'automne officielle, alors c'est la rentrée  
2 saisonnière, je dirais, et merci beaucoup pour  
3 votre clarification. Et dans les faits, je vous  
4 dirais que mes questions vont être à l'intérieur  
5 des paramètres que vous venez d'indiquer, sachant  
6 que la FCEI, bien que appuyant à plusieurs égards  
7 la preuve du docteur Lowry, a certaines nuances que  
8 vous pouvez trouver aux pages 16 et 17 de notre  
9 preuve.

10 (9 h 04)

11 Q. [2] Alors, good morning, Dr. Lowry. Bonjour,  
12 Messieurs de l'AQCIE-CIFQ. André Turmel pour la  
13 FCEI. So, Dr. Lowry, we would first begin with your  
14 written testimony, if you don't mind. So, go take  
15 it and go to page 13, please. That is AQCIE-CIFQ-  
16 0025 exhibit.

17 Me GUY SARAULT :

18 Madame la Présidente, ce n'est pas une objection du  
19 tout, c'est juste une clarification. Je voudrais  
20 signaler au passage, parce que ce n'est pas la  
21 première fois que ça arrive, que le rapport initial  
22 du docteur Lowry qui était la pièce C-AQCIE-0025 a  
23 été amendée dans le cadre des réponses qui ont été  
24 adressées aux questions d'Hydro-Québec. Et la  
25 version amendée, puis il y avait plusieurs petites



1 corrections ici et là, porte le numéro C-AQCIE-  
2 CIFQ-0046. Alors, pour la gouverne de tout le  
3 monde.

4 LA PRÉSIDENTE :

5 Merci.

6 Me ANDRÉ TURMEL :

7 Q. [3] La gouverne étant faite, alors... Dr. Lowry, in  
8 that... and I would be surprised there would be any  
9 change from your earlier statement, but at page 13  
10 from line 17 to 23, where you do describe, well,  
11 some stuff... some theory about rate caps, revenue  
12 caps, you state the following:

13 In a typical price cap plan, allowed  
14 price escalation is typically applied  
15 separately to multiple service  
16 "baskets". There might, for example,  
17 be separate baskets for small volume  
18 customers, large industrial customers,  
19 and customers at risk of bypass. The  
20 utility is typically entitled to raise  
21 the average prices of the services in  
22 each basket by the same percentage  
23 permitted by the ARM, Y factor, Z  
24 factor, and any earnings sharing  
25 adjustments.

1                   The utility might (or might not,  
2                   depending on design) have some liberty  
3                   to raise prices to some customers  
4                   within a basket by less than price cap  
5                   index growth and make up for it by  
6                   raising prices for other customers in  
7                   the basket more rapidly. However,  
8                   customers in each basket are insulated  
9                   from the discounts and other market  
10                  developments going on with services in  
11                  other baskets, except as these  
12                  developments influence earnings  
13                  sharing.

14                End of statement. Am I right to... if I try to...  
15                the idea that you try... that you convey here is  
16                that, of course, a uniform raise for each of the  
17                clients is good, but however, customers in each  
18                basket are insulated from... for the discount. The  
19                idea of insulation, is that the... when you say  
20                "insulated from the discount"...

21                Dr. MARK NEWTON LOWRY:

22                A. Yes.

23                Q. [4] ... what do you mean by that?

24                A. Yes, that's correct. That's much of the intention  
25                of that price cap system of regulation, is to

1 insulate the core customers, the customers with  
2 fewer options from the goings-on in the basket  
3 where customers are more sensitive to prices on  
4 other terms of service.

5 Q. [5] Okay.

6 A. And that's one of the reasons why, often times, but  
7 not always, in a price cap system of regulation  
8 that more marketing flexibility is permitted.

9 Q. [6] Okay. Then, I would ask you to take... now that  
10 we agree on this, please take your written answers  
11 from HQD, information request, that's exhibit  
12 C-AQCIE-CIFQ-45 at question 4.

13 A. Okay, this is the HQD...

14 Q. [7] HQ... I...

15 A. Okay.

16 Q. [8] ... HQD-IR. C-AQCIE-CIFQ-45, Madame la  
17 Présidente, question 4. Are you there?

18 A. Hmm, hmm.

19 Q. [9] Okay. So, at... the question from HQ was there  
20 to quote your evidence from page 108. HQD then  
21 quoting you:

22 If service to large load customers is  
23 subject to price caps, there is no  
24 need to recover load retention  
25 discounts from other customers between

1 rate cases.

2 Then, you were asked to explain why... what you  
3 meant by the following sentence:

4 There is no need to recover load  
5 retention discounts from other  
6 customers between rate cases.

7 (9 h 08)

8 Then, you provide the following answer, at 4A)...  
9 you... and then, I won't read it in its entirety  
10 but the last sentence states the following,

11 To the extent that discounts are not  
12 readily recovered from other  
13 customers, they are more likely to be  
14 a prudent response to demand  
15 elasticity.

16 Okay? Then, I would ask you to take our information  
17 request to you. That is, please go to C-AQOCIE-CIFQ-  
18 003, this is another document. Please?

19 A. I have to say, I don't have that with me.

20 Q. [10] Okay.

21 A. Perhaps are you able to get the electronic version  
22 Luc?

23 Q. [11] It's exhibit 39.

24 A. Sorry, I didn't mean to put you on the spot.

25

1 Mr. LUC BOULANGER:  
2 A. Which one?  
3 Q. [12] At question 1.4.  
4 R. O.K. J'ai un peu de difficulté.  
5 Q. [13] Ah, excusez-moi. O.K.  
6 R. Est-ce que vous pourriez répéter la pièce, s'il  
7 vous plaît?  
8 Q. [14] Oui, tout à fait. C'est C-AQCIE-CIFQ-0039.  
9 C'est les réponses de monsieur Lawry aux questions  
10 de la FCEI.  
11 Me LISE DUQUETTE :  
12 Je m'excuse, Maître Turmel, quelle question déjà?  
13 Me ANDRÉ TURMEL :  
14 1.4.  
15 Me LISE DUQUETTE :  
16 Merci.  
17 Dr. MARC NEWTON LOWRY:  
18 A. This is the FCEI?  
19 Me ANDRÉ TURMEL:  
20 Q. [15] Yes.  
21 A. Okay, which question?  
22 Q. [16] At 1.4.  
23 A. Okay. Sorry for the delay.  
24 Q. [17] No problem. So, at 1.4 you were asked by FCEI,  
25 in French,

1                   Veillez expliquer comment seraient  
2                   répartis...

3           And I'm going to translate in English.

4                   ... expliquer comment seraient  
5                   répartis les coûts de transport,  
6                   énergie et distribution entre le tarif  
7                   L et les autres tarifs dans le modèle  
8                   proposé et faire le lien avec les  
9                   méthodes d'allocation existantes.

10           So, basically, you were asked how would be  
11           allocated the costs using the current methodology  
12           applicable. And then, you offer the following  
13           answer. Well, you said,

14                   Allocations would likely follow rules  
15                   like those used now.

16           That's perfect. Okay?

17           A. Yes.

18           Q. [18] Then at 1.5, you were asked also if, and  
19           that's in French,

20                   Veillez de plus indiquer si ce sont  
21                   les variations annuelles des coûts qui  
22                   seraient réparties ou si la totalité  
23                   des coûts serait répartie à chaque  
24                   année?

25           Please indicate if the cost annual variation that

1 would be allocated or the variation or the overall  
2 cost. Then, you offer the following answer at 1.5,  
3 Variations in costs would be shared if  
4 the cost tracker took the form of an  
5 adjustment to a cost amount already in  
6 rates.

7 Okay. I'm sorry if it was a little bit long but  
8 here is the material with which we're going to  
9 work. Okay?

10 A. Yes, I do understand. Yes.

11 Q. [19] So, in that answer 1.4, you say that current  
12 cost allocation methodology would continue, right?

13 A. Yes.

14 Q. [20] You said that. But at the same time, you say  
15 "would likely". I just want to say, is there "would  
16 likely" or "would continue"? We just want to make  
17 sure that when you say at 1.4 "allocations would  
18 likely follow rules", "would likely" or "would"?

19 A. Well, I guess I said "likely" because in the actual  
20 finalisation of a plan, I'm not sure how that would  
21 be addressed but my thought would be that the  
22 initial revenue requirement allocation would be  
23 done using the current rules which include the  
24 interfinancement.

25 Q. [21] Okay. So therefore, would you confirm to the

1 Régie this morning that your proposal would not  
2 imply any change in the allocation of methodology.

3 A. Yes.

4 Q. [22] Methodology application.

5 A. Yes.

6 Q. [23] Okay. No, modification at all. That's clear.

7 A. Yes.

8 Q. [24] Okay.

9 A. That would be very reasonable.

10 Q. [25] Okay. Now, going back to your other statement  
11 where you said that,

12 To the extent that discounts are not  
13 readily recovered from other  
14 customers, they are more likely to be  
15 a prudent response to demand  
16 elasticity.

17 (9 H 14)

18 I just want to understand what you meant by  
19 "discount are not readily recovered from other  
20 customers", because if a discount between rate  
21 cases is offered, there is no recourse for the  
22 company to get that extra money back from other  
23 customers, so if they do offer such a discount,  
24 it's more likely that there's a good reason for it,  
25 that, for example, they'll lose more of their base



1 rate revenue if they don't discount than if they  
2 do, and this general principle has been recognized  
3 by regulators. I believe that, in my testimony, I  
4 talk for example about the history of Central Maine  
5 Power, which was a utility in... the largest  
6 utility in the state of Maine, which makes it small  
7 by Quebec standards, but nonetheless, they had a  
8 lot of pulp and paper customers, and they were not  
9 only having troubles financially, but they had a  
10 better ability to self-generate than other types of  
11 customers. And so, there was, in this period, an  
12 important issue of the ability of Central Maine  
13 Power to offer discounts to them. So they were put  
14 under a price cap plan, and also granted  
15 considerable amount of marketing flexibility. And  
16 when the next rate case would come along, the  
17 regulator stated that, because of the risk that  
18 they took between rate cases in offering the  
19 discounts, that they would be deemed to be prudent  
20 discounts.

21 Q. [26] But don't you agree with me that, if a rebate  
22 is given to, let's say to L tariff clients, well,  
23 that rebate, or the costs incurred by that rebate  
24 will have to be recovered to other clients, or to  
25 be recovered to the shareholders?

1 A. It doesn't immediately have to be recovered from  
2 other clients, no, sorry, I don't agree, if that's  
3 what you're saying. It doesn't have to be  
4 immediately recoverable.

5 Q. [27] So...

6 M. LUC BOULANGER :

7 A. Can I interject here?

8 Q. [28] Of course, always.

9 R. Si vous me permettez un commentaire. Présentement,  
10 Maître Turmel, on a le tarif de développement qui a  
11 été inauguré dans le temps du gouvernement Marois,  
12 qui a été repris par le gouvernement libéral par la  
13 suite. Et dans ce tarif de développement, qui est  
14 un tarif subsidiaire au tarif L, il n'y a pas  
15 présentement de clients mais il va y en avoir  
16 prochainement puisque Hydro-Québec a fait des  
17 ententes.

18 Notre compréhension du fonctionnement de ce  
19 tarif-là, quand un escompte est donné à ce client-  
20 là pour la période pendant laquelle le consommateur  
21 est actif et le manque à gagner n'est pas supporté  
22 ni par le tarif L ni par les autres catégories  
23 d'usagers, alors manifestement le montant, qui est  
24 un manque à gagner, doit être supporté autrement  
25 que par les classes d'usagers. La raison pour

1           laquelle je vous dis ça, c'est que dans la façon  
2           dont le tarif a été conçu, ça aurait été difficile  
3           pour, par exemple, un client actuel de payer à même  
4           son tarif d'électricité pour un escompte qui serait  
5           consenti à ce client-là pour consommer de  
6           l'électricité.

7                       Alors, ça, c'est la compréhension que nous  
8           avons. La Régie a approuvé ce tarif-là. Alors, il y  
9           a une mécanique qui a dû être expliqué dans ce  
10          dossier-là. Moi, malheureusement, je n'y ai pas  
11          participé. Mais on a déjà un exemple précis de cet  
12          exemple-là... de cette situation-là.

13        Q. [29] Donc, ce que vous nous dites, c'est un rabais  
14          donné aux industriels et ça n'affecte pas...

15        R. Ça n'affecte pas les autres industriels et ça  
16          n'affecte pas les autres catégories tarifaires.

17        Q. [30] Les autres industriels à l'intérieur de la  
18          classe ni les autres catégories de consommateurs?

19        R. C'est exact. Ça, c'est notre compréhension.

20        Q. [31] En matière d'impact sur les coûts dans l'année  
21          ou même de manière postérieure?

22        R. C'est comme ça qu'on l'a compris. Maintenant,  
23          j'imagine qu'Hydro-Québec peut-être qu'on pourrait  
24          demander un engagement d'expliquer de façon très  
25          claire quelle est la mécanique de ce tarif-là et

1           quel est l'impact sur les autres clients. C'est eux  
2           qui sont les spécialistes là-dedans. C'est eux qui  
3           ont présenté le programme à la Régie. Je pense  
4           qu'il y aurait peut-être intérêt à regarder ça.

5           (9 h 18)

6           Q. [32] Going back to you, Dr. Lowry, now that, but  
7           the discussion with Mr. Boulanger was interesting  
8           because he had an example.

9           Dr. MARK NEWTON LOWRY:

10          A. Yes, I know, I was thinking to mention that example  
11          too, but he did a much better job.

12          Q. [33] Okay. But this being said, so Mr. Boulanger is  
13          not sure, and I'm not sure anyway so, but from an  
14          expert standpoint, the fact that, well, I don't  
15          want to quote the famous French chemist Lavoisier,  
16          "Rien ne se perd, rien ne se crée", I mean, if  
17          costs are being reduced there, there should be an  
18          impact somewhere, if not recovered through the  
19          client, it could be through the shareholder.

20                        So I'm just trying, from a, not a theoretic  
21          standpoint but from your knowledge, from your  
22          opinion, how do we cope with that, that seems a bit  
23          counter intuitive, if I may?

24          A. Well, it's just not unlike a cost that a utility is  
25          unable to cover under an index-based regulation

1 too, I mean, and just because they incur the cost  
2 doesn't mean they get to recover it. And similarly,  
3 just because they are compelled to offer a discount  
4 doesn't mean that, if there's a shortfall, that it  
5 can be recovered from someone else immediately.

6 Also, don't forget that sometimes, a  
7 discount is shrewdly offered in the hopes of an  
8 expansion of load, so that ultimately, between the  
9 plan periods, by dint of a discount or other  
10 special terms of service, the utility is able to  
11 actually enlarge its base rate revenue from these  
12 larger customers, and they keep that extra margin  
13 until the next rate case.

14 Q. [34] But, okay, thanks, and within your proposal,  
15 that's not what you propose, so if I understand,  
16 that's not your proposal to, you're not proposing  
17 any shift of cost to other customer or clients  
18 class?

19 A. Yes, I am not proposing that.

20 Q. [35] Okay. Just to make sure. Now, going back to  
21 again Question and Answer 1.5... sorry?

22 A. Of FCEI?

23 Q. [36] Yes, FCEI again. Okay, you were asked, you  
24 answered,

25 Variations in costs would be shared if

1 the cost tracker took the form of an  
2 adjustment to a cost amount already in  
3 rates.

4 My question here with respect to allocation, are we  
5 talking here about the global costs or again the  
6 cost variations?

7 A. This is 1.5?

8 Q. [37] Yes.

9 Q. [38] Sorry, I misread here. So, again, 1.5, you did  
10 answer what is there, and then you answered that it  
11 is the variations that you are looking at, right,  
12 sorry. Considering that the current methodologies  
13 are not allowing variations in costs, because the  
14 allocation is about global costs, how would that  
15 allocation be done? I hope I'm clear -- so the  
16 current, so you said that, well, it would be done  
17 through cost variations, but as far as I know, as I  
18 was told by our analyst anyway, this is not what is  
19 done now.

20 LA PRÉSIDENTE :

21 Pourriez-vous la reformuler en français, s'il vous  
22 plaît?

23 Me ANDRÉ TURMEL :

24 Oui, parfait, ça va peut-être nous aider à  
25 clarifier.

1 Q. [39] Mais donc, dans la réponse, Monsieur Lowry, à  
2 la question 1.5, qui était, 1.5, c'était :

3 Veuillez de plus indiquer si ce sont  
4 les variations annuelles des coûts qui  
5 seraient réparties ou la totalité des  
6 coûts...

7 hein, il y a une différence entre les deux  
8 [...] à chaque année?

9 Et là, monsieur Lowry a répondu :

10 Variations in costs would be shared if  
11 the cost tracker took the form of an  
12 adjustment to a cost amount already in  
13 rates.

14 Alors il répond donc que ce sont les variations de  
15 coûts, c'est ce que l'on comprend, plutôt que les  
16 coûts globaux. Mais considérant que les méthodes  
17 d'allocation existantes n'allouent pas les  
18 variations de coûts mais bien les coûts globaux,  
19 comment est-ce qu'il, comment ça fonctionnerait,  
20 là, sur quelle base le partage serait-il fait?

21 C'est un peu ça, il y a une, et ce n'est  
22 pas pour surprendre docteur Lowry, j'essaie de, là,  
23 on est pris avec nos méthodes actu... bien, on ne  
24 veut pas changer les méthodes actuelles mais ce  
25 qu'on nous dit reviendrait à un changement.

1 J'aimerais ça le voir.  
2 (9 h 24)  
3 Dr. MARK NEWTON LOWRY:  
4 A. Okay. In response to this question, I would like to  
5 say that unfortunately, when I came to Montreal in  
6 my preparation, I found myself without the specific  
7 answers to this specific data request, and so  
8 rather... This is a very complicated question, and  
9 I would... if I might attempt to answer this after  
10 the lunch break, this particular...  
11 Q. [40] Okay. No problem. No problem.  
12 A. Maybe there'll be another one like that, but...  
13 Q. [41] Oh yes. We'll take the undertaking...  
14 A. Yes.  
15 Q. [42] ... number 1 for AQCIE-CIFQ.  
16 A. Yes.  
17 Q. [43] Okay.  
18 A. And if not, then overnight.  
19 Q. [44] Or next week.  
20 A. I'll do my best.  
21 Q. [45] No, no... No problem. So... Peut-être, donc,  
22 en lien avec la question et la réponse 1.5 de la  
23 pièce C-AQCIE-CIFQ-39, considérant que...  
24 considérant la réponse de monsieur Lowry, que les  
25 variations de coûts, que ce sont les variations de



1       coûts plutôt que les coûts globaux qui seraient  
2       alloués, considérant que les méthodes d'allocation  
3       existantes n'allouent pas les variations de coûts,  
4       mais bien les coûts globaux, sur quelle base ce  
5       partage serait-il réalisé. Je l'ai lu pour que ce  
6       soit clair, là. Excusez-moi, mais bon.

7

8       E-1 :     (AQCIE-CIFQ) Expliquer la réponse en lien  
9               avec la question et la réponse 1.5 de la  
10              pièce C-AQCIE-CIFQ-39 considérant que ce  
11              sont les variations de coûts plutôt que les  
12              coûts globaux qui seraient alloués,  
13              considérant que les méthodes d'allocation  
14              existantes n'allouent pas les variations de  
15              coûts, mais bien les coûts globaux, sur  
16              quelle base ce partage serait-il réalisé?  
17              (Demandé par la FCEI)

18

19       And I'm pleased to hear that it's complex, so at  
20       least... If it's complex for you...

21       A. This is very complex, yes.

22       Q. [46] It's a bit complex for me, so...

23       A. Yes.

24       Q. [47] Okay. Thank you, Sir. Again - and you may have  
25       the same answer, I don't want to catch you off

1 guard, but you did talk about interfinancement,  
2 hein, interfinancement, cross-subsidization. We  
3 did...

4 A. Oh yes. Interfinancement...

5 Q. [48] We made reference to that.

6 A. Hum, hum.

7 Q. [49] The fact that the interfinancement, or cross-  
8 subsidization, according to what it means in our...  
9 here in Quebec, the fact that interfinancement is  
10 not reflected in cost allocation, how, could you  
11 explain how interfinancement, or cross-  
12 subsidization, would be reflected in the allocation  
13 of tracked costs?

14 A. Well, I thought it was reflected in the cost  
15 allocations. If that's... Is that not true?

16 Q. [50] Well, I'm told that that is not the case, so  
17 you could take the time to have a look at it?

18 A. Okay. All right.

19 Q. [51] Okay. So...

20 A. I'm wondering how it works if it's not in the cost  
21 allocation, but yes, I will look into that.

22 Q. [52] Okay.

23 A. Hum, hum. Of course, this is an important issue.

24 Q. [53] Peut-être qu'on va faire l'engagement, un  
25 nouvel engagement, Madame la greffière. Bien, c'est

1           parce que... C'est pour permettre au docteur Lowry  
2           de répondre, là, compte tenu qu'il doit faire la  
3           vérification. Engagement 2, AQCIE... ou pas AQCIE,  
4           mais engagement je ne sais plus qui. C'est  
5           l'engagement de qui, finalement? AQCIE, oui?  
6           Considérant que l'interfinancement n'est pas  
7           reflété dans les méthodes d'allocation, le docteur  
8           Lowry peut-il expliquer comment l'interfinancement  
9           serait reflété dans l'allocation des « tracked  
10          costs ». Ça va? Thank you. Okay.

11

12          E-2 :       (AQCIE-CIFQ) Expliquer comment  
13                      l'interfinancement serait reflété dans  
14                      l'allocation des « tracked costs » (Demandé  
15                      par la FCEI)

16

17          Okay. Now, going much more quickly now, in the  
18          eventuality where Régie would not accept your  
19          proposal, your hybrid mechanism, price cap, revenue  
20          cap, what would be your subsidiary - if you have  
21          one - recommendation? Would you have a, well,  
22          fallback position, sort of?

23          A. Sure. Yes. There would have to be a fallback  
24          positions, and it's a good question. One would be  
25          to have revenue caps for all categories, but to not

1 have revenue decoupling for all categories. And  
2 this is a common arrangement in the United States.  
3 Often times, as I mentioned yesterday, the largest  
4 volume customers are not subject to revenue  
5 decoupling. For example, that's very common in the  
6 gas industry.

7 The other fallback is to have revenue  
8 decoupling for all customers, which is also done in  
9 a number of United States jurisdictions, including  
10 some that have MRIs, and an example there, I  
11 believe, is California. Now, if the large  
12 industrial customers are included, that raises the  
13 question do they have their own basket, separate  
14 basket, or do they have maybe a basket that, as is  
15 sometimes done, that would have the, let's say for  
16 example the large industrial customers, and also  
17 the large commercial customers in one basket.

18 (9 h 29)

19 Of course, another possibility is to have  
20 one big basket.

21 Q. [54] Am I right... am I correct to understand that,  
22 overall, but the basic common denominator of what  
23 you said is it... that would be a revenue cap for  
24 the entirety of the clientele?

25 A. There would be a revenue cap but not necessarily

1 revenue decoupling.

2 Q. [55] Yes, exactly, but...

3 A. I mean, revenue cap is what Hydro-Québec wants.

4 Q. [56] Yes, okay. I don't know if you have read our  
5 client's evidence or proposal, but our client has  
6 fear that any "bonification", any sort of a, well,  
7 incentive, the fear is that HQD does receive any  
8 incentive... well, get incentive by pushing in time  
9 the cost. That's the idea I'm... Okay? You do have  
10 some proposal with respect to that aspect. Would  
11 you please elaborate a little bit about that, the  
12 fact that... how to make sure that HQD shall not  
13 receive any "bonification"?

14 Me LISE DUQUETTE :

15 Maître Turmel...

16 Me ANDRÉ TURMEL :

17 Oui.

18 Me LISE DUQUETTE :

19 ... juste pour ma compréhension...

20 Me ANDRÉ TURMEL :

21 Oui.

22 Me LISE DUQUETTE :

23 ... est-ce que vous faites référence au fait que  
24 Hydro-Québec pourrait recevoir un "extra earning"  
25 à...

- 1 Me ANDRÉ TURMEL :
- 2 Oui, bonification.
- 3 Me LISE DUQUETTE :
- 4 ... parce qu'il y aurait un « deferment of... »
- 5 Me ANDRÉ TURMEL :
- 6 Oui.
- 7 Me LISE DUQUETTE :
- 8 « ... capital investment ».
- 9 Me ANDRÉ TURMEL :
- 10 Bon, mieux dit.
- 11 Me LISE DUQUETTE :
- 12 Oui. Merci. Ce serait... je pense... je voulais
- 13 juste m'assurer que je comprenais bien votre
- 14 question.
- 15 Me ANDRÉ TURMEL :
- 16 Q. [57] « Bonification » is extra earning, sort of.
- 17 Dr. MARK NEWTON LOWRY:
- 18 A. Yes.
- 19 Q. [58] ... and to get that by the sole action of
- 20 pushing costs later on.
- 21 A. Yes.
- 22 Q. [59] How do you... what does your proposal do to
- 23 make sure that doesn't happen?
- 24 A. Well, for one thing, it's desirable for the
- 25 reporting of costs to be sufficiently detailed to

1 permit the Régie to monitor this problem. I  
2 understand that the current standard cost file...  
3 annual cost filings of Hydro-Québec are not  
4 detailed enough to do that. I think that there  
5 should, for example, be careful records kept with  
6 respect to a line maintenance and other equipment  
7 maintenance expenses, for example, because that's  
8 one thing that could be deferred. And there should  
9 also be more detailed records kept with respect to  
10 different types of capital spending, so that, for  
11 example, replacement capital spending can be  
12 closely watched. So, that's one thing that can be  
13 done.

14 But there is also in sort of evolving best  
15 practice with MRIs an interest in stronger  
16 incentives. Incentives, I mean, that's... what I  
17 just said is not really an incentive. Incentivizing  
18 the plan in such a way as to discourage that type  
19 of behavior, such that, for example, and efficiency  
20 carryover mechanism can reward the utility to the  
21 extent that keep cost down, and potentially benefit  
22 the utility to the extent that costs in the next  
23 plan are high, such that, for example, you could  
24 benchmark the forward test year revenue requirement  
25 at the start of the next plan as one means of

1 seeing what kind of benefits customers are  
2 experiencing as we go from one plan to the next. I  
3 mean, if suddenly they propose a surge in capex or  
4 O&M expenses in the... at the start of the next  
5 plan, there would be a penalty for having done  
6 that.

7 Now, if you have a cost tracker it could  
8 get to the point where it's desirable to have, say,  
9 a stretch factor linked to the company's cost every  
10 year. And that's actually what they do in Ontario,  
11 although I don't know that that's why they do it  
12 that way, but they actually adjust the stretch  
13 factor term every year on the basis of new  
14 benchmarking results.

15 (9 h 34)

16 Q. [60] So, thanks for that answer. If I would ask you  
17 now to take the C-AQCIE-CIFQ-0076, which is your  
18 request, information request number 2 from the  
19 Régie.

20 A. Okay.

21 Q. [61] If you don't mind. Okay, so at Question 2.1  
22 and answer 2.1, you are presenting... you state  
23 that:

24 "Alternatively, the terms of the  
25 MRP can be drafted to



1 preclude..."

2 ... and that's at page 13, right? You got it? You  
3 have it, just to make sure?

4 A. Yes. Yes, I've got it.

5 Q. [62] "... to preclude rebasing unless  
6 parties have reason to suspect that  
7 the plan is not functioning  
8 properly or the utility's earnings  
9 are unusually high or low."

10 First question, is the ECM, which is efficiency  
11 carryover mechanism, that you're talking about,  
12 would that imply that a second term or duration  
13 would follow the first one?

14 A. Well, yes, I mean, that there would be successive  
15 plans. Although it wouldn't have to be. Actually, I  
16 discuss in my evidence some interesting trial,  
17 early experiments with efficiency carryover  
18 mechanisms in New England for National Grid, and  
19 National Grid did a ten (10)-year plan upon... in  
20 Massachusetts on the occasion of its merger with...  
21 merger of some little companies, acquisition of  
22 some little companies in the state, and so there  
23 was efficiency carryover mechanism that did not  
24 presume a new plan, it just said, you know,  
25 whatever happens at the end of the plan, and

1 whenever the company next files a rate case, then  
2 these certain provisions take effect. I mean, I  
3 assume here in Quebec, that likely there will be a  
4 continuation of MRIs. But ECM doesn't have to  
5 assume a succeeding MRI.

6 Q. [63] Okay. Couple of questions now. Would you  
7 please take your report at page 117, at the table  
8 A.1.

9 So, at page 117, we see that the... under  
10 the Reference Regulatory Options, where you do  
11 mention full-rate externalization, we do see that  
12 it seems to offer a larger incentive more important  
13 than the other options. You just discussed about  
14 the option, the preclude rebasing, well, first  
15 question, do you agree with the fact that, well,  
16 those numbers, that full-rate externalization show  
17 a much more important...

18 A. Sure, of course. In other words, if there was  
19 somehow... you could set a mechanism that they  
20 would never come in for a rate case again, they  
21 would do amazing things, And there is evidence of  
22 that happening in the United States, where  
23 utilities found themselves in a favourable  
24 situation, maybe favourable rates relative to their  
25 costs, and stayed out of rate cases for decades.

1 Q. [64] And you referred a little earlier on to the  
2 other option of preclude rebasing; would that  
3 option tend to look like the full rate  
4 externalization option in terms of incentive?

5 A. Well, if you're just skipping one rate case, it's  
6 not going to have that effect. I mean, the company  
7 has to be able to somehow have in its sights the  
8 possibility that they would never have to come in  
9 for a rate case again. So that wouldn't quite be  
10 the same thing, but it would be a step in the right  
11 direction.

12 Q. [65] But there wouldn't be a problem for, say, to  
13 use that option?

14 A. There would be.

15 Q. [66] There wouldn't be?

16 A. Well, there certainly could be a need, I mean,  
17 there could be some problem. I mean, certainly for  
18 one thing, that you might need to redesign the MRI,  
19 but, you know, all sorts of things can come up that  
20 the utility might want to have a rebasing. I  
21 however really encourage trying to think of ways to  
22 avoid rebasings. I've mentioned... I mean,  
23 possibly... I mention in my evidence the idea of  
24 some sort of a rate option that could give the  
25 Hydro Quebec an option of skipping a rebasing,

1 under certain terms.

2 (9 h 40)

3 Also in a midterm review there could be  
4 proposed an extension of the current plan or some  
5 other deal that avoids a rebasing. You know, there  
6 are a lot of very clever people in Quebec and I  
7 encourage you to think of schemes to avoid  
8 rebasings and, somehow, work something off that  
9 makes everyone happy as opposed to an approach seen  
10 so often in Canada today where the utilities are  
11 just looking for every way to get around the whole  
12 idea of PBR.

13 I mean, with the constructive cooperation,  
14 a good attitude on the part of both parties, you  
15 know, there's a real possibility of working  
16 something out that does add strong incentives and,  
17 also, leaves the company whole and gives them a  
18 chance to succeed and be rewarded for success.

19 Q. [67] And within the same question-answer at 2.1,  
20 you do say that,

21 An efficiency carryover mechanism  
22 ("ECM") can reward the utility for  
23 offering customers good value in the  
24 initial rates of the next plan.

25 So, when you do say "initial rates of the next

1 plan", does that ECM imply that, again, a second  
2 term would follow the first one?

3 A. Yes.

4 Q. [68] Yes? Is that possible that under an ECM a  
5 utility could choose to push some expenses in the  
6 short term to increase its "bonification"?

7 A. Yes.

8 Q. [69] Its extra earnings.

9 A. We've established that now, so...

10 Q. [70] Yes.

11 A. Bonification.

12 Q. [71] Bonification, yes. So, would a simple  
13 extension of the term of the mechanism, would that  
14 offer a greater protection towards that  
15 possibility?

16 A. Yes.

17 Q. [72] I'm referring to, well, to page 1 and 14 of  
18 your report but you seem to be content about that.

19 A. Yes.

20 Q. [73] Okay.

21 A. Well, and similarly deals cut to, "Hey, what would  
22 it take for you not to ask for a capex tracker?" is  
23 it similar to, "What would it take for you not to  
24 have a rebasing?". You know, these kinds of schemes  
25 are right and good.

1 Q. [74] Then, the last two comments at page 13 again,  
2 you said that,

3 Companies can be offered a menu of  
4 optional regulatory provisions that  
5 include a bypass of rebasing.

6 Do we understand that what's being offered to the  
7 company is essentially the extension of the  
8 duration of the mechanism for another term?

9 A. It could be that. There might however be a redesign  
10 of the MRI. There might, for example, be an  
11 updating of the X factor, a refinement of the  
12 inflation measure, you know, there are things like  
13 that. Oftentimes, there's mutual consent of the  
14 parties.

15 There's an amusing incident that has  
16 occurred in Alberta where, for example, there was a  
17 big argument about how much weight to put on the  
18 labour price and the inflation measure and the  
19 labour price goes up more rapidly than does the CPI  
20 and so, the utilities were for a very heavy weight  
21 on the labour price index and they got a very high  
22 weight, much higher than in Ontario.

23 Well, then what happened is that there was  
24 a recession in Alberta and the labour price fell  
25 and now, it's a big issue for the next plan, should

1           there be a limit that the I-X can never go below  
2           zero but it's all because they misdesigned the  
3           inflation measure in the first place. So, that's  
4           just an example of something you might want to  
5           change in the next plan.

6       Q. [75] And finally, again page 13, when you say,

7                           The rebasing process can be reformed  
8                           to mitigate some of its undesirable  
9                           properties.

10                          Multiple historical reference year...

11           So would that multiple historical reference year be  
12           applicable to the current case?

13       A. It could be done and something like that has been  
14           bandied about in Alberta in the current generic  
15           proceeding to redesign their MRI plan. But of  
16           course that does involve a rebasing. It's just that  
17           it's based on multiple historical reference years  
18           and not just on the last year.

19                          Because if you base it... Well, sorry, I  
20           should say that, as they would say in English the  
21           penultimate year, the second to last year, because  
22           that could often be the historical reference here  
23           for a rate case that occurs in the final year of  
24           the plan and, you know, if that's the way it works,  
25           then there's a lot of incentive to have your cost

1 high in that year for the utility and that takes  
2 away their incentive to keep pushing their cost  
3 downward.

4 So, if you took an average of several  
5 years, it would take away that incentive because  
6 you don't want to lose money in every year.

7 (9 h 46)

8 Q. [76] So to sum things up, can we say that all of  
9 those mechanisms that we just discussed in the last  
10 minute are, can we say that they are, in a way,  
11 similar to an extension of the mechanism, some sort  
12 of a...

13 A. Not the last one, that's a little different, it's  
14 just a sort of a better type of rebasing. I mean,  
15 rebasings may occur, and they'll likely occur, and  
16 so there's just, you know, how do you make them  
17 better. And one idea could be this multiple  
18 historic reference here, and another is just to  
19 index as much as possible, just as right now in  
20 Quebec, they have, they bring an index to bear on  
21 the O&M expenses, at least that discourages  
22 deferral of maintenance expenses and then asking  
23 for a bump in the rebasing.

24 Q. [77] And finally, in your report, at section 6.2.9,  
25 you say that ECM, well, could be, or should be



1 considered, but do you recommend that an ECM should  
2 be used here?

3 A. I do, but I think it's best not to say how it would  
4 work now, leave the details for later. Yes, unlike,  
5 Hydro-Québec has been a little bit ambivalent on  
6 that topic, at least their witnesses have, they say  
7 there's some advantage to this, but they don't  
8 actually propose that to be a characteristic, I  
9 think it should be a characteristic.

10 You know, there are some bad ideas out  
11 there for how to do it, I talk in my testimony, I  
12 mean, the one thing you wouldn't want to do is what  
13 they do in Alberta, but nonetheless, the general  
14 idea is a good one.

15 Me ANDRÉ TURMEL :

16 Je vous remercie. Thank you. Ça termine nos  
17 questions, Madame la Présidente.

18 LA PRÉSIDENTE :

19 Merci. J'inviterais maintenant maître David.

20 CONTRE-INTERROGÉS PAR Me ÉRIC DAVID :

21 Alors, bon matin, Madame la Présidente, Madame la  
22 Régisseure, Monsieur le Régisseur. Good morning to  
23 the panel.

24 Q. [78] I want to address the five topics with you  
25 today, Dr. Lowry. There may be a bit of repetition

1 in terms of subjects that were addressed by my  
2 colleague, Me Turmel, but I think it's still worth  
3 reviewing some of the items.

4 The first topic that I'd like to address is  
5 the issue of baskets of customers. So your proposal  
6 includes a Revenue Cap for small-load customers and  
7 a price cap for large-load customers. A preliminary  
8 question I have is, would the price cap apply only  
9 to the L-rate customers, or would it also include  
10 large-load customers who are under rates?

11 Dr. MARK NEWTON LOWRY:

12 A. That's a good question. I guess I was thinking the  
13 large-load customers, it could potentially be  
14 expanded to include a few of the larger commercial  
15 customers. But I think what I was thinking was the  
16 large-load.

17 Q. [79] Regardless of the rate?

18 A. Yes.

19 Q. [80] Okay. So on page 96 of your initial report,  
20 it's page 98 of your revised report, you raise the  
21 issue of whether baskets should be used. I can  
22 simply read you the passage, it's... do you prefer  
23 I use the revised or the initial report, or you  
24 don't care?

25 A. I think I have the revised.

1 Q. [81] Okay. So it's page 98 of the revised report.

2 So it's as of line 10, you state that,

3 If decoupling is instituted,  
4 several issues in the design of the  
5 revenue decoupling mechanism will  
6 require resolution. One is whether  
7 decoupling should apply to industrial  
8 customers. If the answer is "yes", an  
9 important further issue is whether  
10 baskets should be implemented that  
11 insulate residential and commercial  
12 customers and industrial customers  
13 from the revenue impact of  
14 fluctuations in each other's revenue.

15 Now I notice that in your presentation yesterday,  
16 you did not come back on this issue, so that's why  
17 I felt it was important to further clarify what you  
18 meant by that statement. First question is -- could  
19 you define what you mean by a "basket"?

20 A. Well, a basket is the word that's used for a group  
21 of services, a collection of services.

22 Q. [82] Okay.

23 A. In other words, you take all the services of the  
24 company and you put them into groups, that have  
25 separate rate-making treatment, and each group is

1 called a basket.

2 Q. [83] Alright. So in the absence of baskets, please  
3 explain whether and how fluctuations in revenues  
4 from large-load customers could impact on small  
5 customers.

6 (9 h 51)

7 A. Well, if there was a downturn in industrial loads,  
8 then it could result, in the next year, in a pick-  
9 up in the prices paid by residential customers  
10 which, by the way, happens today under the annual  
11 rate cases. And, but, and also, at the same time,  
12 the industrial customers are exposed to the  
13 effective weather conditions on the revenues from  
14 the residential and commercial category.

15 So it is done. I think it's done less often  
16 in a service territory with a large industrial  
17 sector. I mean some parts of the United States, for  
18 example, don't have a large industrial sector.  
19 Something like San Diego doesn't have a big... a  
20 lot of sprawling industry, so there would be less  
21 of an issue there.

22 Q. [84] Okay. My next question: if baskets are  
23 created, please explain whether and how  
24 fluctuations in revenues from large-load customers  
25 could impact on small customers.

1 A. Well, the idea is that they're... they are  
2 insulated, and that's why there are baskets.

3 Q. [85] All right. I refer you now to an information  
4 request that was made by the FCEI, so it's the  
5 document C-AQCIE-39.

6 A. FCEI, right?

7 Q. [86] It's the information request made by the FCEI,  
8 yes.

9 A. Yes.

10 Q. [87] So I refer you to question 1.3, and more  
11 particularly to your answer, and you state this, so  
12 at the bottom of the page:

13 The costs of electricity and  
14 transmission would be treated as  
15 exclusions from the attrition relief  
16 mechanism for all service classes. The  
17 difference is that recovery of  
18 excluded costs allocated to the  
19 decoupled services would be  
20 guaranteed, whereas recovery of  
21 excluded costs allocated to price cap  
22 services would not be. This would give  
23 HQD some incentive to allocate costs  
24 to the revenue cap services. The Regie  
25 would be required to be vigilant to

1                   this tendency. Sensible rules for cost  
2                   allocation such as those currently  
3                   used in rate cases would be required.

4       So, could you please provide an example of a cost  
5       where Hydro-Québec would be incentivized to recover  
6       costs from small-load customers?

7       A. Well, I would say any of its costs. It would have  
8       an incentive to make a case that we need to take  
9       another look at this cost allocation issue, and do  
10      you know that... So, I mean, I could see that  
11      happening with a lot of costs.

12      Q. [88] So there is... Okay. It covers a broad range  
13      of costs.

14      A. Yes.

15      Q. [89] Okay. Now you mentioned that the Régie would  
16      be required to use sensible rules for cost  
17      allocations such as those currently used in rate  
18      cases. Could you please explain which rules you're  
19      referring to?

20      A. Well, I assume that there is a way that costs are  
21      allocated today, and I know that the Régie is  
22      very... spends a lot of time thinking about cost  
23      allocation, because they've been involved in this  
24      huge case for Gaz Métro for quite some time to get  
25      that right. And, you know, when I say that the

1 Régie needs to be vigilant, I almost sound like the  
2 witnesses from... for Hydro-Québec in saying that  
3 well, they can be trusted to know how to regulate  
4 CapEx, they can be trusted to rule on a power  
5 supply plan.

6 Well, you know, regulators have more  
7 experience at some things than they do at others,  
8 and cost allocation is one of the things they think  
9 a lot about. So I like to think that they can  
10 handle the extra incentive that Hydro-Québec has to  
11 shift the costs to the more demand in elastic  
12 customers.

13 Q. [90] Okay. For the past few years, the Régie has  
14 been applying uniform rate increases on different  
15 rate classes, meaning that it does not adjust the  
16 rates yearly according to variations in cost.  
17 Please explain whether under your proposal, the  
18 Régie would have to approach revenue collection  
19 differently.

20 A. Well, they reallocate them with each rate case. Is  
21 that correct?

22 Q. [91] I believe so, yes.

23 A. And then, what do they do about the Y-factored  
24 costs? I mean, they... they have to be allocated  
25 every year. Are those rules set for a period of

1 time? And I guess it's inappropriate for me to be  
2 asking you a question.

3 Q. [92] I think so.

4 (9 h 56)

5 A. You can make this another undertaking, in this case  
6 with even better reason, because I just am not  
7 familiar with this, that you're raising. So I could  
8 either just say I don't know or I could take it as  
9 an undertaking; either way.

10 Q. [93] I don't think it's necessary to take an  
11 undertaking at this point.

12 A. Okay.

13 Q. [94] I just wanted to explore your thoughts on this  
14 topic.

15 A. Yes.

16 Q. [95] And I understand that you don't really know  
17 the answer.

18 I refer you now to Concentric's  
19 presentation, page 11. So, for the record, it's C-  
20 HQDT-0081.

21 A. Okay, I'm sorry, which page?

22 Q. [96] Page 11.

23 A. Okay.

24 Q. [97] So, the fourth bullet, Concentric states as  
25 follows:



1                   “The Price Cap approach to industrial  
2                   customers (under PEG’s proposal) would  
3                   either, 1) shift the fixed cost  
4                   recovery risk attributable to  
5                   discounting to industrial customers,  
6                   to other customers within the  
7                   industrial class, or to customers in  
8                   other customer classes, or 2) result  
9                   in an under-recovery of fixed costs by  
10                  HQD as an MRI design element.

11                 My first question is do you agree with Concentric’s  
12                 statement?

13                 A. Yes.

14                 Q. [98] Okay. In that case, can you please explain how  
15                 the first problem can be mitigated?

16                 A. Well, I don’t actually think that this is the way  
17                 it would work. I think the way it could work is  
18                 number 2, and I should also say that I don’t agree  
19                 that there would necessarily be an under-recovery  
20                 of fixed costs. There might be an under-recovery of  
21                 fixed costs if they had bad luck as opposed to good  
22                 luck. I mean, don’t forget first of all that there  
23                 could be expansions of industrial loads during the  
24                 planned period, and additionally, with good  
25                 marketing, they might... and by that, I mean a

1 shift in the demand of the industrial sector that  
2 is fortuitous to them. The price of paper goes up,  
3 so more paper mills are operating at a higher level  
4 is a possibility. But again, with their own adroit  
5 marketing, they might be able to encourage larger  
6 loads and they would be able to benefit from that.  
7 So, the qualification I would put on what  
8 Concentric said, that, in the event that their  
9 efforts at better marketing failed and there was an  
10 unfavourable shift in demand, then there could be  
11 an under-recovery of fixed costs between rate  
12 cases.

13 Q. [99] Okay. I'd like to move on to my second topic.  
14 In your report, on page 96 of the initial report,  
15 page 98 of the revised report, you put a lot of  
16 emphasis on the need to do revenue decoupling  
17 within the scope of a revenue cap approach. This is  
18 a topic that I addressed when I was asking  
19 questions to Concentric.

20 First, could you elaborate on why you think  
21 revenue decoupling is needed in Hydro Quebec's  
22 case?

23 (10 h 01)

24 A. Well, I spoke in my presentation about the general  
25 advantages of revenue decoupling. They include the

1 fact that there is a... if it's done... if it's  
2 full decoupling, which it usually is, there is a  
3 complete and immediate elimination of the  
4 throughput incentive that the company currently has  
5 to boost their system use between rates cases.  
6 There is also an elimination of the risk for the  
7 company of moving aggressively toward rates that  
8 better... rate designs that better encourage  
9 demand-side management, such as using their AMI to  
10 have default time sensitive base rates. There's no  
11 risk of revenue loss from having done that.

12 And then, thirdly, the whole problem of the  
13 incentive the utility might have to under-forecast  
14 the growth in their billing determinance is  
15 eliminated because there will ultimately be a true-  
16 up of revenue to the revenue requirements. So,  
17 there's nothing to be gained from doing that and  
18 the customers are no longer at risk to bad outcome  
19 on the issue of future billing determinance.

20 Q. [100] Okay. Can you elaborate on exactly how your  
21 revenue cap proposal would incorporate revenue  
22 decoupling?

23 A. Well, it's just an add-on feature. I mean, it's a  
24 revenue cap. So, the revenue cap doesn't change but  
25 now, the revenue cap establishes the revenue

1 requirement, and then, decoupling makes sure that  
2 Hydro-Québec gets the revenue requirement.

3 Q. [101] Alright.

4 A. I mean, they currently have a little bit of risk  
5 for that because, in the event of a bad... of  
6 unfavourable weather, which to them means a mild  
7 winter, you know, they can lose some money.

8 Q. [102] Yes. Could you explain to us how your revenue  
9 cap approach differs from Concentric's proposal  
10 with respect to revenue decoupling?

11 A. Concentric does not favor revenue decoupling. I was  
12 not entirely clear what adjustments they had in  
13 mind for volume normalization. I think they intend  
14 there to be a weather normalization. But I don't  
15 think there was any mention of normalization for  
16 any other reason.

17 Q. [103] And, in your opinion, does Concentric's  
18 proposal adequately address the issue of lost  
19 revenue disincentive?

20 A. No, I don't think it does. I do not think it does.

21 Q. [104] In your opinion, does Concentric's proposal  
22 adequately address the issue of energy efficiency?

23 A. No, I don't think it was a priority of theirs to  
24 focus on that...

25 Q. [105] Okay.

1 A. ... even though provincial policy is clearly  
2 strongly in favour of all measures that would  
3 encourage efficient distributed energy resources.

4 Q. [106] Okay. I'd like now to move on to my third  
5 topic, which is the treatment of CAPEX, on page 102  
6 of your initial report, page 104 of your revised  
7 report, so line 23 or 24, depending on the version  
8 you're using. You state that:

9 We do not believe that HQD needs a  
10 capital cost tracker in the first plan  
11 period.

12 Does that mean that all CAPEX would be covered by  
13 the I minus X formula?

14 A. Not exactly, because I allowed as how that A factor  
15 could be used to obtain supplemental revenue for a  
16 few carefully defined events, such as mandated  
17 CAPEX, from things like highway relocations, and  
18 also what we call idiosyncratic CAPEX, if for  
19 example the Régie said that every wooden pole in  
20 the province had to be replaced by a concrete pole  
21 within five years, that would be very  
22 idiosyncratic. And they would be able to get extra  
23 money for that.

24 Q. [107] Would amortization expenses and return on  
25 base rate be included in the I minus X formula?

1 A. Absolutely, both.

2 Q. [108] Okay. Under your proposal, what happens  
3 during the MRI term if the investment needs of the  
4 Distributor increase? How will this be dealt with  
5 in your proposal?

6 A. Well, I guess you mean increase for reasons other  
7 than the idiosyncratic CAPEX or the...

8 Q. [109] Yes.

9 A. ... mandated CAPEX.

10 Q. [110] Correct.

11 (10 h 08)

12 A. Well, I have discussed in my testimony a number of  
13 possible ways that this could be dealt with. For  
14 example, they would have the right to borrow some  
15 escalation privileges from the future. But I do  
16 emphasize that if there's such a thing as a  
17 required CAPEX surge, generally have to use that  
18 word "required" because a lot of people can say,  
19 they'd like to have a CAPEX surge, but let's  
20 suppose it's a required capex surge and there is  
21 such a thing as a required capex surge, there are  
22 going to be periods in which capital grows  
23 especially slowly so you have to be very careful  
24 about thinking of dollar for dollar recovery of the  
25 short-term, the apparent short-term capital revenue

1 shortfalls because if there is such a thing as a  
2 surge, that will be followed by a period of a  
3 surplus down the road.

4 And you see it all the time in the electric  
5 industry of the United States. I showed a cost  
6 trajectory of a vertically-integrated utility and  
7 how they would get a major plant addition and then  
8 they would have virtually flat cost growth, or at  
9 least flat unit cost growth for a long period  
10 thereafter.

11 And I mentioned earlier in the testimony  
12 today that sometimes utilities have gone more than  
13 a decade without rate cases. Well, several of the  
14 examples of that are companies that had just  
15 completed very large solid fuel power plants and,  
16 as that started to depreciate, they no longer had a  
17 need for a rate case.

18 Q. [111] Concentric argues that a review of capital  
19 projects more properly addresses Quebec's needs. Do  
20 you agree?

21 A. I do not agree that it should be the sole and  
22 primary basis for setting those budgets, that would  
23 be going down the road of a forecast-based approach  
24 to regulating capital costs and, you know, in my  
25 testimony and in my presentation yesterday, I gave

1 numerous reasons why that doesn't work very well in  
2 the long run.

3 That said, it's possible. I mean, it's been  
4 done to have some review of capital spending plans  
5 going along with an MRI but, you know, my first,  
6 what my proposal is is, "No, let's go to indexing  
7 and let's not have a capital tracker and let's  
8 scale back the role of these permissions for these  
9 projects."

10 Q. [112] So, under your proposal, would continued  
11 review of capital projects be needed?

12 A. It would be scaled back or it could be scaled back.

13 Q. [113] Okay.

14 A. And, at any rate, a permission could potentially  
15 not take the form of a guarantee of cost recovery  
16 or it could take the form of, "Well, if this shows  
17 up at the end of five years and it's in your rate  
18 base, then maybe you have some measure of  
19 preapproval for it but, in the meantime, you don't  
20 get any extra money for it." So, there are a few  
21 different ways that that current process could be  
22 revised.

23 Q. [114] I see that under Concentric's proposal,  
24 return on rate base would be Y-factored. Is it  
25 common for electricity distributors to do so in the



1 United States?

2 A. Not at all.

3 Q. [115] And is it common for electricity distributors  
4 to do so in Canada?

5 A. Not at all.

6 Q. [116] A final question on the capex questions. I  
7 wanted to refer you to part of Mr. Coyne's  
8 testimony yesterday, during a cross-examination by  
9 RNCREQ. So, I don't know if you have a copy of  
10 the...

11 A. Transcript? No, I don't.

12 Q. [117] ... the transcripts? Would anyone have a copy  
13 of yesterday's transcript? Otherwise, I'll just  
14 read it out. I don't think...

15 A. Why don't you try that?

16 Q. [118] I don't you need it.

17 A. No.

18 Q. [119] Mr. Coyne is asked why capex should be  
19 excluded from the MRI and he answers the following.  
20 He says there's two justifications but the first is  
21 what interests me. One justification... Oh sorry,  
22 I'm on page 112, line 2. So, he answers the  
23 following,

24 One justification for the exclusion is  
25 that they're also beyond the company's

1                   direct control because it's responding  
2                   to conditions on its system; customer  
3                   demand, equipment failures and things  
4                   of that nature.

5           Do you agree with Concentric's position?

6   A. Well, some types of capex are more subject to their  
7   control than others. We mention things like highway  
8   relocations - what I call "mandated costs" - that  
9   somebody that is in a position of authority says,  
10   "We need you to incur this cost." you've got to do  
11   it. And, of course, customers have to be connected  
12   and there are certain costs that are related to the  
13   connection beyond just the extension of a service  
14   to the household and a metre.

15                   But when it comes to things like  
16   replacement capex, there the company has a great  
17   deal of discretion as to how it's done and they  
18   also have a great deal of discretion as to whether  
19   or not to have an asset management plan or to  
20   adhere to it religiously. They have a great deal of  
21   discretion about that.

22           (10 h 12)

23   Q. [120] Okay. The next topic is the issue of  
24   inflation. I refer you to Concentric's  
25   presentation, on page 5, where they mention that

1 Hydro-Québec's proposal use a composite of Canada's  
2 Consumer Price Index and Hydro-Québec's labour  
3 inflation index. In your opinion, is an index-based  
4 I-X, in an index-based I-X formula, is it common to  
5 use internal labour index?

6 A. Not at all.

7 Q. [121] Do you know of any MRI plans for an  
8 electricity distributor in Canada which uses an  
9 internal labour index?

10 A. No, I do not.

11 Q. [122] Okay. Finally...

12 A. They usually use some version of the average weekly  
13 earnings of the province.

14 Q. [123] Okay. My final topic, and it's quite brief,  
15 is the issue of, well, you're suggesting that  
16 productivity studies and benchmarking studies be  
17 done for Phase 2, can you clarify for us what is  
18 the difference between the two?

19 A. Oh! sure. A benchmarking study is more about the  
20 company's current level of cost efficiency or of  
21 reliability, as opposed to the trend, an  
22 appropriate target for the trend in their  
23 productivity. So they address two very different  
24 things, I mean, really, a benchmarking study is  
25 more useful for setting a stretch factor or for an

1 efficiency carry-over mechanism than it is for the  
2 actual setting of the base productivity trend.

3 Because the, you know, one... I said the...  
4 you know, one of the drivers of productivity of a  
5 company is how much initial operating inefficiency  
6 they have and the more operating inefficiency they  
7 have, and not say that Hydro-Québec is inefficient,  
8 we don't know that, but the more they have, the  
9 more their potential for productivity growth is,  
10 that's more a matter for the stretch factor than it  
11 is for the base productivity trend.

12 Q. [124] And can the two approaches be complementary?

13 A. Oh! absolutely. They, and indeed that's what they  
14 do in Ontario, is to... is to benchmark the cost  
15 performance of the power distributors every single  
16 year.

17 Q. [125] Okay. I thank you for your answers.

18 R. Yes.

19 LA PRÉSIDENTE :

20 Merci, Maître David. Nous allons maintenant prendre  
21 une pause jusqu'à dix heures trente (10 h 30).

22 Merci.

23 SUSPENSION DE L'AUDIENCE

24

25 REPRISE DE L'AUDIENCE

1 LA PRÉSIDENTE :

2 Maître Thibault-Bédard, bonjour.

3 CONTRE-INTERROGÉS PAR Me PRUNELLE THIBAULT-BÉDARD :

4 Bonjour. Prunelle Thibault-Bédard, pour le RNCREQ.

5 Bonjour, Madame la Présidente, Madame, Monsieur les  
6 régisseurs, et bonjour aux témoins.

7 Q. [126] Je vais débiter avec une question générale  
8 pour messieurs Boulanger et Vézina. À la page 1 de  
9 votre mémoire, paragraphe 1, vous qualifiez le  
10 présent processus d'une occasion historique pour  
11 Hydro-Québec d'augmenter son efficacité et de  
12 bonifier son rendement à l'actionnaire tout en  
13 générant des réductions significatives des coûts et  
14 des tarifs pour le bénéfice des consommateurs.

15 Donc, tout d'abord, je salue votre  
16 optimisme qui, j'espère, est partagé par tout le  
17 monde. Mais j'aimerais quand même vous demander si,  
18 selon vous, il existe un risque que le résultat de  
19 ce processus soit un régime réglementaire qui  
20 serait, dans un sens ou dans un autre, pire que le  
21 régime actuel pour les intérêts que vous  
22 représentez. Voyez-vous des risques, des pièges à  
23 travers le processus?

24 M. LUC BOULANGER :

25 R. Bien, en fait, quand on regarde la littérature qui

1 a été écrite sur le sujet, quand on regarde les  
2 expériences qu'il y a eues dans d'autres  
3 juridictions, notamment en Angleterre, je pense que  
4 ça a été probant. Les difficultés qu'on rencontre  
5 dans le contexte québécois, on en a parlé tout au  
6 cours de cette audience, c'est l'asymétrie de  
7 l'information. Cette asymétrie d'ailleurs qui a  
8 donné lieu à un « over recovery » de un virgule six  
9 milliards (1,6 G\$) au cours des dernières années.

10 Alors, on espère que ce processus-là va  
11 faire en sorte qu'on ne répétera pas ce qu'on a  
12 connu. C'est aussi pour nous... On est optimistes  
13 en fait là-dessus. Et comme je mentionnais, ce qui  
14 est important, c'est de faire en sorte que le  
15 Distributeur fasse les efforts pour présenter des  
16 solutions optimales à la Régie, et pas présenter  
17 une solution parce que c'est la première qui arrive  
18 sur le bord. Au moins on aura la garantie qu'il y a  
19 un intérêt, une motivation de faire ça.

20 Évidemment, si je reprends encore l'exemple  
21 des « fuel costs » que j'ai mentionné hier, ce qui  
22 est intéressant là-dedans, c'est qu'un tel  
23 mécanisme va faire en sorte qu'ils vont faire des  
24 efforts pour avoir le meilleur prix, pas celui qui  
25 est affiché. Alors, ça veut dire qu'il y a

1 différents scénarios qu'il va falloir mettre de  
2 l'avant, des scénarios de « hedging », des  
3 scénarios dans... de prendre des positions dans les  
4 « forward », de choisir le temps opportun  
5 d'acquérir ces biens-là pour l'ensemble des  
6 usagers.

7 On peut même penser, on peut imaginer des  
8 formules. Si elles sont aussi réfractaires que ça  
9 au risque, qu'on peut partager à la fois le risque,  
10 puis on peut partager les bénéfices. Alors, cette  
11 formule-là semble donner à sa face même énormément  
12 d'espoir et d'espérance qu'on va être capable  
13 d'être plus efficace dans le contexte québécois.  
14 Mais il faut aussi que le Distributeur et le  
15 Transporteur aient cette volonté de faire que ça  
16 marche, pas mettre des bâtons dans les roues,  
17 approcher ça de façon optimiste et puis permettre  
18 qu'on ait de l'information puis qu'il y ait de la  
19 transparence, puis qu'on puisse travailler ensemble  
20 et non pas l'un contre l'autre.

21 Q. [127] Merci.

22 M. PIERRE VÉZINA :

23 R. Vous parliez d'écueil, je pense que je vais revenir  
24 sur les déclarations de Luc hier. En fait, un des  
25 écueils, ce serait de ne pas faire le travail au

1 complet. Je pense que, de ce côté-là, on a une  
2 occasion, oui, mais maintenant il ne faut pas le  
3 faire à peu près. Donc, on prévoit trois phases. Et  
4 j'espère bien qu'on sera en mesure de réaliser ces  
5 trois phases-là de manière à ce qu'on arrive à la  
6 fin avec un processus qui nous donnera un contexte  
7 et un MRI qui sera performant et...

8 C'est sûr qu'on souhaite tous que ce soit  
9 plus positif. Maintenant, il y a sûrement des  
10 écueils chemin faisant qui auront à être  
11 rencontrés. Mais ce qu'on peut observer aussi,  
12 c'est que, ailleurs, ça a été réalisé. Et je pense  
13 qu'on peut être plutôt optimiste.

14 (10 h 36)

15 Q. [128] D'accord. Je vous remercie. My next questions  
16 will be for Mr. Lowry. My questions are regarding  
17 your report, of course, and how it contrasts with  
18 the one of Concentric. My first questions are about  
19 cost trackers. I'm believing that all my references  
20 are from the initial version of your report. So on  
21 page 83, line 17, you characterize the existing  
22 pass-on account and other variance accounts as cost  
23 trackers. Is there any difference between a cost  
24 tracker and the Y factor treatment?

25



1 Dr. MARK NEWTON LOWRY:

2 A. No. In my view they are the same thing.

3 Q. [129] Synonyms.

4 A. Yes.

5 Q. [130] Okay. On page 102, line 23, you suggested  
6 that HQD does not need a capital cost tracker.  
7 Concentric proposes maintaining the current system  
8 for capital projects, which I believe you see as a  
9 type of capital cost tracker? Is that correct? The  
10 current system for capital projects, would you  
11 qualify it as a type of capital cost tracker?

12 A. I don't know that it would be fair to characterize  
13 it that way. For example, Concentric does propose  
14 that the amortization that results from decisions  
15 of the Board concerning their projects would be  
16 addressed with the index, and as for the other  
17 part, I mean, yes, they have proposed a Y factor  
18 for the return on rate base. So it's not entire...  
19 What they propose is not entirely a cost tracker  
20 for capital cost.

21 Q. [131] Okay. My question was regarding the current  
22 system in place, and not what Concentric is  
23 proposing.

24 A. Okay.

25 Q. [132] Hum, hum. Would that be the equivalent of a

1 capital cost tracker?

2 A. I don't think so. I don't... I think it's just  
3 annual rate cases that are used currently.

4 Q. [133] Thank you.

5 A. I mean, there are annual rate cases and they have  
6 some pass-on and variance accounts. I don't think  
7 that's one of them.

8 Q. [134] You made some comments yesterday about the  
9 authorization that's required under section 73. Is  
10 it your understanding that under the current  
11 system, approval of a project under section 73  
12 necessarily implies that it will be included in the  
13 rate base?

14 A. No, I'm not exactly sure about that.

15 Q. [135] Okay. And there is something else you  
16 mentioned. It was on page 25 of your presentation,  
17 you mentioned implicit preapproval of CapEx plans.  
18 Could you give me a little more details about that,  
19 to make sure we understand right what you mean by  
20 that?

21 A. I'm sorry. I said that where?

22 Q. [136] At page 25 of your presentation.

23 A. Okay. Just a moment.

24 Q. [137] Of course.

25 A. Yes. Often ti... Of course, a capital tracker does

1 not have to be based on a forecast of capital cost.  
2 It could have what I sometimes call a historical  
3 review window, where you look at the capital cost  
4 of a year or two prior. And there are examples of  
5 that in the United States, because many states in  
6 the United States do not have forward test years.  
7 But I'm going to suppose that in Quebec, that there  
8 would be a situation where a company comes in and  
9 says: "We need to build this new office building,  
10 finally. And it's going to cost this much money."  
11 And then the regulator gulps and says: "Okay, I  
12 guess that's... I guess that sounds okay." And  
13 then, that amounts to an implicit preapproval, so  
14 that if they come in with that same amount, they're  
15 going to be able to incorporate that in their  
16 revenues.

17 Q. [138] Okay. If you can just confirm that my  
18 understanding is correct on the following: under  
19 your proposal, amortization and capital cost  
20 recovery would be included in the I-X formula,  
21 except in the special circumstances you just  
22 described in response to maître David's question.

23 A. That's correct.

24 Q. [139] Thank you. I would like to ask your opinion  
25 on another issue with respect to whether or not

1 capital costs are included in the MRI mechanism.  
2 I'll do a little, like, hypothetical situation  
3 here. So let's take a situation where the utility  
4 has the opportunity to make a large capital  
5 investment, which would have the effect of  
6 substantially reducing operating costs. I'll take  
7 the example of the smart meter program, even though  
8 I'm not a hundred percent (100%) sure it applies to  
9 my question.

10 (10 h 42)

11 So, let's assume that, on a present value  
12 basis, the overall cost of meter reading on one  
13 hand and the new smart meter programme on the other  
14 hand, including return on equity, so the overall  
15 costs are identical in both situations, under  
16 Concentric's proposal, if I understand right, the  
17 utility would earn a return on the rate base for  
18 the new assets, and would also benefit from the  
19 substantial cost reductions, allowing it to avoid  
20 other reductions and operating costs. Would you  
21 describe this as a perverse effect of this type of  
22 MRI?

23 A. Yes, I would. And that... something like that has  
24 occurred in Alberta with one of the utilities  
25 implementing an AMI system during the PBR plan and

1 getting extra money for the AMI system, whereas its  
2 O&M expenses are subject to an index.

3 Q. [140] And would you say that your approach of  
4 including capital cost within the MRI envelope  
5 solved this problem?

6 A. For the most part. The complicating thing is that  
7 when you look at the incentives for containment of  
8 CAPEX and the containment of OPEX in a typical MRI,  
9 they're a little different because you do get to  
10 rebase in no more than five years. And from then  
11 on, the entire cost is recovered. So, there is...  
12 it's not exactly the same incentives between CAPEX  
13 and OPEX but, at least, it would substantially  
14 reduce that as an issue.

15 Q. [141] Thank you. Now, moving on to questions about  
16 supply costs; Concentric proposes to treat as a Y  
17 factor any element that is not clearly under  
18 management control. However, there seems to be a  
19 number of important factors that are not completely  
20 under management control, but which management  
21 nevertheless can substantially affect. One  
22 important example is supply costs, for which you  
23 suggest an incentivized tracker. Are you  
24 suggesting, generally, that partial control  
25 situations should be handled as incentivized Y

1 factors?

2 A. Well, in general, yes.

3 Q. [142] You said in your report, and you repeated  
4 yesterday, that with the time liberated from rate  
5 cases, and I'm going to say..

6 A. Well, may I... may I just clarify that?

7 Q. [143] Of course.

8 A. I mean...

9 Q. [144] Go ahead.

10 A. ... in my proposal, I didn't address... I didn't  
11 propose, for example, any specific incentivization  
12 of the tracker for the company's large transmission  
13 costs.

14 Q. [145] Hmm, hmm.

15 A. However, I was hoping that that could be addressed  
16 by a peak load management incentive.

17 Q. [146] Okay. Thank you. You said in your report, and  
18 repeated yesterday, that with the time liberated  
19 from rate cases, the Régie and other parties will  
20 have more time to devote to things like power  
21 supply issues, and should take the time. I'm here  
22 quoting from page 220 of yesterday's transcript.  
23 What kind of regulatory proceedings do you have in  
24 mind in which these issues could be addressed  
25 within the framework of an MRI?

1 A. Well, there is an existing process now and more  
2 time could be spent to making sure that that was  
3 done correctly. I didn't have any specific notions  
4 about how to make that process more effective or  
5 more thorough. I'm just saying there is more time  
6 available for thinking about that retaining, I  
7 don't know, for example, how often... I think I did  
8 mention in my testimony the idea to make sure that  
9 alternative views about possible power supply  
10 strategies should be heard. In the United States,  
11 you might even have a, you know, another party  
12 propose an entirely different solution, such that  
13 it is an American way, that we called a contested  
14 proceeding to approve a power supply plan.

15 In the United States, there are a number of  
16 jurisdictions that have what they call "integrated  
17 resource planning", for example, in which... it's  
18 called "integrated" because DSM solutions are given  
19 a great deal of attention. And often times, there  
20 would be an opportunity for parties to come in with  
21 their own ideas about how to address looming power  
22 supply needs.

23 Q. [147] When you mention that this could occur within  
24 the existing system, you're mentioning the supply  
25 plan?

1 A. Yes.

2 Q. [148] Is that what you have in mind? Okay. Thank  
3 you. You... questions that...

4 A. Well, may I say, I don't know what... I don't know  
5 how the monitoring of power supply cost outcomes is  
6 undertaken here.

7 Q. [149] Hmm, hmm.

8 (10 h 47)

9 A. So, I'm not saying it should be limited to just a  
10 planning proceeding. It could be ongoing  
11 proceedings for a look at how things are going. I  
12 don't know how that's done exactly.

13 Q. [150] O.K. Monsieur Boulanger, avez-vous une  
14 opinion ou quelque chose à ajouter sur ce sujet?  
15 Une suggestion de la façon dont on pourrait  
16 utiliser ce temps supplémentaire qui nous est  
17 accordé?

18 M. LUC BOULANGER :

19 R. Bien, en fait, on sait très bien que l'agenda de la  
20 Régie est chargé, c'est de même depuis quelques  
21 années alors je ne veux pas prétendre que la Régie  
22 fait mal son travail, ce n'est certainement pas le  
23 cas, mais c'est sûr qu'on peut peut-être à un  
24 moment donné explorer plus en profondeur les sujets  
25 qui sont demandés s'il y a plus de temps.



1 Q. [151] Hum, hum.

2 R. Évidemment, comme tout le monde, on est obligés de  
3 prioriser nos activités puis, des fois, on ne va  
4 pas aussi profondément qu'on aimerait l'être alors  
5 je pense que, à l'évidence même, plus de temps pour  
6 faire une chose devrait nous permettre de le faire  
7 peut-être un peu mieux.

8 Q. [152] Plus en détail. Merci. Next question...

9 Dr. MARC NEWTON LOWRY:

10 A. If I may add to that, I mean, rate design is an  
11 area that could easily be given a lot more  
12 attention if there was more time available.

13 M. LUC BOULANGER :

14 R. Et dans le même sens, je réclame depuis des années  
15 de revoir la méthode d'allocation de coûts que  
16 j'estime qui est cassée.

17 Q. [153] Thank you for this discussion. My next  
18 question is about PIMs. You, Mr. Lowry, you  
19 recommended the use of a number of performance  
20 incentive mechanisms. I have the impression that  
21 for you, PIMs are conceptually broader than the  
22 service quality indicator that was discussed by  
23 Concentric. Am I right?

24 Dr. MARC NEWTON LOWRY:

25 A. Yes, that's correct that there are some other

1 areas, in particular in the area of demand-side  
2 management where it seems that better incentives  
3 are needed right now.

4 Q. [154] Okay. On...

5 A. And power supply management, although, as I've said  
6 before - and I just want to clarify that I've said  
7 that - you could have what you call an  
8 "incentivised tracker" or you could have a  
9 performance incentive mechanism for power supply,  
10 it could be done either way.

11 Q. [155] Okay. On pages 108 and 109 of your report,  
12 you recommend including the autonomous networks in  
13 the main MRP for HQD and including the price of  
14 diesel fuel and the inflation factor. Have you  
15 considered the possibility of also using PIMs to  
16 create specific incentives in relation to the  
17 autonomous networks, for example, we could use PIMs  
18 to reward the increase of the percentage of  
19 renewable energy use there or increasing the  
20 efficiency of the diesel generators.

21 A. Well, if you didn't track the diesel fuel cost,  
22 there would be a pretty good incentive to contain  
23 the diesel fuel cost. You could have special  
24 performance incentive mechanisms for these  
25 autonomous communities but, again, it's such a

1 small part of the cost that you do get into this  
2 issue that was addressed implicitly or explicitly  
3 by Concentric as well that is, at some point, the  
4 regulatory cost isn't worth it.

5           There would be some, you know, I am  
6 advocating something about peak load reduction and  
7 it does pertain to that as well so that would be a  
8 judgement call, of course, for the Commission,  
9 whether they wanted to get into such a  
10 complication.

11 Q. [156] Okay. And my last set of questions is about  
12 your proposition of price caps for industrials,  
13 especially in the way they interact, especially in  
14 the way that the price cap for industrials  
15 interacts with the revenue cap that is proposed for  
16 HQD. You discussed the topic of marketing  
17 flexibility with maître David earlier. I have just  
18 a few clarification questions on that subject.

19           The marketing flexibility you're proposing  
20 includes discounts to individual customers and not  
21 just with respect to the published rate for a rate  
22 class, is that it, is that correct?

23 A. Well, it could be a discount and it could be a  
24 whole special contract that has other provisions  
25 too. It could be to more aggressively pursue

1           opportunities for them to curtail their loads in  
2           cold winter days, for example. I mean, I think  
3           there is more potential there than has been. I  
4           don't know that the potential there has been  
5           exhausted so it would, in other words, and I think  
6           in my presentation yesterday I allowed for the  
7           possibility of optional rates and services.

8           Q. [157] Uh, huh.

9           A. So, there could be a whole elaborate contract for  
10          an individual producer.

11          Q. [158] Okay. Does this mean...

12          M. LUC BOULANGER :

13          R. Si vous me permettez?

14          Q. [159] Oui.

15          R. Étant donné que c'est une question de marketing, je  
16          peux vous garantir qu'on a pas mal d'idées à mettre  
17          sur la table.

18          (10 h 53)

19                       Alors ce qu'on recherche, nous, c'est non  
20                       seulement la prévisibilité des tarifs, leur  
21                       flexibilité est un élément important, alors on a  
22                       beaucoup de propositions qu'on aimerait explorer et  
23                       pouvoir, dans l'espoir de pouvoir les mettre sur la  
24                       table, que ce soit au niveau de l'électricité  
25                       additionnelle interruptible, des options tarifaires

1           quelconques, qui permettent de rendre des tarifs  
2           industriels compétitifs et similaires à ce qui se  
3           passe dans d'autres juridictions. Alors les idées  
4           ne manquent pas sur ce plan-là.

5           Q. [160] Under your proposal relating to marketing  
6           flexibility, could HQD charge rates that are lower  
7           than those that would result from the revenue cap  
8           calculations in the hope that the lower rate would  
9           increase sales?

10          Dr. MARK NEWTON LOWRY:

11          A. Yes.

12          Q. [161] It's possible. So if it does work, would HQD  
13          keep the excess earnings or would they have to  
14          share it under the ESM?

15          A. Well, if there was an ESM, it would have to be  
16          shared through the ESM.

17          Q. [162] And could the same be said of the loss...

18          A. Yes.

19          Q. [163] ... would HQD have to eat it or...

20          A. If there was an ESM, and I've mentioned that that  
21          is a problem with marketing flexibility, a  
22          potential conflict between the ESM and marketing  
23          flexibility, such that some plans where marketing  
24          flexibility is emphasized don't have an ESM. Of  
25          course, one middle ground is to have a pretty good

1 size deadband in the ESM.

2 Me PRUNELLE THIBAUT-BÉDARD :

3 That will be all. Thank you very much. Merci.

4 LA PRÉSIDENTE :

5 Merci.

6 Dr. MARK NEWTON LOWRY:

7 A. May I just make one follow-up comment, and that is,  
8 if there was an efficiency carry-over mechanism,  
9 and they had done prudent discounting that expand  
10 other practices that expanded loads, they would be  
11 able to keep a share of that benefit into the next  
12 plan.

13 Me PRUNELLE THIBAUT-BÉDARD :

14 Thank you, Mr. Lowry.

15 LA PRÉSIDENTE :

16 Merci. Alors j'inviterais maintenant maître Neuman,  
17 pour SÉ-AQLPA.

18 CONTRE-INTERROGÉS PAR Me DOMINIQUE NEUMAN :

19 Je vous remercie, Madame la Présidente. Madame et  
20 Monsieur les Régisseurs. Bonjour, messieurs.

21 Dominique Neuman, pour Stratégies énergétiques et

22 l'Association québécoise de lutte contre la

23 pollution atmosphérique. I will ask my questions in

24 English as a courtesy for Mr. Lowry.

25 Q. [164] First, I would ask you to have the three

1 following documents before you for my questions :  
2 well, your presentation, which is on the screen,  
3 the revised version of your report, and also, as I  
4 will be referring to it, the presentation of  
5 Concentric in this hearing, which was C-HQT-HQD-  
6 0081.

7 Dr. MARK NEWTON LOWRY:

8 A. Okay, I have all of those.

9 Q. [165] So I will start with your presentation,  
10 referring to pages 5 and 6. So on page 5... just a  
11 second, we changed the page... okay. On page 5, in  
12 the red section at the bottom, the first... the  
13 first item, in that item, you mention,

14 Weak incentives for HQD to...

15 - contain capital expenditures

16 ("capex")...

17 I'll concentrate on capex for the moment. And, but  
18 on page 73, I mean on page 6, on the next page, you  
19 refer to Article 73 of the Law governing the Régie,  
20 which say that the,

21 Distributor must obtain authorization  
22 to construct assets subject to the  
23 conditions and in the cases determined  
24 by regulation by the Régie.

25 I'm trying to understand, well, first of all, why

1       you placed that reference here in your  
2       presentation, and is it your statement, is it your  
3       opinion that article 73 does not provide a proper  
4       form of control of capital expenditures?

5       A. Well, my view was that, is that article 73 is in  
6       the statutes as a consumer protection, and not as  
7       an obligation of the Régie to the company, and that  
8       I'm not here to judge the current system, the  
9       current interpretation of that law by the Régie. It  
10      may fit in fine with the current system of annual  
11      rate cases. I am saying, though, that the Régie  
12      doesn't... I don't feel that the law obliges...  
13      prevents, and what I'm really driving at is that I  
14      don't think that the law prevents the index from  
15      addressing the return on rate base. Because this,  
16      the current practices for reviewing larger capital  
17      expenditures can be tailored to work in a  
18      complementary way with the MRI.

19      Q. [166] I'm still having some difficulty  
20      understanding what your opinion is concerning the  
21      quality of the control that the Régie exercises  
22      over capital expenditures.

23      A. Okay.

24      Q. [167] Is it your opinion that the Régie is not  
25      obliged to overview the various capital



1 expenditures over a certain amount?

2 A. Well no. Under the current system, they're well  
3 advised to do the best they can. However, the  
4 reason there is a law about, there's been a change  
5 in the law to encourage MRIs, is that the whole  
6 current system doesn't provide the best possible  
7 incentives or outcomes, and that includes this part  
8 of the regulatory system of the approval of these  
9 large plant additions.

10 So, in other words, it's very hard for the  
11 Régie to know exactly what's right when it comes to  
12 distribution capex, and so it wouldn't be  
13 surprising if the outcome was not optimal for the  
14 consumer.

15 Q. [168] I'm still trying to understand. Is it your  
16 opinion that under the current... Because I'm  
17 trying to figure out what do you feel is  
18 inappropriate in the control that the Régie is  
19 exercising. Do you feel that under this system,  
20 some capital expenditures that should be refused  
21 actually are approved? Is that your opinion?

22 A. Yes. That's likely that that's true. Because it's  
23 very hard for them to know what an optimal capital  
24 spending would be. It'd be hard for any Commission  
25 to know that. And so something comes along, as I

1 understand, just a few years ago they introduced  
2 some sort of asset management programme. It's very  
3 hard for any Commission to know what to make of a  
4 proposal like that. And I... And it's true in the  
5 United States as it is in Canada.

6 Q. [169] Do you have any specific examples of assets  
7 of Hydro-Québec Distribution that were approved and  
8 which, in your opinion, should have been refused?

9 A. No. I mean, my job is to look at the regulatory  
10 system as an experienced regulatory economist and  
11 say well, you know, how do you score this on the  
12 basis of regulatory cost, performance incentives,  
13 and the score isn't very... isn't really good for  
14 this system of annual rate cases and high  
15 regulatory costs.

16 Q. [170] Okay. On this page of your presentation, you  
17 stress the word "Obligations of distributor", and  
18 on the top of that page you mention that:

19 Article 48.1 of Act requires MRI for  
20 the "distributeur" (not  
21 "distribution")...

22 What is the aspect you want to stress upon? What  
23 is... What is the, the... Why have you stressed the  
24 distributor versus distribution? Is it because...  
25 Are you just talking about réseau autonome,

1 autonomous grids, or are you talking about  
2 something else?

3 A. Hydro-Québec has actually proposed that large  
4 sections of my evidence be expunged from the record  
5 because they are inappropriate. And... Or out of  
6 bounds.

7 (11 h 05)

8 And one of the arguments is that we really  
9 shouldn't be talking about power supply and there  
10 is this set mechanism for the review of capital  
11 expenditures that should not be... that is  
12 obligatory. And so, I'm saying here that I'm not a  
13 Montréal attorney, I wish I made that kind of  
14 money, but...

15 Q. [171] That might...

16 A. ... my reading of the law is that that the actual  
17 statute applied to the activities of the  
18 Distributor, which include power supply, and so,  
19 no, that definitely should not be excluded.

20 Q. [172] Okay. Okay, you are referring to power  
21 supply.

22 A. Yes. Power supply, yes.

23 Q. [173] Okay. Okay. I understand. Let's switch to  
24 page 9 of your presentation. Yes, this is page 9.  
25 First of all, let's talk about the rebasing. You

1 mentioned it in your evidence, and also in reply to  
2 FCEI today, that you thought it would be a good  
3 thing to skip rebasing at the end of the multiyear  
4 rate plan, and then to go directly to the renewal  
5 of that plan without rebasing. But you've also  
6 mentioned that, very often, it's not the case.  
7 That's not what utilities and regulators do. Did I  
8 understand correctly?

9 A. Yes.

10 Q. [174] Yes. So, in these circumstances, do you think  
11 it's realistic to expect that, after the first MRI  
12 that would be applied to HQ Distribution, is it  
13 realistic to expect that there would not be a  
14 rebasing after the end of that multiyear rate plan?

15 A. Now, in fact, I would anticipate that there would  
16 be a rebasing in all likelihood, but it could be on  
17 the table to find a way to avoid it. It could be a  
18 topic of negotiations in the mid-term review. I  
19 mention in my evidence discussion of rate options  
20 that could potentially include, "Well, what would  
21 it take for you to pass up the next rate case?  
22 Could we agree on some deal to keep things going?"  
23 I mention that as an intriguing idea, but one that  
24 might be beyond the capabilities of the regulatory  
25 community here at this stage.

1                   But I think over the course of time, that  
2                   these sorts of deals could be, over the course of  
3                   multiple plans, these sorts of deals could be  
4                   considered between the parties, because it's a  
5                   pretty sophisticated regulatory... you know, the  
6                   committee or there seems to be a lot of potential  
7                   or very smart people here that, once they go out  
8                   this learning curve, could learn how to avoid  
9                   rebasings in a way that is good for customers as  
10                  well as the company.

11        Q. [175] Before my next question, I will ask you if  
12                  you are familiar with the usual timeframe of the  
13                  rate cases, and the dates at which they apply. Are  
14                  you aware that Hydro-Québec Distribution rates, so  
15                  far, until now, they change on April first (1st) of  
16                  a specific year, and that the rate case, until now,  
17                  is usually filed in the month of August, preceding  
18                  that April first (1st) date? Are you aware of that?

19        A. No, I wasn't. Obviously, the plan has to be  
20                  calibrated to those dates, would have to be  
21                  calibrated.

22        Q. [176] Okay. I'm.... my next question concerns your  
23                  recommendation, which is... I'll refer to the pages  
24                  in your report, but there's no need to look at them  
25                  immediately, just for the record, on page 110...

1 and I'm talking about your revised report, which is  
2 C-SÉ-AQLPA-0046. So, on page 110, line 16, you  
3 recommend a multiyear plan of four years. But on  
4 page 106, line 24 of that same report, you  
5 recommend review after three years if a deviation  
6 of more than three hundred (300) points is noted  
7 after a certain point.

8 (11 h 10)

9 I'm trying to see how that can be  
10 accomplished. If we assume, for the moment, that  
11 we'll keep the same type of calendar, so it will  
12 be, after a certain number of years, in the month  
13 of August to prepare for the next tariffs which  
14 will apply on April first (1st) of the subsequent  
15 year. In the month of August, no one will know at  
16 that time what would be the results of year number  
17 3 - we'll know the results of year number 2 but not  
18 of year number 3 - and if we wait until we obtain  
19 the results of year number 3, then we're at the end  
20 of the four-year plan that you propose so there's  
21 no review at the beginning of year number 3.

22 So, if we maintain the same type of  
23 schedule, and even if the rate case is filed even  
24 after the month of August in the fall, it still  
25 remains that when the rate case is filed, no one

1 has the results of year number 3, we only have the  
2 year number 2. So, is it your recommendation that  
3 we would base, that the regulator would base itself  
4 on the results of year number 2 to determine if  
5 there's a deviation of three hundred (300) points  
6 or not and, on the basis of that knowledge, decide  
7 if the mechanisms need to be reviewed for year 3 or  
8 if it can wait until year number 4.

9 A. So, you're referring to my off-ramp discussion? I'm  
10 just trying to think what page that's on.

11 Q. [177] Well, I'm referring to your suggestion...

12 A. Okay, there it is.

13 Q. [178] ... page 106, line 24...

14 A. Yes.

15 Q. [179] ... of the revised report. Line 16 is your  
16 suggestion to have a four-year mechanism and page  
17 106 line 24 is your suggestion to review it after  
18 three years...

19 A. Uh, huh.

20 Q. [180] ... if something happens.

21 A. Yes, I hadn't thought through that implication. You  
22 know, maybe it's... I'm not saying it's wrong,  
23 maybe a plan that's only four years that you would  
24 have to tailor the off-ramp to consider that  
25 complication. Maybe you couldn't wait for three

1 years in order to render that so maybe it would  
2 have to be two years, for example.

3 Q. [181] Yes, but after two years of results,  
4 especially if the first year is the rebasing, then  
5 you don't have much in hand to decide whether or  
6 not there's a need for an interim review.

7 A. And that's a... Well, I think there's a  
8 misunderstanding here about the interim review. I  
9 mean, I'm saying there would be a midterm review in  
10 year 3 no matter what. This is more a matter of the  
11 off-ramp, that's not the same thing as a midterm  
12 review. Maybe that would help for clarification.  
13 And having a midterm review in year 3 of a four-  
14 year plan isn't ideal because only two years have  
15 transpired. These are all some of the complications  
16 of having just a four-year plan instead of a five-  
17 year plan. It would be nicer to have a review in  
18 year 4 of a five-year plan which is what Alberta is  
19 doing right now.

20 So yes, perhaps in view of, you're raising  
21 a complication that might prompt one to rethink  
22 exactly how the off-ramp would be done in a four-  
23 year plan.

24 Q. [182] I'll go back to capex. In your report, on  
25 page 105, line 25, that's still the revised



1 version, you discuss as an option the possibility  
2 that capital expenditures would enter into the  
3 tariffs, into the tariff base one year after they  
4 become useful but you discuss this as an option and  
5 I would like to understand if that's an option you  
6 recommend.

7 (11 h 15)

8 A. It's only on a short list, it wouldn't necessarily  
9 be the optimal way. In fact, this is far from a  
10 full discussion of how to avoid the  
11 overcompensation problem that can result from  
12 capital cost trackers, I mean, that something I've  
13 been devoting a great deal of attention to in this  
14 proceeding right now in Alberta as the  
15 representative of consumers.

16 So that's one of the things that's been  
17 mentioned. It probably doesn't do enough to address  
18 the over-compensation problem just to have an  
19 historical review window, so it's just one of  
20 several options. But it's not a bad one, it just  
21 probably doesn't go far enough to protect the  
22 consumers, as some, you know, so that maybe it  
23 would have to be complemented with something else.

24 You know, in Ontario, for example, they  
25 have not only a materiality restriction on

1 supplemental capital revenue but they have a dead  
2 zone that up until of ten percent (10%), that's,  
3 even if you do establish the need for supplemental  
4 revenue, that first ten percent (10%) is  
5 disallowed. That ten percent (10%) is probably more  
6 than the company would lose in the short term from  
7 an historical review window.

8 Q. [183] But on this issue of delaying for one year  
9 the inclusion of capital expenditures in the tariff  
10 base and in the tariffs, since most regulators in  
11 North America, and in other countries also,  
12 recognize capital expenditures when they are  
13 prudent and useful, which means that they're in  
14 service, is that an option that you, first of all,  
15 is that an option that you have seen accepted by  
16 any regulator anywhere?

17 A. Well, about twenty (20) jurisdictions in the United  
18 States have historical test years, be that noted.  
19 And I'd also like to clarify that when I'm talking  
20 about this historical review window, it's only with  
21 respect to some deliberation over supplemental  
22 capital revenue. When you're trying to think, like  
23 I often have been talking about this example of the  
24 office building, rather than giving dollar-for-  
25 dollar recovery of the full revenue requirement for

1 the, revenue shortfall for the office building the  
2 year it goes into service, you wouldn't get around  
3 to doing that for a year.

4 And that would be one way for them to take  
5 a bit of a haircut so that they would protect  
6 consumers from overcompensation, and along the way,  
7 strengthen the incentives of the company to  
8 construct the building.

9 Q. [184] Okay. I will direct you to page 15 of your  
10 presentation, and also page 7 of your revised  
11 report, lines 25, 26.

12 A. I'm sorry, which page of the revised report?

13 Q. [185] 7, lines 25, 26. And at the same time, I  
14 would refer you to Hydro-Québec's, I mean,  
15 Concentric's presentation, which is C-HQT-HQD-0081,  
16 at it's page number 8.

17 A. 8?

18 Q. [186] Yes, 8. As you recall, since you were present  
19 when Concentric testified, there was some  
20 discussion about the definition used by Concentric  
21 to describe what the Y factor is. Concentric  
22 described it as:

23 ... known expense categories but  
24 deemed beyond management's direct  
25 control...

1 And it was discussed with Concentric that many of  
2 the Y factors included, under, by them or by Hydro-  
3 Québec Distribution under that category were not  
4 items beyond management's control but items that  
5 deserved, what you could say, deserved a special  
6 treatment for public interest reasons, or other  
7 reasons, maybe because the costs, sometimes because  
8 the costs grew differently than other types of  
9 costs, or simply because these items needed to be  
10 what you could call protected for public interest  
11 reasons.

12 In your report, you recommend a broader  
13 more matter-of-fact definition of the Y factor, and  
14 you described it as the "costs that are chosen in  
15 advance for tracker treatment." And incidentally,  
16 the second approach is the one that we're  
17 referring, that we're using in our own report, in  
18 SÉ-AQLPA's own report.

19 Would you elaborate on the difference in  
20 approach, and also what you have seen in practice  
21 in other jurisdictions as to which approach is  
22 taken to define the Y factors?

23 A. Well, sometimes, when it comes to Z factors, there  
24 is a discussion of characteristics that might make  
25 an event eligible for a Z-factor treatment.

1           However, when it comes to Y factors, lots of times,  
2           no such principles are really evoked, it's just,  
3           there might be various reasons that a certain cost  
4           or a certain event might be subject to a revenue,  
5           might induce a revenue adjustment. So that's why I  
6           just don't use, I just didn't mention any  
7           principles for the Y-factor treatment.

8                       My own view, you've discussed public  
9           reasons that you might want to Y-factor something,  
10          and I've actually mentioned one of those because I  
11          have proposed, in the public interest, that the  
12          company's DSM expenses be Y-factored. Because  
13          they're benefits to society. And it's... And that  
14          there isn't enough cost containment incentive, even  
15          in an MRI, to... It isn't enough to get the  
16          company, by itself, to pursue DSM, so let's track  
17          the DSM expense make it really tempting for them.  
18          (11 h 21)

19                      So, but there are just lots of reasons that  
20          something might be Y-factored, and one is that it's  
21          hard to... Certainly, the fact that the company  
22          can't control it could be... have a bearing on a Y  
23          factor, but so too would be that it's just hard to  
24          address with the attrition relief mechanism. There  
25          is something about the cost that would make it

1 particularly hard to design, attrition relief  
2 mechanism to design it, so...

3 Q. [187] Since Hydro-Québec Distribution and even  
4 Concentric accept, under the Y factor, items that  
5 are clearly not beyond the management's control,  
6 could you say that in fact, despite the difference  
7 in the text of the definition, that Hydro-Québec  
8 Distribution and Concentric also accept the same  
9 definition as yours of the Y factors?

10 A. Possibly. It's hard for me to say what they accept  
11 as a principle. I don't know what they stated as a  
12 principle. It perhaps wasn't a complete explanation  
13 of all the reasons that they might actually propose  
14 a Y factor treatment.

15 Q. [188] I'd like to expand on some answers you've  
16 already given on specific Y factors, but I'd like,  
17 my question will be more global. Would you agree  
18 with me that once an item is classified as a Y  
19 factor, then, in a way, we could say that the sky  
20 is the limit as to what type of measures, what type  
21 of control the Régie can exercise on these Y  
22 factors. It's not just a pass-on. And though you  
23 have used the word "tracker" to describe these  
24 items, and the word "tracker" might give the  
25 impression that you just look at what's going on

1 and stop at that. But would you agree with me that  
2 once an item is classified as a Y factor, it  
3 doesn't mean it's beyond control. On the contrary,  
4 maybe that's part of the better use of the time  
5 that you've been mentioning earlier to concentrate  
6 on the Y factor, since the rest, what is not Y and  
7 what is not Z, would be automatically calculated,  
8 and then the time available can be used in  
9 overlooking, and control, and designing all kinds  
10 of mechanisms or guidelines to supervise the  
11 evolution of the Y factors.

12 A. Yes, I agree with what you said. Certainly, a Y...  
13 Any Y factor item could, in principle, be subject  
14 to a prudence review. There is an understanding  
15 that it... sort of an implicit understanding that  
16 you try to do that in a... You know, you don't take  
17 your time in making such a review so that it can,  
18 the rate adjustment can be made, but yes, there  
19 is... you know, they're potentially subject to  
20 prudence reviews, and now I've been saying, and I  
21 agree with you that you could either incentivize a  
22 tracker or you could have some sort of a PIM that  
23 incentivizes better behaviour under the tracker. So  
24 everything you said, all those options, I agree  
25 with you.

1 Q. [189] O.K. I'll switch to page 17 of your  
2 presentation on the X factor. If I understand  
3 correctly your proposal, you would prefer a  
4 specific productivity study, specific to Hydro-  
5 Québec Distribution, to be accomplished, but if  
6 it's not the case, second best would be to use, and  
7 I'll quote you, the base productivity trend of the  
8 industry. Is that a correct interpretation of your  
9 view of calculating the productivity... well, the  
10 productivity factor which is used in X, in  
11 calculating X?

12 (11 h 27)

13 A. Yes. The... You know, one of the issues when you  
14 design one of these indexes is: do you want to use  
15 the productivity trend of the industry or something  
16 that is more customized? And probably most  
17 commissions have gone down the road of some degree  
18 of customization. In the United States, for  
19 example, most of the plants were approved in New  
20 England. And all the utilities proposed to base the  
21 X factor on the productivity trend of the North  
22 East United States. And basically, that commission  
23 staff would tend to agree with that. So, that was  
24 some measure of customization there.

25 In Ontario, they started out with the



1 industry productivity trend, the whole United  
2 States industry, but then they went to basing X  
3 only on the productivity trend of Ontario  
4 utilities. In Alberta... And, by the way,  
5 Alberta... British Columbia used a national  
6 productivity trend as well. But Alberta... well,  
7 should I say that both Alberta and British Columbia  
8 have used national productivity trends. And Alberta  
9 was pretty... argued pretty strongly that it should  
10 be a national trend. I'm not saying I agree with  
11 that. Over my career, I've tended to try to  
12 customize them to individual circumstances.

13 Q. [190] So, to paraphrase you and to paraphrase  
14 Concentric also, it's a question of judgment to  
15 decide which trend to take, whether it would be the  
16 national one or a more regional one.

17 A. That is true.

18 (11 h 29)

19 Q. [191] I switch to page 18. You recommend to  
20 subtract from the base productivity trend, I mean,  
21 to subtract or to add, depending, a stretch factor  
22 which, if my understanding is correct, would be in  
23 a certain way arbitrary since it's not something  
24 that will have been already found in the  
25 productivity study or in the productivity trend but

1           you recommend that the regulator uses its own  
2           judgement to add something else to the results,  
3           which is what you would call the stretch factor. Is  
4           it a correct understanding?

5       A. Well, it doesn't have to be arbitrary. It could be  
6       based on evidence from a benchmarking study of the  
7       company's recent historic cost efficiency or the,  
8       ideally, even the forward test year cost proposal  
9       of the company could be benchmarked. Also, as for  
10       where these numbers come from, I mean, I have an  
11       incentive power model that I have submitted in my  
12       evidence that points in the direction of something  
13       like a zero point two (0.2) to zero point two five  
14       (0.25) stretch factor as reasonably sharing the  
15       benefits of expected acceleration of productivity  
16       growth.

17                        So, I mean, I have a methodology that's  
18       available to the Régie that doesn't involve much  
19       judgement.

20       Q. [192] But on this matter, I will direct your  
21       attention to the next page, page 19, where you  
22       mention in note number 1 that, concerning the  
23       stretch factor, that "many of these are the product  
24       of settlements." Page 19.

25       A. Yes.

1 Q. [193] So, since in many cases, as you mentioned,  
2 they are the result of settlements, it's a matter,  
3 well, not only of judgement but of negotiation  
4 between the participants in the rate case, is it a  
5 correct understanding?

6 A. When it is the outcome of a settlement, it is more  
7 of a... It is. Just because it's a settlement, it  
8 doesn't mean that there is an evidentiary record  
9 and the two parties are weighing what is the  
10 Commission going to decide here and, "Do I want to  
11 take a risk that they will do something that's very  
12 pro-utility or very pro-consumer?" And so,  
13 oftentimes they'll meet in the middle but it can be  
14 based on an evidentiary record.

15 Q. [194] Wouldn't you agree also that even if we have  
16 a national or a regional productivity trend, there  
17 has to be some adjustments made, one of the reasons  
18 being that the exclusions, the Y factors, are not  
19 necessarily the same for all the reference cases.  
20 Would you agree with that? So there would have to  
21 be a certain way of adjusting the productivity  
22 trend to take into account that maybe the average,  
23 the trend comes from an average number of companies  
24 that do include a certain item in the mechanism  
25 while in a Hydro-Québec distribution case, that

1 same item would be excluded.

2 A. Yes. Well, remember I said a little bit earlier  
3 that I'm prone to customising productivity research  
4 to the specifics of the case and, for example, a  
5 utility could have unusual customer growth - it  
6 doesn't in this case. Hydro-Québec doesn't have  
7 unusual customer growth although it's a little more  
8 rapid than what's going on in the United States  
9 right now, more rapid - note that's a nice change  
10 of pace.

11 But, you know, whether it's a price cap or  
12 a revenue cap, the numbers are different. Mr. Coyne  
13 was talking earlier about the decline, the slowdown  
14 in the productivity growth of energy utilities.  
15 Well, that's all if you measure productivity for a  
16 price cap because the slowdown in productivity, if  
17 there has been some, it's due to the declining,  
18 this change from growing average use to declining  
19 average use. And that's completely irrelevant for a  
20 revenue cap such as he has proposed.

21 (11 h 35)

22 But now, so to this issue about what are  
23 the Y-factored items, it's generally recognized  
24 that, if you have a custom productivity study, that  
25 you would try to have a definition of cost that's

1 similar to what is Y-factored, or really what is  
2 not in the Y factors; that's what should be in the  
3 costs. And this is routinely done in these types of  
4 proceedings.

5 So, for example, Mr. Coyne has, and  
6 Concentric has advocated leaving out half of  
7 capital cost of the return on rate base. Well, that  
8 would have a very large effect on the X factor, and  
9 in a positive way, because if you look at the  
10 productivity trends of power distributors, the  
11 operation and maintenance productivity is much more  
12 rapid than the capital productivity. So you cut  
13 forty percent (40%) of the capital productivity out  
14 of it, you know, the productivity trend is going to  
15 rise by, in my experience, thirty (30), forty (40)  
16 basis points. So, yes, it should be customized to  
17 that.

18 Q. [195] So we filed today a letter, which is C-SÉ-  
19 AQLPA-0038, which is a letter dated September  
20 twenty-second (22nd), and which we've also  
21 transmitted to your attorney and to yourself,  
22 announcing certain aspects of this present  
23 questioning. This letter dated September twenty-  
24 second (22nd) reproduces some excerpts of another  
25 letter that we had filed more than a year ago,

1 which was C-SÉ-AQLPA-0006.

2 In these excerpts, we quote certain authors  
3 who discussed such productivity studies and who  
4 mentioned the difficulty, and sometimes, one of the  
5 authors talks about the inability of productivity  
6 studies to consider quality changes, or qualitative  
7 outputs.

8 Would you have a comment on the  
9 difficulties that may exist to qualify, to enter  
10 into that productivity trend these factors, and if  
11 these factors cannot be properly, or cannot  
12 necessarily be properly taken into account, doesn't  
13 that justify the regulator to exercise its own  
14 judgement beyond the results of the productivity  
15 study to adapt in order to, so that these  
16 qualitative aspects can be considered also?

17 And there's a list, there's a list of  
18 qualitative aspects that are mentioned in these  
19 excerpts, we talk about economic, regional,  
20 environmental, social, or other public interest  
21 issues, such as reliability, security, quality of  
22 information to the clientele, and satisfaction of  
23 the clients, good relationships with local  
24 communities, and acquisition and conservation of  
25 knowledge in the enterprise, but there could be

1 other qualitative issues.

2 So could you explain what is your view on  
3 this issue, which I am sure you have already  
4 thought of before?

5 A. Well, I was, I am aware of this general thought  
6 process, but it's an indication of the  
7 sophistication of the Quebec regulatory community  
8 that a question like this would even be asked, I've  
9 never been asked this question before.

10 First of all, what he's talking mostly  
11 about is how you factor in changes in the quality  
12 of goods and services in productivity measures. And  
13 I believe that these, or I'm assuming that these  
14 quotations that you have made are not from an  
15 article about productivity in the utility industry  
16 particularly.

17 I would be surprised if they were, but I'm  
18 not surprised that people talk about this because  
19 when it comes to national productivity, which every  
20 country should worry about, it's a really big issue  
21 whether all this technological change, particularly  
22 the recent round of technological change involving  
23 the Internet, is properly reflected in productivity  
24 measures. It's really hard to capture that. And so  
25 that's what these authors are talking about, it's a

1 perfectly legitimate issue.

2 Now, is this a concern in utility  
3 regulation? I think, for the most part, not.  
4 Because, for two reasons. And one is that if you  
5 look at the mathematical logic for a productivity  
6 index and its use in a revenue cap, it is... The  
7 actual output measure should be specific to the  
8 nature of the revenue cap. It's one of the basic  
9 principles that I set forth in my... the  
10 theoretical section of my evidence. So that would  
11 speak to a customer-related output measure. And  
12 that's why I was saying, a moment ago, that trends  
13 and averages uses are irrelevant for purposes of  
14 this proceeding.

15 Now then, there is the issue of, well, what  
16 about, is there a change in the quality of utility  
17 services? First of all, even if there was, it would  
18 not require a change in the output measure per se.  
19 As I've said, it would... it would have to be an  
20 adjustment that's made another way.

21 But another consideration is has there been  
22 any trend in the quality of utility services that  
23 we're missing somehow. And I don't know that there  
24 really is. I mean, think about what could... what  
25 could we be talking about, here? I mean,



1 reliability. Well, reliability in the United  
2 States, I mean, there's always been really bad data  
3 on that. And they're just starting to have publicly  
4 available standardized data on reliability in the  
5 United States. And I don't know that there is any  
6 evidence of a trend in reliability, up or down, in  
7 the United States.

8 As for the effect on customer services, I  
9 don't know how much that amounts to either.

10 Q. [196] My question was not limited to what you could  
11 call the customer services, because we're talking  
12 about the costs. All the costs of Hydro-Québec  
13 Distribution. So we're talking about what these  
14 costs are for. Maybe some of them are for... Well,  
15 one of the examples I mentioned was the acquisition  
16 and conservation of knowledge. There could be a  
17 plus-value of having the knowledge stay inside the  
18 company instead of having... of being dispersed  
19 outside the company. And there are other examples  
20 in what I've enumerated, and which is... which is  
21 listed at the top of page 2 of that letter. So  
22 these items are not necessarily changes in the day-  
23 to-day service given to a consumer, but it can have  
24 an effect overall, a long-term effect. To go back  
25 on my example, if less knowledge is conserved in

1 the company, it might have an effect on the long-  
2 term in something else in the way that Hydro-Québec  
3 Distribution will operate. But, and the same can be  
4 said with the other. So I'm just stressing that to  
5 tell you that I'm not talking just about the day-  
6 to-day service to the consumer, but I'm talking  
7 about all the costs of Hydro-Québec Distribution,  
8 because these are the costs that are the subject of  
9 the mechanism.

10 A. Hum, hum. Okay. Well, now that you've clarified  
11 that... 'Cause I didn't have a chance to carefully  
12 read this letter before you appeared. I just got it  
13 up on the screen, basically, when the clock rang.  
14 But, so that, you know, that issue of human capital  
15 accumulation is a reasonable one. I don't know how  
16 much it really matters in a study or what the trend  
17 would be. I've never heard of making any adjustment  
18 for that, I don't know what the direction of the  
19 adjustment would be, so I don't know how... I don't  
20 know how much of a big deal what you're talking  
21 about is. But I... And also, there's never been  
22 such an adjustment in a utility productivity  
23 proceeding.

24 So, definitely not mean to blow it away. I  
25 mean, but I just suspect that it's a fairly minor

1 issue. But theoretically correct.

2 Q. [197] You say two... You just said two things, that  
3 it's never... There's never been such an adjustment  
4 in a productivity study, and at the same time you  
5 say it's a relatively minor issue. But if it's not  
6 been measured, or if there hasn't been any attempt  
7 to measure it, how do you... how can you just...  
8 how can you say it's a relatively minor issue?

9 (11 h 46)

10 A. Well I suspect that it's minor because what is the  
11 share of labour cost in... We're now talking, I  
12 mean, you kind of interrupted me a little bit when  
13 I was talking about has service quality really have  
14 any trend, and and I don't think there's been much  
15 trend. But now you're talking about human capital  
16 accumulation. And that's an interesting topic. The  
17 share of labour in total cost is not that large for  
18 an electric utility. So, it would have to be a  
19 pretty big thing to move the productivity trend  
20 estimate by more than three or four basis points.  
21 That would just be my guesstimate.

22 Q. [198] I'll switch to page 16 of your presentation.

23 A. By the way, just...

24 Q. [199] Sorry. Sorry.

25 A. ... I might just say that this issue does arise in

1 PBR or MRIs because sometimes a utility will claim  
2 that they're having a disproportionate number of  
3 retirements, and that this is going to affect our  
4 cost going forward. So, they have been known to  
5 mention this as an issue.

6 Q. [200] Okay. I'll switch to page 16 of your  
7 presentation. Are we on page 16? Yes. Yes,  
8 actually, at the end, you recommend revenue cap  
9 indexes for most HQD customers, but I'll be talking  
10 for the other ones, those for which you are not  
11 recommending a revenue cap index, and for which you  
12 are recommending... I'm sorry.

13 A. Price cap?

14 Q. [201] ... tax... a price cap.

15 A. Price cap.

16 Q. [202] I understand from your previous answers that  
17 there is the risk of a certain discrepancy if you  
18 have in the same system most of the consumer  
19 classes that are governed by... that are regulated  
20 under a revenue cap system and one of two specific  
21 classes, which are governed by a price cap. So,  
22 there's a risk of a certain discrepancy that things  
23 will not fit exactly. Am I correct in understanding  
24 that?

25 A. Not sure what you mean by "not fitting".

1 Q. [203] But that there might be some revenue that  
2 will be lost, that will not be...

3 A. Oh!

4 Q. [204] ... recuperated under the price cap system.

5 A. Again, that's an unfavourable... I mean, that's  
6 under unfavourable demand trends. There might be  
7 some lost revenue, but it could be the other way.

8 Q. [205] Okay.

9 A. So, it doesn't... it's not a given that there would  
10 be lost revenue.

11 Q. [206] Okay. Another intervenor representing the  
12 consumers has asked you, maybe not under those  
13 terms, if the price cap system that you are  
14 recommending for large consumers, if it's good for  
15 them, why isn't it good for other types of  
16 consumers or vice versa. If a certain system is  
17 good enough for all the other consumers, why is it  
18 not... wouldn't it not be good for large consumers?

19 A. Well, I think I addressed that in my evidence that,  
20 for one thing, the large customers are more likely  
21 to have elastic demands, that... where  
22 insensitivity to their needs could results in  
23 uneconomic bypass. It could... whereas attention to  
24 their needs could result in extended loads that  
25 are... provide good paying jobs outside of

1 Montréal. And so, there is that. And the customers  
2 that I'm proposing for the revenue decoupling tend  
3 to have the inelastic demands. And, generally  
4 speaking, there's not a lot of public interest in  
5 expanding their use of electricity, at least, you  
6 want to make it... their use of electricity as  
7 efficient as possible. I did... be it noted that  
8 there was one use by residential and commercial  
9 customers that I did propose to be treated by the  
10 price cap, and that is electric vehicles. So, they  
11 are benign uses, environmentally benign uses, of  
12 electricity. The company should have an incentive  
13 to boost those loads.

14 (11 h 51)

15 Q. [207] Yes, that was my next question, because I  
16 noticed that in some part of your report... and I'm  
17 not sure it has been corrected in the revised  
18 version, in some parts of the report you only  
19 mentioned large consumers under the Price Cap, and  
20 in some other parts of your report, you added  
21 electric vehicles also, but it was not systematic,  
22 in some parts of the report, you did not mention  
23 electric vehicles.

24 And we were surprised when we saw that  
25 since there doesn't seem to be any similarity in

1 the logic for subjecting large consumers to a price  
2 cap, and the logic of subjecting electric vehicles  
3 to a price cap.

4 Unless you tell me you see a certain  
5 similitude in the two categories, I have to admit I  
6 don't see what's the similitude, and if you had  
7 electric vehicles for, because there's a public  
8 policy reason to promote electric vehicles, then  
9 you could promote other good things in Hydro-  
10 Québec's customers usage, other uses that could  
11 justify to be encouraged also.

12 A. You could, and I'm not saying that you shouldn't  
13 necessarily add to that list. One nice thing about  
14 electric vehicles is that they might well be  
15 subject to a separate tariff, so that they are  
16 easier to monitor those loads, perhaps. But really,  
17 the idea is that there are certain loads you want  
18 to encourage, and there are certain loads you want  
19 to discourage.

20 Where price caps were widely used in the  
21 past in places like the telecommunications  
22 industry, the idea was that, hey! we, nothing  
23 matter with people using the phone, and there's no  
24 downside to it, and not only that it's generally  
25 acknowledged that the higher the system

1 utilization, the lower the rates are. So let's have  
2 price caps so that they are encouraged to go out  
3 and get people to use phones for fax machines and,  
4 I mean, back in the day, you know, encourage new  
5 uses of telephones.

6 So it's just that matter of, if there's a  
7 reckoning that a load is desirable, it could, you  
8 know, price caps encourage it, and the revenue  
9 decoupling doesn't.

10 Q. [208] So in your view, any desirable usage could  
11 benefit from a price cap?

12 A. Potentially, yes. I mean, I couldn't offhand think  
13 of another one that fell into that category besides  
14 the electric vehicles, but yes, potentially, others  
15 could be. But again, one of the issues is, well,  
16 how do you estimate those loads, and of course, you  
17 know, we all know that at some point our regulatory  
18 system gets a little too complicated, that the  
19 benefit compared to the cost or the complication is  
20 not in a good balance. But, yes, in theory, there  
21 could be others.

22 Q. [209] Wouldn't that defeat the system?

23 A. Well, you have to know where to draw the line in  
24 terms of the complexity, as I've said, but I think  
25 it's be easy to exclude any EV tariff and



1 separately consider that.

2 Q. [210] Okay. And lastly, when we talk about price  
3 cap, we assume that the price, the tariff, is set.  
4 But I think, and correct me if I am wrong, I think  
5 that Y factors and Z factors also apply under a  
6 price cap system, is that your understanding?

7 A. Yes, they do. Yes.

8 Q. [211] So a price cap is not really a price cap?

9 A. Well, it's the same as -- is a revenue cap really a  
10 revenue cap, because there are a few excluded  
11 costs. I mean, effectively, it's a revenue cap,  
12 it's a real revenue cap but, as we know, it just  
13 addresses certain costs. For those costs, it's a  
14 revenue cap; for a few others, it's not.

15 Q. [212] You mean a price cap, for certain part of the  
16 price...

17 A. Well, I'm not...

18 Q. [213] ... for certain part of the price, it's  
19 capped, and the other part, which is the X, the Y  
20 and Z, it's not capped?

21 A. Yes.

22 Q. [214] Okay.

23 A. And you might be interested to know that the origin  
24 of the term "Y factor" and "Z factor" was that it  
25 was in a AT&T Price cap plan, and the Y factor had

1 something to do with some sort of, a regulatory  
2 requirement about a certain type of costs that they  
3 felt they deserved to have as a pass-through, and  
4 then they wanted to also make some other costs  
5 eligible, so they, having exhausted with the Y  
6 factor, they called the rest of it a Z factor.

7 Me DOMINIQUE NEUMAN :

8 Okay. Thanks a lot. So this concludes my questions.  
9 Merci beaucoup, Madame la Présidente, Madame,  
10 Monsieur les Régisseurs. Merci beaucoup, Messieurs.

11 LA PRÉSIDENTE :

12 Merci, Maître Neuman. Nous reprendrons à treize  
13 heures (13 h). Merci.

14 SUSPENSION DE L'AUDIENCE

15

16 REPRISE DE L'AUDIENCE

17 (13 h 04)

18 LA PRÉSIDENTE :

19 Bienvenue, Maître Sicard.

20 CONTRE-INTERROGÉS PAR Me HÉLÈNE SICARD :

21 Bonjour. Bonjour mesdames, bonjour aux membres du  
22 panel. Hélène Sicard pour Union des consommateurs.

23 Q. [215] Ma première question est pour vous, Monsieur  
24 Boulanger. Tout à l'heure, en réponse à maître  
25 Turmel, vous avez donné l'exemple comme un tarif

1 neutre pour les autres consommateurs du tarif de  
2 développement économique qui va répondre à la  
3 demande de certains clients tout prochainement.  
4 Est-ce que j'ai bien compris?

5 M. LUC BOULANGER :

6 R. Oui, effectivement.

7 Q. [216] C'était à ça que vous faisiez référence.  
8 Maintenant, vous êtes conscient que ce tarif, je  
9 pense que vous le savez, a été commandé, entre  
10 guillemets, par le gouvernement pour, entre autres,  
11 écouler les surplus dont disposait Hydro-Québec qui  
12 sont de l'électricité patrimoniale non utilisée?

13 R. C'est exact. Ça avait été proposé dans un premier  
14 temps par le gouvernement Marois. Ça a été repris  
15 par le gouvernement Couillard. Et il a été bonifié  
16 à ce moment-là. Et ce tarif a été présenté à la  
17 Régie, a été approuvé par la Régie.

18 Q. [217] Et ce tarif, parmi ses conditions, la  
19 neutralité pour les autres tarifs et consommateurs  
20 est comme incluse dans le tarif?

21 R. C'est exact.

22 Q. [218] Alors, Monsieur Lowry, vous étiez conscient  
23 de cet état de fait, c'est-à-dire que ce tarif  
24 spécial... Je vais vous laisser mettre vos oreilles  
25 parce que je vais poser... Ou si vous comprenez le

1 français?

2 (13 h 06)

3 R. Well, I should... just to make sure I'll put these  
4 on.

5 Q. [219] Okay.

6 A. But I understand that about that tariff, yes.

7 Q. [220] Alors... Okay.

8 A. Yes, that my understanding about that tariff.

9 Q. [221] Okay. Your proposal of price cap... O.K.  
10 votre proposition de « price cap », à partir du  
11 moment où on ne serait plus en situation de  
12 surplus, est-ce que vous maintenez toujours que le  
13 « price cap », s'il devait y avoir des  
14 augmentations tarifaires, parce qu'il y a des  
15 augmentations de coûts demeurerait neutres pour  
16 tous les autres clients, c'est-à-dire ceux qui ne  
17 seraient pas assujettis à un « price cap»? Est-ce  
18 que c'est possible? Sans que Hydro-Québec ait à  
19 assumer le différentiel non plus.

20 A. Between rate cases, that was the intention of my  
21 proposal, yes.

22 Q. [222] O.K. Mais à partir du moment où les années  
23 d'un mécanisme se termineraient puis qu'il y aurait  
24 un réexamen, ça pourrait entraîner une hausse à ce  
25 moment-là, une hausse tarifaire.

- 1 A. Well, again, it would necessarily require a rate  
2 increase if there was some sort of unfavourable  
3 demand shift. It might, but it could also actually  
4 results in a rate decrease because of aggressive  
5 marketing resulted in higher system utilization.
- 6 Q. [223] O.K. Maintenant...
- 7 M. LUC BOULANGER :
- 8 R. Est-ce que je peux ajouter quelque chose, Maître  
9 Sicard?
- 10 Q. [224] Oui, absolument. Absolument.
- 11 R. O.K. Merci.
- 12 Q. [225] Profitez-en pendant que vous êtes là.
- 13 R. Bien, oui. Donc, on a effectivement donné de  
14 l'information au docteur Lowry là-dessus. Mais  
15 j'aimerais qu'une chose soit claire ici. Dans le  
16 mécanisme de rendement incitatif, quand on parle de  
17 « price cap » pour les tarifs industriels, ça n'a  
18 jamais été dans l'intention des industriels de  
19 passer des charges qui devraient normalement nous  
20 être imputées aux autres catégories tarifaires.
- 21 Q. [226] O.K.
- 22 R. Alors, ce n'est pas notre intention. Et ce que nous  
23 espérons, c'est lorsqu'on sera en phase 3, puis  
24 qu'on « devicera », c'est-à-dire qu'on imaginera  
25 des mécanismes, il faudra qu'on soit en mesure de

1 capturer ça. Est-ce que je peux être plus clair que  
2 ça? Ce n'est pas nos intentions de trouver par le  
3 mécanisme de rendement incitatif à passer aux  
4 autres catégories d'usagers des frais qui,  
5 normalement, ne devraient pas leur être passés.

6 Q. [227] Monsieur Boulanger, je vous entends. Je vous  
7 ai déjà entendu là-dessus. Sauf que, comme maître  
8 Turmel, puisque rien ne se perd, rien ne se crée,  
9 tant qu'on a des surplus et que ça peut être  
10 balancé en utilisant les surplus, je peux  
11 comprendre ce fonctionnement. Mais à partir du  
12 moment où il n'y a plus de surplus importants, j'ai  
13 vraiment un problème, et ma cliente aussi, à  
14 comprendre de quelle façon les choses peuvent être  
15 neutres et de quelle façon, s'il y avait des coûts  
16 supplémentaires, vous êtes d'accord avec moi, il  
17 faut qu'ils aillent quelque part. C'est juste ça.  
18 Mais je prends note de votre commentaire.

19 R. Alors, j'ai la réponse. Je pense qu'on l'a donnée  
20 ce matin. Alors, ça va être un « shareholder hit »,  
21 c'est aussi simple que ça. Rien ne se perd, rien ne  
22 se crée. Alors, quand on a commenté sur la  
23 présentation du docteur Coyne ce matin, il y avait  
24 les deux éléments. Alors, ce que docteur Lowry a  
25 dit...

1 Q. [228] Oui, oui.

2 R. ... j'étais ici; je l'ai entendu.

3 Q. [229] Oui, oui.

4 R. Alors, dans la mesure où il y aurait un impact  
5 négatif, ce sera absorbé par l'actionnaire.

6 Q. [230] C'est ça.

7 R. Maintenant, ce qu'on espère, c'est que ce « price  
8 cap » va faire en sorte qu'on va pouvoir attirer  
9 soit des volumes additionnels chez des clients  
10 existants, ou encore de nouveaux arrivants vont se  
11 joindre au réseau. Et les revenus additionnels qui  
12 vont être générés par ce « price cap » vont  
13 compenser pour la situation que vous mentionnez.

14 (13 h 10)

15 En d'autres termes, ça veut dire que le  
16 Distributeur va devoir faire des efforts pour aller  
17 chercher de la clientèle nouvelle, alors ça ne sera  
18 pas, il ne sera pas dans une situation où il va  
19 prendre les commandes, il va falloir qu'il soit  
20 proactif, qu'il aille chercher des commandes.

21 Q. [231] O.K.

22 R. C'est la motivation qu'il va avoir à le faire.

23 Q. [232] O.K., ça termine ce premier sujet. Deuxième  
24 sujet, Monsieur Lowry, avez-vous eu  
25 l'opportunité...

1 Dr. MARK NEWTON LOWRY:

2 A. Can I just add that, it might be constructed to  
3 think, what would happen with an adverse demand  
4 trend under the Concentric Hydro-Qu  bec proposal?  
5 They've asked for revenue caps, period, and that  
6 means that if there's an adverse demand trend for  
7 large-volume customers, the very next year, rates  
8 would go up for other customers -- that's the  
9 Hydro-Qu  bec proposal. We're proposing more  
10 insulation to the other classifications in  
11 transferring some of that risk to Hydro-Qu  bec.

12 Q. [233] Okay, thank you. Maintenant, j'aimerais  
13 savoir, gardez vos oreilles parce que c'est pour  
14 vous.

15 A. Okay.

16 Q. [234] Si vous avez eu l'opportunit   de prendre  
17 connaissance et de lire le m  moire de UC sur les  
18 r  seaux autonomes et la formule qui y est propos  e?

19 A. No, I don't think I did see that.

20 Me H  L  NE SICARD :

21 O.K. Alors je n'aurai pas d'autres questions dans  
22 ce cas-l  . Je vous remercie.

23 LA PR  SIDENTE :

24 Merci, Ma  tre Sicard. Ma  tre Rousseau?

25



1 Me CATHERINE ROUSSEAU :

2 Bonjour. Catherine Rousseau, pour l'Union des  
3 municipalités du Québec. Alors considérant les  
4 questions qui ont déjà été posées par les  
5 procureurs de la FCEI ainsi que d'OC, les sujets  
6 qu'on voulait couvrir l'ont déjà été. Donc nous  
7 n'aurons pas de questions additionnelles.

8 LA PRÉSIDENTE :

9 Merci, Maître Rousseau.

10 Me CATHERINE ROUSSEAU :

11 Merci.

12 LA PRÉSIDENTE :

13 Maître Fraser?

14 CONTRE-INTERROGÉS PAR Me ÉRIC FRASER :

15 Alors merci, Madame la Présidente. D'abord,  
16 bonjour, bonjour à vous et aux régisseurs. Je  
17 n'avais pas eu l'occasion de le faire encore  
18 aujourd'hui, j'ai été tranquille. Alors j'avais  
19 annoncé deux heures, j'espère que ça sera plus  
20 court, habituellement, je fais plus court en  
21 contre-interrogatoire donc... Je vais beaucoup  
22 m'adresser à monsieur Lowry.

23 Q. [235] Good afternoon, Mr. Lowry. My name is Éric  
24 Fraser, I represent Hydro-Québec. And although my  
25 name is Fraser, and I do like scotch, I don't have

1 much in common with Scottish people, as you can  
2 hear from my accent. So I will ask my questions in  
3 English, and I'll probably throw in a few French  
4 words, I understand that you can manage a few  
5 French words in my, in the cross-examination, so I  
6 ask for your indulgence, it might be a bit, we  
7 would say "carré" in French, a bit square the way  
8 we'll go through that. So bear with me.

9 Let me just start maybe with some questions  
10 about your mandate, there seems to be kind of a  
11 blur on that question. I understand that you have  
12 been mandated in this file by AQCIE and CIFQ,  
13 that's correct?

14 Dr. MARK NEWTON LOWRY:

15 A. Yes. We were asked to represent them in bidding for  
16 a project that had a mandate determined by the  
17 Régie.

18 Q. [236] I understand, or did, there was a  
19 consultation with the other intervenors on that?

20 A. Some, there was some such...

21 Q. [237] Okay, when you say "some such", can you be  
22 more specific?

23 A. I'm trying to remember, I think I don't remember  
24 every interaction that occurred, I think there were  
25 some, some email correspondences.

1 Q. [238] Okay.

2 A. I don't, those I don't remember exactly, but there  
3 was a meeting in Montreal where we had a talk. That  
4 was the main thing.

5 Q. [239] Okay. And can I ask you if it was all the  
6 intervenors, or certain intervenors?

7 A. Well, a lot of what I wanted to do, I wanted to  
8 make a point of understanding regulation here  
9 better, so I had a lot of questions for the various  
10 inter... for the other parties.

11 (13 h 14)

12 Q. [240] I'm sorry, but that's not my question. I  
13 asked you, was it all the intervenors, or just part  
14 of them?

15 A. Well, I'm trying to get to the point that, so I  
16 asked a lot of... I put out sort of a list of  
17 questions, and some were more helpful than others.  
18 So I had, you know, there was more... it was  
19 disproportionate discussion with some that were  
20 helpful with their answers.

21 Q. [241] Okay. So you had one meeting and some email  
22 discussions. Okay.

23 M. LUC BOULANGER :

24 R. Et si vous me permettez, parce que j'ai...

25 Q. [242] Oui, s'il vous plaît.

- 1 R. J'étais en fait le coordonnateur de ça.
- 2 Q. [243] Allez-y, Monsieur Boulanger.
- 3 R. Il y a eu plusieurs téléphones-conférences auxquels  
4 ont participé l'ensemble des intervenants. Dans la  
5 rencontre qu'on a eue, incidemment, au bureau de  
6 Fasken Martineau, tous les intervenants étaient là.  
7 Il y a maître Neuman, cependant, qui avait  
8 participé par téléphone. Alors l'ensemble des  
9 intervenants étaient là.
- 10 Q. [244] O.K.
- 11 R. Et c'est une rencontre, d'ailleurs, qui avait duré  
12 toute la journée, si ma mémoire est bonne.
- 13 Q. [245] Excellent.
- 14 R. Alors, plusieurs échanges de correspondance. Il y a  
15 eu des communications qui ont été faites  
16 directement entre certains intervenants et monsieur  
17 Lowry lui-même, sans qu'on ait nécessairement,  
18 nous, participé à ça.
- 19 Q. [246] Je vous remercie. So, going back to you,  
20 Mr. Lowry, I understand you have never testified in  
21 a HQD case, either for HQD or an intervenor?  
22 Dr. MARK NEWTON LOWRY:
- 23 A. In any HQD case?
- 24 Q. [247] HQD, yes.
- 25 A. That's correct.

- 1 Q. [248] That's correct?
- 2 A. I've testified in the past for HQT.
- 3 Q. [249] Yes, I saw that you did one mandate for HQT  
4 in two thousand five (2005), maybe. You have never  
5 been consulted, neither, by HQD?
- 6 A. Not of HQD, no.
- 7 Q. [250] I understand you have some knowledge of  
8 French. Do you read complex documents? Can you read  
9 a rate case in French, or...
- 10 A. Yes.
- 11 Q. [251] I have a few questions on the background  
12 check you did, the documentation you consulted  
13 before writing your report. Did you consult our  
14 rate case?
- 15 A. Yes.
- 16 Q. [252] Which one?
- 17 A. The most recent one.
- 18 Q. [253] What document?
- 19 A. I couldn't say. But there were numerous, you know,  
20 chapters of that, and...
- 21 Q. [254] Okay.
- 22 A. ... some of those were of interest to us with  
23 respect to the plan design. So we read those.
- 24 Q. [255] Okay. You read it in French, or you had an  
25 English translation?

- 1 A. In French.
- 2 Q. [256] In French? Have you consulted our annual  
3 report?
- 4 A. Yes.
- 5 Q. [257] Which one?
- 6 A. I think the most recent one.
- 7 Q. [258] Okay. What document in the annual report you  
8 consulted?
- 9 A. Well, I thought that it is the document. I'm...
- 10 Q. [259] Well, it's... There's a lot of documents in  
11 the annual report.
- 12 A. Well I read the main text of the report.
- 13 Q. [260] Okay.
- 14 A. I didn't look at the numbers.
- 15 Q. [261] When I say annual report, I refer to the  
16 regulatory annual report of HQD, not the Hydro-  
17 Québec annual report.
- 18 A. Okay.
- 19 Q. [262] Which one did you read?
- 20 A. Well, I... I'm not sure. I mean, I know I've read  
21 the HQ annual report that...
- 22 Q. [263] You read HQ annual report. Okay. Fine.
- 23 A. Yes, but I... I'm not sure, I may have read the  
24 other one too.
- 25 Q. [264] You may have read the other one.

- 1 A. Yes.
- 2 Q. [265] But you don't remember.
- 3 A. I read a lot of documents, so I'm not sure which  
4 exactly.
- 5 Q. [266] Yes. Did you have a look at the supply plan?
- 6 A. No.
- 7 Q. [267] No? In your presentation, you... At the start  
8 of your presentation, I think at page 5, you  
9 highlight in red that... and we're in the section  
10 of key considerations. I guess those are key  
11 considerations for your proposal, that's right?
- 12 A. That's correct.
- 13 Q. [268] You say "High regulatory cost". Can you tell  
14 me if you have consulted any document to come up  
15 with that consideration?
- 16 A. Well, obviously, estimates of costs are not readily  
17 available, but if you've been a regulatory  
18 economist for two decades, I mean, you have a  
19 notion of what would be a relatively costly  
20 process. And this process involves annual rate  
21 cases, approval of many specific capex projects...
- 22 Q. [269] But I'm targeting on documents.
- 23 A. I...
- 24 Q. [270] What documents have you consulted?
- 25 A. No need besides once I've established those facts.

1 Q. [271] It's based on your experience.

2 A. Yes.

3 Q. [272] Okay. So you haven't made a comparative study  
4 to say that, or to conclude that Quebec is, or  
5 Hydro-Québec is a high regulatory cost compared to  
6 Ontario, compared to OPG, compared to Manitoba  
7 Hydro. You haven't done that.

8 A. Again, you look at the attributes of the regulatory  
9 system, and there are very few utilities in North  
10 America that have annual rate cases. Much less such  
11 detailed...

12 (13 h 20)

13 Q. [273] You said North America. If we scope on  
14 Canada, can you affirm the same thing?

15 A. Well, I think it's less common here. I think it's  
16 not common to have annual rate cases here either,  
17 to the best of my knowledge. I know that they were  
18 having them in Alberta and that's why they went to  
19 PBR.

20 May I say that a vertically integrated  
21 electric utility, it's not common for them to have  
22 annual rate cases. I explained in my presentation  
23 how a typical cost trajectory for a vertically  
24 integrated utility has these periods of slow cost  
25 growth after a major planned additions where it's



1 not necessary to have rate cases and there are, I  
2 mean, there are actually a couple or three rate  
3 freezes for vertically integrated electric  
4 utilities in Canada right now.

5 Q. [274] But going back on the first question, did you  
6 perform a comparative study or did you consult  
7 documents that could enable you to say that this is  
8 compared to other jurisdictions in Canada a high  
9 regulatory cost jurisdiction. Did you do that?

10 A. I believe I explained my reasoning process.

11 Q. [275] But you don't respond to my question. I'm  
12 asking you if you have done that specific task.

13 A. I stated earlier that I didn't look at estimates of  
14 the actual costs.

15 Q. [276] Thank you.

16 A. I said that at the beginning of your question.

17 Q. [277] I understand from your testimony yesterday  
18 that you are not trained as a lawyer, that's  
19 correct?

20 A. Correct.

21 Q. [278] But I do understand that at page 6 of your  
22 presentation, you did some remarks that - I was  
23 thinking of a joke because I had a client at one  
24 point that said, "If you can read, you can make a  
25 comment on a hat" and I think he was right - so you

1 made that kind of comment. One of the key  
2 considerations, because we're still in your  
3 presentation in the section on key considerations,  
4 you make a statement about article 73 and, if I  
5 remember correctly your testimony yesterday, you  
6 said that the Régie should not consider itself  
7 obliged to continue the current ratemaking  
8 treatment of larger capital projects which  
9 effectively involves the preapproval of  
10 construction projects.

11 And you did answer a few questions on that  
12 subject today. Am I understanding that your reading  
13 of the act, or even your expert opinion is that if  
14 we include capex in the formula, the Régie should  
15 not preapprove construction budgets or major  
16 investment capital budgets? What is your basic  
17 opinion on that matter outside what is stated in  
18 the presentation.

19 A. I think that it would, I think what I really meant  
20 to say was that it doesn't have to stick with its  
21 current approach, that it could modify its approach  
22 in order to dovetail with the MRI plan.

23 Q. [279] Okay.

24 A. I mean, my impression is that the company's  
25 thinking was that this current approach was set in

1 stone and the MRI had to adjust itself to that and  
2 my reading of that article suggests that that's not  
3 the case.

4 Q. [280] And what is your reading of the current state  
5 of the approval of capex projects? What is your  
6 understanding?

7 A. I understand that projects exceeding a certain  
8 threshold must be pre-approved.

9 Q. [281] Yes.

10 A. And that there's a little bit of flexibility for  
11 the company that combines some projects to clear  
12 that threshold. That's what I've heard.

13 Q. [282] Okay. Is that a problem for you that the  
14 utility has to come before the Board or has to  
15 demand or has to ask the Board for authorisation to  
16 go for a major project, is that a problem?

17 A. Well, sometimes it could be desirable but it can  
18 also be problematic if it leads, if it's  
19 implicitly, if it implies that the company is  
20 entitled to recover the costs of those projects,  
21 then that could be argued to take precedents over  
22 the MRI system and lead to the problems we're  
23 trying to avoid and which article 48.1 is trying to  
24 avoid.

25 Q. [283] Is it your understanding that if a project

- 1 gets authorised, it is automatically presumed to  
2 be, the costs are presumably disposed in a rate  
3 case, is that your understanding?
- 4 A. No, that question was asked to me earlier and I  
5 said I'm not sure how...
- 6 Q. [284] You're not sure.
- 7 A. ... that works.
- 8 (13 h 26)
- 9 Q. [285] Okay. Did you take the time to read the bylaw  
10 that comes with article 73?
- 11 A. I'm not sure what you mean by the bylaw.
- 12 Q. [286] The regulation.
- 13 A. The regulation that the Régie...
- 14 Q. [287] Yes.
- 15 A. ... ultimately affected? No.
- 16 Q. [288] No. You didn't. Okay. Are you aware that  
17 HQD... well, you are aware that HQD establishes its  
18 distribution and customer service costs with a  
19 parametric formula. You are aware of that, right  
20 now.
- 21 A. Its operating... operation and maintenance  
22 expenses?
- 23 Q. [289] Yes.
- 24 A. Is that what you meant?
- 25 Q. [290] Well...

- 1 A. Because that's the part...
- 2 Q. [291] ... I was more precise, but we can... for the  
3 sake of the cross-examination, we can say it's  
4 OPEX.
- 5 A. Okay.
- 6 Q. [292] You are aware of that.
- 7 A. I'm aware of that.
- 8 Q. [293] Okay.
- 9 A. There's this envelope that's based on an index.
- 10 Q. [294] Were you aware that Hydro-Québec Distribution  
11 has started this practice in two thousand eight  
12 (2008)?
- 13 A. I wasn't sure of the exact date but that sounds  
14 about right.
- 15 Q. [295] Have you been made aware of... I know you've  
16 consulted one of our rate cases. Did you take time  
17 to consult one of the evidences which, if you are  
18 good with number, it's always HQD-3, document 1, in  
19 all of our rate cases, which is called "Efficiency  
20 and performance report". We filed that. Were you  
21 aware that we filed this type of evidence in every  
22 rate case?
- 23 A. Yes.
- 24 Q. [296] Okay. Are you aware since when we filed this?
- 25 A. No, I don't know when you began the practice

1 because, as I said, I only looked at the most  
2 recent rate case.

3 Q. [297] Have you been made aware that in that  
4 document, Hydro-Québec is doing a follow-up on what  
5 it calls, and that is since two thousand seven  
6 (2007), what it calls a - and then I'll throw the  
7 French word - so, a « plan intégré d'amélioration  
8 de l'efficience »?

9 A. Hmm, hmm.

10 Q. [298] That was introduced in two thousand seven  
11 (2007). Have you been made aware of this?

12 A. I understand that there's been a general initiative  
13 to improve O&M expenses in that the government was  
14 also encouraging that.

15 Q. [299] Okay. When you say, "I'm aware of a general  
16 initiative," is that you heard about it but have  
17 you inquired about it? Have you looked into it? Did  
18 you go to dig in, what kind of measure Hydro-Québec  
19 has put in place in the last eight years to do  
20 something with this plan de... to materialize or  
21 articulate its « plan intégré d'efficience »? Have  
22 you done that work?

23 A. Well, no. I have acknowledged already in my oral  
24 testimony, and perhaps also in my written evidence,  
25 that the company has been doing some work to trim

1 its operation and maintenance expenses. I think I  
2 said yesterday that it would be interesting to see  
3 how that has affected their O&M productivity and  
4 their total factor productivity, and that one  
5 really doesn't know whether it's been a good trend  
6 or a bad trend. There are a lot of utilities that  
7 haven't undertaken such an exercise.

8 Q. [300] Have you been made aware that HQD is also  
9 doing benchmarking of its activities to identify  
10 the best practices in the industry?

11 A. Well, I rather assume that they're doing something  
12 of that type. A lot of utilities do. Lots of times,  
13 they are involved in these industry consortiums  
14 that do this sort of thing. And that's great. They  
15 don't... in my experience, those consortiums don't  
16 use the best metrics. They don't collect the best  
17 data. And it would be nice to supplement that type  
18 of analysis with the results of some sort of more  
19 rigorous statistical benchmarking.

20 Q. [301] Your statement seems to me to be very  
21 general. Have you looked at the benchmarking of  
22 Hydro-Québec and can you judge Hydro-Québec's  
23 benchmarking?

24 A. I'm not judging it. I've said nothing critical  
25 about it.

- 1 Q. [302] Okay.
- 2 A. I suppose that there is some, and I doubt if I  
3 would agree with all of their methods because  
4 that's been my experience, you know, a whole career  
5 of working for many utilities, that they use sort  
6 of insular methods in benchmarking.
- 7 Q. [303] Earlier...
- 8 A. Okay. Can I give you an example...
- 9 Q. [304] Excuse me.
- 10 A. ... that they... they don't know how to benchmark  
11 total cost? They don't even know how to measure  
12 total cost.
- 13 Q. [305] When you say "they don't know..."
- 14 A. And so, they don't...
- 15 Q. [306] ... who doesn't know?
- 16 A. The utilities.
- 17 Q. [307] Okay. Utilities.
- 18 A. Those groups do not...
- 19 Q. [308] We're in Hydro-Québec's...
- 20 (13 h 30)
- 21 A. They probably belong to a couple of these industry  
22 consortiums, and I'm saying my experiences in  
23 general was that they don't even know how to  
24 benchmark total cost or capital cost.
- 25 Q. [309] So you're saying that the few firms doing



1 benchmarking in North America don't know how to do  
2 their job, is that what you're saying?

3 A. They offer one approach that's of value, and I  
4 think it's great that, it would be better than  
5 worse for Hydro-Québec to be involved in such  
6 things, but it's not to say that their methods  
7 can't be improved upon. I mean, they're kind of  
8 low-tech methods, that everybody in a group of  
9 twelve companies, that includes some company in  
10 Georgia and some company in Arkansas, can agree on.

11 Q. [310] Okay. Thanks, Mr. Lowry.

12 A. May I say too that there are issues of data  
13 availability. Lots of time, benchmarking exercises  
14 are limited to the quality of data that's  
15 available.

16 Q. [311] I understand that it is a big problem even  
17 with the productivity studies?

18 A. Yes.

19 Q. [312] Earlier in your testimony, you said that, you  
20 acknowledged that Hydro-Québec has done some  
21 trimming. It's funny because when I read your  
22 report, and I worked mainly with your report, I  
23 don't, I don't feel that, I don't read that, I  
24 don't see that, so my question is rather easy --  
25 before writing your evidence, were you aware, and

1 did you make an analysis of the fact that HQD  
2 realized around four hundred million (\$400M) in  
3 efficiency gain since two thousand eight (2008),  
4 before writing your evidence?

5 A. Yes, I did...

6 Q. [313] You were?

7 A. ... as I explained my process, I started out by  
8 spending probably a lot more time than there was  
9 budget for to learn about Hydro-Québec and its  
10 regulation before I started writing. And I was, so  
11 yes, I was aware of that, that over a period of six  
12 years, you're saying four hundred million (\$400M)  
13 dollars, so that's less than a hundred million  
14 (\$100M) a year.

15 Q. [314] Just a few seconds... When you say it's a  
16 hundred million (\$100M) a year, it's a hundred  
17 million (\$100M) a year, actually, it's four hundred  
18 million (\$400M) going forward, it's efficiency gain  
19 that would always stay.

20 A. Understood, I'd say that's true.

21 Q. [315] Okay.

22 A. No, again, I have no, I don't think there was  
23 anything in my evidence that was actually critical  
24 of Hydro-Québec compared to the regulatory system  
25 under which it operates.

1 Q. [316] I understand your statement, it's just  
2 because, it's only my attorney impression that this  
3 is a key factor or this is a characteristic, and I  
4 don't see that in your report. But I understand  
5 what you've just said.

6 Turning to supply, just a few questions. I  
7 understand that you have not read the Supply Plan,  
8 but are you aware that the Supply Plan also deals  
9 with DSM?

10 A. No, I wasn't aware.

11 Q. [317] You weren't aware of that. Were you aware  
12 that the Supply Plan is examined through a public  
13 hearing?

14 A. Yes, that's been well established in this hearing.

15 Q. [318] At IR-2 from the Régie, which is AQCIE-0076,  
16 your answer to Question 5.1 to 5.3 - you can go to  
17 the question but it's not necessary -- you state, I  
18 think at the second paragraph, that,

19 Most post-patrimonial supplies are  
20 obtained from HQP, an affiliated  
21 company.

22 When you say "most", what do you mean?

23 A. Well, I have here recent estimates that it's sixty-  
24 seven percent (67%) of long-term supplies, fifty-  
25 seven percent (57%) of short-term bilateral, and

1 forty-two percent (42%) of all short term.

2 Q. [319] That's not, that's short term, but that's  
3 really short term then, short-term post-  
4 patrimonial, but here, you say "most post-  
5 patrimonial", do you know what -- sorry, I'll  
6 rephrase -- do you know what is post-patrimonial,  
7 and what is the composition of post-patrimonial?

8 A. Yes, I understand that the long term is the lion's  
9 share of the post-patrimonial supplies, it's much  
10 larger than the short term.

11 Q. [320] Okay. And then, when you say "most post-  
12 patrimonial", you say "most of the short-term  
13 patrimonial".

14 (13 h 35)

15 You don't say most of the post-patrimonial because  
16 it's not the most of the post-patrimonial. Am I  
17 right?

18 A. That it's... I believe that most, that it's... My  
19 understanding is that it's about two thirds of...  
20 So it looks like to me like it's probably about  
21 roughly half of all post-patrimonial supplies.

22 Q. [321] That's your estimate. And did you make a  
23 distinction between the short-term and the long-  
24 term post-patrimonial?

25 A. Part of my guesstimates about this...

1 Q. [322] From your question, I don't think so. From  
2 your reply.

3 A. Part of my guesstimates about this is this tableau  
4 8, which I believe the company itself...

5 Q. [323] Tableau 8 is from... Where are you taking  
6 this?

7 A. And the... This is from my answer to the question  
8 of the Régie.

9 Q. [324] Okay.

10 A. And I believe that Hydro-Québec itself prepared  
11 this. So this is where my understanding of this  
12 question is coming from. In part. Let me just  
13 check.

14 Me LISE DUQUETTE :

15 Page 27, si ça peut vous aider, de 33.

16 Me ÉRIC FRASER :

17 Merci, Maître Duquette.

18 Q. [325] Well, you had all the information, but here,  
19 you see that there is a difference between long-  
20 term buying and short-term buying?

21 A. Hum, hum.

22 Q. [326] Okay.

23 A. Yes, I understand that.

24 Q. [327] So you maintain your answer that you  
25 previously gave to me?

1 A. Well again, my impression is that roughly half, or  
2 even more of the post-patrimonial supplies have  
3 come from HQP. That's my understanding.

4 Q. [328] Okay. Thank you. You are aware that Hydro-  
5 Québec has what we call a pass-on account for  
6 supply?

7 A. Yes, I do.

8 Q. [329] From my understanding of your testimony this  
9 morning, I kind of glimpsed that you were not aware  
10 that Hydro-Québec also had - and when I say Hydro-  
11 Québec I say HQD - a weather normalization account.  
12 Are you aware of that?

13 A. Yes, I am.

14 Q. [330] You're aware of that?

15 A. Of course.

16 Q. [331] Because this morning... Let me take just a  
17 few seconds. Okay. Maybe I don't have it right, but  
18 this morning, when you were asked about revenue  
19 decoupling, and you said an affirmation where  
20 actually, even without revenue decoupling, right  
21 now, HQD supports the weather risk, which you would  
22 not support with decoupling. Haven't you said that  
23 this morning?

24 A. I'm trying to think what I said. I said that I  
25 wasn't sure whether Concentric... I know that it

1 has weather normalization. I wasn't su...

2 Q. [332] 'Cause if it has a weather normalization  
3 account...

4 A. Yes. Right.

5 Q. [333] ... it doesn't support the weather risk.  
6 So...

7 A. I thought that... I'm trying to think what I said.  
8 I said I wasn't sure whether Concentric's proposal  
9 discussed that. But that it... I'm pretty sure that  
10 it didn't discuss normalization for anything other  
11 than weather. That's...

12 Q. [334] Well it doesn't have to discuss  
13 normalization, because it's Y-factored.

14 A. Okay. Well, that would explain it. At any rate, I'm  
15 not surprised that weather normalization is  
16 effectively part of the proposal. The bigger  
17 concern was that it doesn't adjust for everything,  
18 the way weather... the way revenue decoupling does.

19 Q. [335] On what we call effi... God... We'll call it  
20 CDM, it's much more simpler. Conservation. Your  
21 report proposes... It's my understanding that your  
22 report is proposing a few measures to  
23 incentivize... is that okay?

24 A. Yes. That's apparently the correct way. I...

25 Q. [336] ... incentivize CDM, I think, of decoupling L

1 RAM, what is your knowledge of HQD's energy  
2 efficiency program, or CDM?

3 (13 h 41)

4 A. Okay, well it's my understanding that it's only  
5 part of all the initiatives that are undertaken in  
6 the province and that there is an amor... not only  
7 is there a Y factoring of that cost or some sort of  
8 a variance account or pass-on account for that, but  
9 that it's amortised and so they earn little benefit  
10 from the amount of money they spend and I mentioned  
11 that a couple of times in my presentation.

12 Q. [337] Alors, là je suis en train de perdre ma  
13 concentration. You said "pass-on", is it your  
14 understanding that there's a pass-on on all CDM  
15 costs for HQD?

16 A. That's my understanding.

17 Q. [338] Okay. You see, I lost my glasses. So, have  
18 you consulted any documents related to that topic,  
19 CDM with HQD in its rate case since you did consult  
20 one rate case?

21 A. No, I didn't closely examine that.

22 Q. [339] So, if you did not examine that closely, I  
23 guess, if I ask you "Do you know how HQD performs  
24 in CDM?" you would not know the answer either.

25 A. That's correct.



1 Q. [340] Do you know that there used to be a target  
2 set by the government or by a decree, Order in  
3 Council, if you like, and that the main incentive,  
4 external, was governmental, did you know that?

5 A. No, I didn't know that.

6 Q. [341] I understand that since you read the energy  
7 policy of the government of Quebec that you were  
8 made aware that there are proposed changes for a  
9 new public body that would probably take  
10 responsibility to set CDM targets.

11 A. I understand that, yes.

12 Q. [342] Okay. Am I right if I think that if there's a  
13 public body setting incentives or setting targets,  
14 it could be confusing to have incentives for that  
15 in the MRI?

16 A. No, I wouldn't agree with that.

17 Q. [343] You don't agree with that?

18 A. No.

19 Q. [344] Okay.

20 A. Because you want Hydro-Québec to, even if a larger  
21 share of the work is done by other parties, you  
22 want Hydro-Québec to be a willing cooperator with  
23 the measures. And you've asked me several questions  
24 here about, "Well, did you know that they won an  
25 award for conservation?" and so on. From my point

1 of view, it doesn't matter because I was looking  
2 for holes in the company's incentives. I wasn't  
3 really questioning, I don't think I have questions.  
4 Whatever their conventional conservation programmes  
5 are, the holes that I identified...

6 Q. [345] The holes...

7 A. ... have more to do with peak demand management and  
8 with what I'll call miscellaneous market  
9 transformation initiatives that don't have a lot of  
10 money riding on them.

11 Q. [346] Am I right to say that you were looking for  
12 the holes in the incentives but not the need for  
13 incentives.

14 A. No, I think the need is definitely there.

15 Q. [347] So, if you think the need is there, how can  
16 you say that if you haven't performed an analysis  
17 to make a statement or be able to say that Hydro-  
18 Québec doesn't perform in conservation. If it  
19 doesn't perform in conservation then maybe you need  
20 an incentive. But if it does perform...

21 A. Well, for starters, I mean, I think, you know, an  
22 incentive analysis can be of a lot of use,  
23 irrespective of whether you look at what the  
24 company has actually done but let's take an example  
25 of their peak load management. My understanding is

1 that the company proposed and obtained approval of  
2 advanced metering infrastructure without even  
3 proposing to use it for time sensitive base rate  
4 design that wasn't even part of the company's  
5 proposal.

6 (13 h 47)

7 Q. [348] What is your understanding of "time sensitive  
8 rate" in Québec? Are you aware of "projet pilote  
9 heure juste"?

10 A. I'm not sure...

11 Q. [349] You're not.

12 A. ... what... No, I don't know what you're...

13 Q. [350] No.

14 A. ... not by that name. I know that there are some  
15 interruptible rates. I know that there is, you  
16 know, some small programmes to encourage some  
17 residential... sort of like a pilot programme to  
18 encourage residential customers to use some gas in  
19 the severe winter months. I've read that  
20 advertisement that goes out to customers about  
21 that. But like I said, I don't think that the  
22 company has come with... has proposed to make time  
23 sensitive rates that default tariffs. And that's  
24 what you... that would be evidence that you're  
25 doing a great job in this area.

1 Q. [351] But do you know why there is no time  
2 sensitive rates right now?

3 A. Well, up to now, you didn't have a AMI. But my  
4 understanding, it wasn't part of your proposal for  
5 securing approval of AMI.

6 Q. [352] But you don't know why there is no time  
7 sensitive tariffs.

8 A. Because there was no AMI up till now.

9 Q. [353] Okay.

10 A. So, is that...

11 Q. [354] But how can you make a judgment on peak load  
12 demand based on a programme based on AMI, saying  
13 that we didn't have AMI before? You're basing your  
14 judgment on a weird assumption.

15 A. Well, I don't think it's weird when the company  
16 didn't even mention it in getting approval of the  
17 dollars for...

18 Q. [355] Was it necessary to put it on file to get the  
19 approval for the project?

20 A. Well, again, for my purposes, I'm looking for holes  
21 and incentive and then I look for some evidence...

22 Q. [356] Okay.

23 A. ... that substantiates the lack of industry in a  
24 certain area. I think I've already...

25 Q. [357] Yes, you already...

- 1 A. ... shown evidence of that.
- 2 Q. [358] Thank you. Did you look into our  
3 interruptible option? I guess you did because your  
4 clients are major consumers of it.
- 5 A. Yes, some of them have that; hmm, hmm.
- 6 Q. [359] Do you have a judgment on the performance of  
7 our interruptible tariff?
- 8 A. I understand that you actually do call it, and do  
9 have interruptions in severe winter weather.
- 10 Q. [360] Okay. Thank you. Tariffication No, just to...  
11 excuse me just for a second. Sorry. Tariffication.  
12 What is your knowledge of the special contract? Do  
13 you know that we do have this weird thing which we  
14 call "special contracts"?
- 15 A. For...
- 16 Q. [361] Are you aware of that?
- 17 A. ... for industrial customers?
- 18 Q. [362] Yes. But no, for mainly industrial customers.  
19 They are the ones who get it, but they're not  
20 restricted to...
- 21 A. I do have some knowledge of that. I did do some  
22 review of the... I mean, I went through the  
23 company's entire tariff sheets.
- 24 Q. [363] Are you aware of the regulatory treatment of  
25 those contracts?

1 A. Well, they're permitted.

2 Q. [364] Okay. But are you aware, let's say, that for  
3 special contracts, Hydro-Québec takes the risk on  
4 supply?

5 A. Well, I've said before that there is a little bit  
6 of risk with the current system in general. I mean,  
7 if something happens adversely in a given year  
8 after the rates are established, there's no  
9 recourse to recover it from another customer.

10 Q. [365] But that wasn't my question.

11 A. Beyond that...

12 Q. [366] My question was...

13 A. ... beyond that...

14 Q. [367] ... were you aware that, for special  
15 contracts, Hydro-Québec takes the risk on the  
16 supply?

17 A. Well, you mean beyond that risk that I just  
18 mentioned? No, I wasn't aware of... I mean, I know  
19 of the thing that Guy has talked... that Luc has  
20 talked about several times today about a certain  
21 type of discount that... where the company is at  
22 risk. I'm aware of that. But anyway, all of this  
23 speaks to the idea of my proposal of having a price  
24 cap. I mean, there's already... you've already gone  
25 partway down that road. And I'd like to preserve

1 that. It's a good idea.

2 Q. [368] I understand you are aware of the... and I'll  
3 throw in a few French words, "Tarifs de maintien de  
4 la charge"?

5 A. That one, I don't quite understand.

6 Q. [369] It's a tariff offered for L consumers that  
7 encounter major economic problems.

8 A. Oh, yes, I'm aware that there is...

9 Q. [370] Okay.

10 A. ... such a tariff, hmm, hmm.

11 Q. [371] Your client testified this morning about the  
12 "Tarif de développement économique", you are aware  
13 of this tariff?

14 A. Yes.

15 Q. [372] Can we say that it's... when you speak about  
16 market flexibility, it's about the same as our  
17 "Tarif de développement économique"?

18 A. It's permitting that and more.

19 (14 h 53)

20 Q. [373] It goes even further than the "tarif de  
21 développement économique"?

22 A. It were permit more of that.

23 Q. [374] Oh! yes? Okay.

24 A. But certainly preserve that.

25 Q. [375] You are aware of the cross-subsidization

1 issue, aren't you?

2 A. Yes.

3 Q. [376] Are you aware what it means practically when  
4 we talk about the Tariff L, do you know that Tariff  
5 L contributes for about six percent (6%) -- it  
6 varies, but it's always too much for Mr. Boulanger  
7 -- to cross-subsidization, so to put it simply, six  
8 percent (6%) of the revenue of the L goes to the  
9 subsidization of the D?

10 A. If you work for an industrial intervenor, that  
11 topic does come up.

12 Q. [377] Okay, and you are aware of the specifics that  
13 I just brought to you?

14 A. Yes.

15 Q. [378] That brings me, and we'll get back to it, to  
16 the Price Cap. There has been a lot of questions on  
17 the Price Cap, and I still have a few. Me David,  
18 from Option consommateurs, asked you a few  
19 questions, I understand that Price Cap would apply  
20 to large load, that's correct, it would not only  
21 apply to industrial load?

22 A. Well, the way I did envision it, it was the large  
23 industrial load.

24 Q. [379] Okay.

25 A. And that could be, that's not set in stone...



- 1 Q. [380] It's not set...
- 2 A. ... but it's my proposal, yes.
- 3 Q. [381] Its objective, well, it's brought forward for  
4 the large industrial, it's not brought forward for,  
5 let's say, the LG, which is large...
- 6 A. General.
- 7 Q. [382] ... general... it's not?
- 8 A. That's not my proposal.
- 9 Q. [383] Okay. What about the M, the industrial M?
- 10 A. Just L.
- 11 Q. [384] Just L, alright. I understand that bringing a  
12 Price Cap in your MRI is, one of the objective is  
13 to encourage marketing flexibility. We touched it a  
14 little earlier, we touched that subject, and I  
15 asked you, well, we just did touch it, I asked you  
16 if it was the same as our "tarif de développement  
17 économique", you said it would go further. Can you  
18 give me some examples?
- 19 A. Well, it just can, I mean, those programs can be  
20 extended, something slightly different can be  
21 offered, you know, there are a lot of, this would  
22 give you the flexibility to continue to innovate in  
23 that area, because you would get more of the profit  
24 if you did so, and you might experience more loss  
25 if you didn't.

1 Q. [385] But how do... how do we go about this,  
2 because I know for a fact that if I want a new  
3 tariff, I must come to the Régie and I must get  
4 this tariff approved, so I guess that market  
5 flexibility, even though we're in the MRI, would go  
6 through a tariff process where I would get the  
7 discretion from the Régie to apply those  
8 flexibilities that you're, that we should strive  
9 for?

10 A. Well, it would be a somewhat different process, you  
11 know, it would be what they call "lighthanded  
12 regulation" or "expedited approval" of such items.

13 Q. [386] Okay. Tell me more, "lighthanded", "expedited  
14 approval", I'm interested.

15 A. I can't say too much more as to how exactly that  
16 would work, but I don't know how thorough the  
17 process is of granting a specific tariff now. I  
18 know that in some parts of the United States, there  
19 was a famous example of an aluminum smelter in  
20 Missouri where this was just a "cause célèbre" for  
21 years whether to offer a certain discount to, I  
22 think it was Noranda Aluminum Smelter, that  
23 ultimately closed.

24 And this would be a quicker approval  
25 process, and hopefully taking a few months, done

1 with the knowledge that, you know, other customers  
2 are protected between rate cases. I mean, just  
3 think that, under the current system, there's a  
4 rate case every year, if rate cases are every four  
5 or five years, there's less to worry about between  
6 rate cases.

7 Q. [387] Just a second... But how would it work  
8 precisely?

9 (14 h 58)

10 A. I'm, you know, we're here for broad outlines, not  
11 phase 3 implementation details. What... This  
12 proceeding, as far as I understand, is, would  
13 you... would the Commission permit a mix of revenue  
14 caps and price caps, is it open to the idea of  
15 marketing flexibility? Details to be determined in  
16 phase 3.

17 Q. [388] Okay. Did you perform an analysis, or ask  
18 yourself if it was a good thing to do that in  
19 Quebec? Of course you'll say that it's a good  
20 thing, but regarding of some of the  
21 characteristics, so we have low tariffs, we have  
22 provincial monopoly, we do have some - and you said  
23 that you knew - we do have some... a bouquet of  
24 tariffs for the L consumer, which is maintien de la  
25 charge, all different options, tarif de

1           développement économique. So my question is, did  
2           you perform an analysis to see if it was really  
3           relevant to come up with something that seems to me  
4           to be substantial, with two MRIs for a newcomer in  
5           the MRIs, in our market? Or was it just that you  
6           think that it's always good to incentivize the  
7           augmentation of sales? But did you go far enough to  
8           say, well, maybe it's not always good, or maybe  
9           it's not that good in the Quebec market? Did you  
10          perform that kind of analysis, reflection?

11        A. Yes. Because...

12        Q. [389] Yes?

13        A. What's different about Hydro-Québec from other  
14          North American utilities, large industrial sector,  
15          heavy industry, areas like, you know, Saguenay,  
16          where the economy is very dependent upon industrial  
17          activity. And so we want to... we want those... And  
18          not to mention the forestry industry. So, given  
19          that, it would be more appropriate to do something  
20          like this in Quebec than it would be almost  
21          anywhere in North America. I mean, there are just a  
22          few other utilities that have even more industrial  
23          loads. Say Minnesota Power that serves the iron  
24          range. There are just a few. Gulf States Power  
25          serves a lot of chemical plants down in, along the

1 Texas-Louisiana border. But, you know, this is an  
2 era where heavy industry is important to the  
3 economy.

4 Q. [390] So it's because of the presence of heavy  
5 industries.

6 A. Yes.

7 Q. [391] So, Quebec market is... has the same as the  
8 other markets with heavy industries.

9 A. Also, I've mentioned, recall that I've also  
10 mentioned the price caps extending to electric  
11 vehicles, okay? Why that? Well, there is a very  
12 large urban area in Quebec as well, and relatively  
13 progressive populous in government where maybe, you  
14 know, with a little bit of extra opportunity for  
15 Hydro-Québec to make money, that this could really  
16 become a centre of EV's in North America. Low...

17 Q. [392] So I understand that the price cap...

18 A. Low power prices have really helped, you know? Of  
19 course.

20 Q. [393] Yes. So I understand that one of the  
21 objectives of one of the drivers of your price  
22 cap... And I think you said that the driver of your  
23 price cap recommendation is large consumer and  
24 electric vehicles.

25 A. Hum, hum.

- 1 Q. [394] Okay. Do you know about why... Why Hydro-  
2 Québec would need to be incentivized for electric  
3 vehicles, and what are the facts you're basing  
4 yourself in? There is not enough electric vehicles  
5 in Quebec? Do you have figures on that?
- 6 A. I believe that, like almost everywhere, there  
7 aren't many electric vehicles here. Yet I... There  
8 are a lot of... You know, there is a fair number of  
9 them in California. Apart from that, I don't think  
10 there are a lot of electric vehicles anywhere.
- 11 Q. [395] So you don't know.
- 12 A. Again, it doesn't make that much difference.
- 13 Q. [396] It doesn't make difference, but it's the  
14 incen... You make a recommendation, and you say  
15 it's based on electric vehicles and we should drive  
16 for an incentive on electric vehicles. And you say  
17 you don't know the number.
- 18 A. I... Well I... I think I would know...
- 19 Q. [397] It's okay.
- 20 A. ... if there were an awful lot of electric vehicles  
21 here. I have inquired about that, and I'm told that  
22 there are not.
- 23 Q. [398] Okay.
- 24 Me GUY SARAULT :
- 25 C'est la première fois que je me lève pendant le

1 contre-interrogatoire du docteur Lowry par Hydro-  
2 Québec. Je remarque qu'à plusieurs occasions il y a  
3 des interruptions où on ne le laisse pas compléter  
4 ses réponses adéquatement et je pense que ça prive  
5 le docteur Lowry et les intervenants de nuancer ou  
6 de compléter certains aspects de leur position.  
7 Alors je demanderais à maître Fraser d'être un peu  
8 plus patient et laisser le témoin compléter avant  
9 de passer à une autre question tranchante. Merci.

10 LA PRÉSIDENTE :

11 Maître Fraser?

12 Me ÉRIC FRASER :

13 C'est noté, Madame la Présidente.

14 LA PRÉSIDENTE :

15 Merci. Est-ce que vous souhaitez une pause cet  
16 après-midi, Maître Fraser?

17 Me ÉRIC FRASER :

18 Bien, écoutez, si vous m'en offrez une, je la  
19 prendrais.

20 LA PRÉSIDENTE :

21 Maintenant?

22 Me ÉRIC FRASER :

23 Bien...

24 LA PRÉSIDENTE :

25 Nous reprendrons à deux heures quinze (14 h 15).

1 Me ÉRIC FRASER :

2 Je vous remercie.

3 SUSPENSION DE L'AUDIENCE

4

5 REPRISE DE L'AUDIENCE

6 Dr. MARK NEWTON LOWRY:

7 A. I have one follow-up comment to make if that can be  
8 permitted?

9 LA PRÉSIDENTE :

10 Oui.

11 A. Thank you, Madame la Présidente. And there was a  
12 question asked about, well, in view of the fact  
13 that a provincial agency is going to play a large  
14 coordinating role, I guess implicitly I was asking,  
15 "Why is there a need for something like revenue  
16 decoupling?" and I wanted to comment that in the  
17 United States, there are several states where most  
18 DSM is undertaken by a public agency but there is  
19 also revenue decoupling because it's recognised  
20 that that helps the utility become a willing  
21 partner in the promotion of demand-side management.

22 And I live in the State of Wisconsin where  
23 there is such an independent agency but there is no  
24 revenue decoupling and, in my State, all of the  
25 electric utilities have recently applied for and



1 received large increases in their fixed charges.

2 That really reduced the incentive of customers for  
3 demand-side management.

4 Me ÉRIC FRASER:

5 Q. [399] Thank you Mr. Lowry. Going back on the price  
6 cap, I have another question regarding market  
7 flexibility. When you speak about discount, do I  
8 understand that those still have to be economic so  
9 you have to, the tariff that will enable you to do,  
10 to be flexible must be drafted in a way that my  
11 discretion must be "balisée, non", must not go out  
12 the economics of the discount I give, am I right?

13 A. Well, if you're asking what your tariff is or what  
14 is typically done in a price cap?

15 Q. [400] Well, my tariff... Well, Hydro-Québec  
16 Distribution's tariff works that way.

17 A. Okay.

18 Q. [401] And my understanding is that market  
19 flexibility, I could go further that way and I  
20 could offer discounts that are not per se economic.

21 A. Well, usually with marketing flexibility, there is  
22 a floor for discounts and the rules on the floor  
23 vary...

24 Q. [402] Okay.

25 A. ... with the price cap plan. So, that's one

1 protection for customers. I mean, you don't want it  
2 to be so deep that there's no contribution to the  
3 recovery of the rate base, for example.

4 Q. [403] So, the floor would be... But do you suggest  
5 that market flexibility, the floor would be the  
6 economic, the neutral point where I can give a  
7 discount?

8 A. I don't think that those rules vary. Again, that's  
9 a phase 3 implementation issue.

10 Q. [404] Okay.

11 M. LUC BOULANGER :

12 R. J'aimerais faire un petit...

13 Dr. MARK NEWTON LOWRY:

14 A. I wanted to say too that there's the notion that if  
15 you discount too deeply, you're only hurting  
16 yourself so...

17 Q. [405] Of course.

18 A. ... this is the whole idea of incentivising you to  
19 do the right thing. Pierre?

20 (14 h 21)

21 M. PIERRE VÉZINA :

22 R. Oui. Il faut comprendre qu'on a un contexte peut-  
23 être un petit peu particulier, puis que même le  
24 gouvernement prend les décisions, et que les  
25 considérations économiques sont plus larges que

1 strictement celles d'Hydro-Québec. D'ailleurs, on  
2 en a un exemple assez récent, hein, qui est la  
3 décision du gouvernement de donner un rabais  
4 tarifaire de vingt pour cent (20 %) des  
5 investissements. C'est vraiment tout à fait le  
6 genre de cadre dans lequel Hydro-Québec va devoir  
7 fonctionner. C'est une décision gouvernementale.

8 Q. [406] Tout à fait.

9 R. Et l'ensemble de la clientèle va en être tenu  
10 indemne. Sauf que le tarif qui va être appliqué,  
11 lui, la perte qui pourrait être éventuellement  
12 encourue par Hydro-Québec sera remboursée par le  
13 gouvernement du Québec.

14 Q. [407] O.K. Ce que je retiens, Monsieur Vézina,  
15 c'est que vous avez dit que le contexte était  
16 différent, puis monsieur Lowry m'a indiqué plus tôt  
17 que le contexte d'Hydro-Québec n'était pas  
18 différent de celui des autres marchés avec de  
19 l'industrie lourde.

20 R. C'est sûr qu'en termes de marché, non. Par contre,  
21 quand vous parliez des...

22 Q. [408] Quand on est plus large.

23 R. ... contrats spéciaux qu'Hydro-Québec prenait le  
24 risque, c'est faux. C'est le gouvernement qui  
25 décide...

1 Q. [409] O.K.

2 R. ... de donner des contrats. Et c'est lui prend le  
3 risque parce que, en bout de ligne, c'est lui qui  
4 reçoit ou non les dividendes, essentiellement. La  
5 particularité vient du fait que vous êtes un  
6 monopole d'État. Et on est ici à discuter du MRI.  
7 C'est parce que le gouvernement, qui est votre  
8 actionnaire, en a décidé ainsi.

9 Q. [410] Et ça fait partie du contexte...

10 R. De changer la loi. C'est ça.

11 Q. [411] Ça fait partie du contexte. C'est bon. Je  
12 vous remercie.

13 (14 h 23)

14 Mr. Lowry, in your report, you say that  
15 power supply and transmission are Y factors. And I  
16 understand from one of your answers to FCEI, and  
17 I'm quoting you,

18 The proposed Price Cap for large  
19 industrial customers would apply to  
20 all costs and not just to the cost of  
21 distribution and customer services.

22 So do I understand correctly that you're proposing  
23 a pure Price Cap on all costs?

24 Dr. MARK NEWTON LOWRY:

25 A. That's the proposal.

- 1 Q. [412] Okay, thank you. So if transmission and  
2 supply are not factors, are not Y factors, I  
3 understand that, well, let's forget about  
4 transmission, I understand that the supply pass-on  
5 would not apply?
- 6 A. I think maybe there's a confusion, I mean, there  
7 would be some operation of the, there would be some  
8 pass-through of transmission and supply costs to  
9 the industrial customers.
- 10 Q. [413] Okay, so there would be a pass-through, or  
11 there would...
- 12 A. Well, there would be some form of, I mean, that Y  
13 factor would operate in some, by some means. The  
14 only question is whether any shortfall could be  
15 recovered from other customer classes, but they  
16 would be fed into the, a certain share of the cost  
17 of power supply and transmission would be allocated  
18 to the industrial customers.
- 19 Q. [414] A certain share?
- 20 A. As it is today. The only question is...
- 21 Q. [415] So then it would be Y factor, because their  
22 share...
- 23 A. Well, it depends what you mean by "Y factor",  
24 because if a Y factor guarantees that you get that  
25 cost then no, but a certain share of the cost would

1 be allocated to the industrial classes, to the  
2 individual grades.

3 Q. [416] So if the costs are allocated, then the costs  
4 of supply don't go through the formula, they're Y  
5 factor?

6 A. In a way, it's just that...

7 Q. [417] In a way?

8 A. ... it doesn't work quite the same way. It is a Y  
9 factor, yes, I would call it a Y factor.

10 Q. [418] It's a Y factor.

11 A. But it doesn't work in quite the same way, because  
12 if you, you don't, you're not guaranteed recovery  
13 of the costs of all of the, of all, say, the power  
14 supply costs, or the transmission costs, they're  
15 allocated to the industrial, to that industrial  
16 sector.

17 Q. [419] So in what way it would work, fifty percent  
18 (50%), twenty-five percent (25%)?

19 A. It would be allocated to it, but then, you're at  
20 risk for the recovery of it once it's allocated.

21 Q. [420] So the pass-on would not apply, because the  
22 pass-on applies each year, the pass-on is relevant  
23 for one thing, supply never costs what it's  
24 forecasted for, because of weather, you know that,  
25 it's either colder, it's either warmer. So the

1 pass-on only acts so that the distributor is able  
2 to reflect its real supply costs.

3 So I rephrase my question, or I re-ask my  
4 question -- under your proposal of Price Cap, what  
5 would happen with the pass-on of supply for large  
6 consumers?

7 A. The cost would be allocated to the industrial  
8 customers, but the recovery of it is not  
9 guaranteed.

10 Q. [421] It would not be guaranteed during the term of  
11 the Plan?

12 A. During the term of the Plan.

13 Q. [422] Okay. So would there be a cost tracker  
14 enabling Hydro-Québec to come back with those costs  
15 after the Plan?

16 A. Well, after the Plan, there would be a rate case,  
17 and there could be reallocation.

18 Q. [423] So there would be a cost tracker?

19 A. As I've said before, there would be, there is a Y  
20 factoring operative, it just doesn't work quite the  
21 same way for the two groups.

22 Q. [424] Where is that written in your evidence,  
23 the... I don't remember having read anything as  
24 specific as that for...

25 A. Well, I believe there was a, I thought there was a

1 question from FCEI about that question, that I  
2 answered.

3 Q. [425] So it would apply partially?

4 A. Yes.

5 Q. [426] And Hydro-Québec would, as I understand from  
6 your previous testimony, Hydro-Québec would take  
7 the hit for a shortfall on a part of its supply  
8 costs, but not all of its supply costs, because  
9 there's a cost tracker?

10 A. Well, if there was some, if there was some adverse  
11 demand trend, there would be some risk of under-  
12 recovery until the next plan.

13 Q. [427] If there is "adverse demand trend", what is  
14 "adverse demand trend"?

15 (14 h 29)

16 A. Well, a company shuts down a factory; there would  
17 be some risk there.

18 Q. [428] Okay. So, if a company shuts down, that's an  
19 adverse event that will enable HQD to use the cost  
20 tracker and recoup those costs after the plan.

21 A. No. I mean, when the plan is... when the plan is  
22 reconsidered, those costs could be reallocated to  
23 the other customer classes.

24 Q. [429] Could be, or would be?

25 A. Well, they probably would be.



- 1 Q. [430] Okay.
- 2 A. If there was a shortfall, there was an under  
3 recovery, then in the future, there would be a  
4 larger cost allocated to the other classes.
- 5 Q. [431] But one thing is certain from what I hear is  
6 that Hydro-Québec, under the price cap, would not  
7 be able to reflect its real costs because of the  
8 application of the formula.
- 9 A. For those items, you mean?
- 10 Q. [432] Including supply.
- 11 A. Because, of course, the whole spirit of it is that  
12 it's not intended to...
- 13 Q. [433] Okay.
- 14 A. ... track their actual costs.
- 15 Q. [434] So, it would recoup under...
- 16 A. There's a little more risk under the price cap.
- 17 Q. [435] A little more risk?
- 18 A. There's also an opportunity for a gain by being  
19 more aggressive with your marketing.
- 20 Q. [436] Yes, I couldn't make money on supply on the  
21 back of the consumer. Is that it?
- 22 A. I'm thinking of more dollars, say, to contribute to  
23 the transmission, to the recovery of transmission  
24 costs because you are basically charging...  
25 spreading it over more load.

- 1 Q. [437] What about weather? Weather normalization? Is  
2 that Y factor in the price cap?
- 3 A. There's no... weather is, there is no weather issue  
4 to speak of with the industrial sector, I'm  
5 thinking.
- 6 Q. [438] You're right on that. Okay, so, if there's a  
7 shutdown, so an important change in the volumes of  
8 the volumes at rate L, I understand from your  
9 testimony that the hit would be supported either by  
10 the other consumers after the plan, though we would  
11 use the cost tracker, and we would reallocate.
- 12 A. Yes.
- 13 Q. [439] We would reallocate with our current cost  
14 allocation methodology.
- 15 A. Well, I assume that it could change.
- 16 Q. [440] Have you had a look at our cost allocation  
17 study?
- 18 A. No.
- 19 Q. [441] Am I right to think that if we apply your  
20 proposal, we would have to isolate the cost of the  
21 L consumer from the rest of the consumers?
- 22 A. Well, there's some methodology by which the costs  
23 are divided currently.
- 24 Q. [442] Yes. Do you know what methodology?
- 25 A. No, as I've said, I'm not sure how that's done

1 currently.

2 Q. [443] You're not sure. We spoke about the cross-  
3 subsidization issue earlier. How do you think,  
4 since you know that there is cross-subsidization,  
5 you know that it's an issue that preoccupies the  
6 Régie because it's in the Act. You know that  
7 currently, there is a six percent- (6%) part of the  
8 revenue of the rate L that participates in the  
9 subsidization of the rate D. How do you deal with  
10 that into the price cap if you isolated the cost  
11 and if we have some kind of partial cost tracker  
12 that could be disposed after three years? How do we  
13 manage this?

14 A. Well, this question was asked earlier today and I  
15 said... my answer was that I assume that that...  
16 that those... that "interfinancement" operates by  
17 the allocation of costs between the customer  
18 classes. So that, basically, as you start a plan,  
19 that there is already a lighter burden on the small  
20 volume... smaller volume customers. That's my  
21 understanding of how that worked. If that's not how  
22 it worked, then I might have to revise my... the  
23 specifics of the proposal with respect to that. But  
24 that was... so, that was my understanding.

25 Q. [444] Okay. We spoke about the special contracts

1 earlier, how would the price cap deal with a loss  
2 of load because of... let me take a step back.

3 (14 h 33)

4 You heard the testimony of Mr. Vézina  
5 regarding contrats spéciaux, or special contracts,  
6 regarding the fact that there are clients that are  
7 moving from rate L to special contracts because  
8 it's in their favour. There is also... And when  
9 that happens, we're losing loads. We're losing the  
10 supply component of the loads, and we're losing the  
11 six percent (6%) of cross-subsidization. Do you  
12 follow me?

13 A. I'm following you.

14 Q. [445] So, under the price cap, what would happen if  
15 I have transfer of loads from L to special  
16 contracts? How would a price cap can accommodate  
17 that?

18 A. I think that's a phase 3 issue.

19 Q. [446] Thanks. In your presentation, and I try to...  
20 You said that... Okay. I'm at page 30. You said  
21 that there are precedents for revenue decoupling.  
22 You say that price caps are widely used in MRIs for  
23 energy and telecom. I know they're widely used in  
24 telecom, but in energy, you give us three examples.  
25 At the end, you say:

1 Revenue decoupling often excludes  
2 large consumers.

3 I understand that. You say:

4 New York MRIs exclude large volume  
5 customers from decoupling.

6 But the question that begs to be asked over here is  
7 do you have an example of a hybrid MRI, revenue cap  
8 for all of consumers, and price cap for large  
9 consumers, as you're proposing right now? Do you  
10 have a specific example of that type of  
11 recommendation in an electric utility, specially a  
12 distribution electric utility?

13 A. New York.

14 Q. [447] Because there is decoupling, or because there  
15 is a price cap?

16 A. There are price caps, as well as revenue caps.

17 Q. [448] There are price... Okay. There are price caps  
18 for who?

19 A. Well, I think it's mainly for large volume  
20 customers.

21 Q. [449] I think it's mainly for large... You think...

22 A. I don't know how many others might be involved, but  
23 that's... It would include the largest volume  
24 customers.

25 Q. [450] Is it a class of consumers, or is it some

1 consumers?

2 A. It's a cla... It's a class of consumers. I mean it  
3 would be certain service groups are subject to  
4 price caps in New York.

5 Q. [451] And we speak of how many clients? How many?

6 A. I don't know.

7 Q. [452] I will ask you to undertake to provide this  
8 information, with the identification of the New  
9 York utility where there is a price cap and a  
10 revenue cap. And to specify to whom the price cap  
11 applies, to which tariff, and how many clients are  
12 part of that tariff.

13 A. Happy to oblige.

14 Q. [453] Thank you.

15 LA PRÉSIDENTE :

16 C'est l'engagement numéro 3.

17 Me ÉRIC FRASER :

18 Je vous remercie.

19 Q. [454] Of course, with the supporting documentation  
20 or link to the website providing the documentation.

21

22 E-3: (AQCIE-CIFQ) Identify the New York utility  
23 where there is a price cap and a revenue  
24 cap, and specify to whom the price cap  
25 applies, to which tariff, and how many

1 clients are part of that tariff, with the  
2 supporting documentation or link to the  
3 website providing the documentation (asked  
4 by HQD-HQT)

5

6 X factor. Page 19 of your presentation, I have a  
7 clarification question for you. There is a tab  
8 appearing... Do you have the right page?

9 A. Page 19?

10 Q. [455] Yes.

11 A. The summary of X factor precepts?

12 Q. [456] Yes. That's the one.

13 (14 h 39)

14 The first column, acknowledged productivity trend,  
15 column A, for power distributors, you mention a  
16 point seven six percent (0.76%) of productivity  
17 trend. I understand that this information comes  
18 from PEG-14, HQTD-PEG-14, is that right?

19 A. Yes.

20 Q. [457] If you go to HQTD-PEG-14 - and it's only a  
21 clarification - there's a three-page document,  
22 mainly tabs. Do you have it?

23 A. Yes.

24 Q. [458] Do I understand correctly that for power  
25 distributors, the numbers you have is an average of

1 the productivity trend of the power distributors of  
2 that tab? And I see there's four of them. On the  
3 first page, there's two, there's San Diego Gas and  
4 all Ontario distributors and on page 2, there's  
5 also two which are ENMAX and Vermont Public  
6 Service.

7 So, is it correct that the number that  
8 appears in your presentation is an average of the  
9 numbers that I just pointed out to you?

10 A. For some reason I'm having a hard time finding that  
11 table. I know it's here but... I just can't find  
12 that table.

13 Q. [459] Do you want me to show you my copy?

14 A. I believe that... Oh, here it is. Okay, got it.

15 Q. [460] Okay.

16 A. Now, could you ask the question again?

17 Q. [461] I was wondering if the number we see for  
18 power distributors, point seventy-six (0.76) at  
19 page 19 of your presentation, it is said that it  
20 comes from HQT-D-PEG-14 so, we're now at PEG-14, and  
21 when I see the power distributors that have a  
22 productivity trend, I see two on the first page,  
23 San Diego Gas and all Ontario distributors, and I  
24 see two others on the second page. So, am I correct  
25 to say that the figure that is at page 19 comes



1 from an average of the information that are on  
2 HQT-D-PEG-14. While you look at it, I'll just...

3 A. I believe that's the intention, yes.

4 Q. [462] Okay.

5 A. I mean, I know that's the intention.

6 Me GUY SARAULT :

7 Je ferai remarquer au passage que les mêmes  
8 moyennes que celles indiquées dans la présentation  
9 PowerPoint du docteur Lowry se retrouvent à la  
10 troisième page du document de source qu'il a cité,  
11 attachment 14.

12 Me ÉRIC FRASER:

13 Q. [463] I'm sorry. I'm asking you the question  
14 because when we do the average of those - and  
15 there's also two on page 3 - we cannot come with  
16 the one point seventy-six (1.76) numbered.

17 A. Zero point seven six (0.76).

18 Q. [464] Yes.

19 A. I'll have my staff check that.

20 (14 h 45)

21 Q. [465] Okay. But while we're on tab PEG-14 and  
22 you're presenting this as being precedent for X  
23 factor, when I go on the first page... I want to be  
24 sure I understand correctly, if we go with San  
25 Diego Gas and all Ontario distributors, which are

1 two of those precedents, I see "Term : 1999 to  
2 2002", so I do understand that if there was a  
3 productivity study performed, it was prior to  
4 nineteen ninety-nine (1999), so that's old  
5 information, isn't it?

6 Dr. MARK NEWTON LOWRY:

7 A. That it's "old" information?

8 Q. [466] Well, prior to nineteen ninety-nine (1999),  
9 as a precedent, the economy was something else at  
10 that time?

11 A. I'd just like to remind you I'm the one that is  
12 advocating a fresh productivity study.

13 Q. [467] Okay. I also understand that... okay. So my  
14 understanding is correct that the productivity  
15 study that you are presenting as precedent here  
16 are, the numbers date back of the term of the MRI.  
17 So if we go with San Diego, it's prior to nineteen  
18 ninety-nine (1999), if we go to all Ontario, it's  
19 prior to two thousand (2000), and max, it's prior  
20 to two thousand and seven (2007)?

21 A. Correct.

22 Q. [468] Thanks.

23 A. I'd just like to emphasize that I, we did not put  
24 these numbers forward to suggest that zero point  
25 seven six (0.76) is the right number for Quebec, I

1 think you asked us what are the precedents, and so  
2 we tabulated them.

3 Q. [469] Okay. Well, good, we're on the, we're on the  
4 same track then. It happens. Negative trend, and  
5 those are my last questions because I may not be as  
6 familiar with the productivity factor, or the  
7 productivity studies and everything since we're not  
8 in MRI and, but we're productive.

9 A. So I've heard.

10 Q. [470] I heard you say a few things about... I'm  
11 looking for the right word... about the fact that  
12 the negative X factors are, I don't want to say  
13 ridiculous but have never been approved, are not  
14 serious -- did I understand correctly?

15 A. Well, I certainly didn't use that language.

16 Q. [471] No, that's why I was looking for my words,  
17 I'm sorry that...

18 A. I said, I did say that it had never been approved,  
19 and that all of those numbers have come from sort  
20 of the new conscripts to the field of PBR,  
21 witnesses that have little prior experience.

22 Q. [472] Newcomers?

23 A. Yes, newcomers.

24 Q. [473] Have you ever... have you ever proposed a  
25 zero factor, X factor?

1 A. Well, specifically zero, I don't recall having done  
2 that.

3 Q. [474] If I say in Central Maine Power, didn't you,  
4 for O&M, recommend a zero point two two (0.22) X  
5 factor?

6 A. I would like to have a clarification, that when you  
7 do, first of all, it is...

8 Q. [475] Just before you do a clarification, and I  
9 will let you do your clarification, but I just want  
10 the specific answer -- I understand that you did  
11 propose, for O&M, an MRI on O&M only, in a Central  
12 Maine Power case, a zero point twenty-two percent  
13 (0.22%) X factor, is that correct?

14 A. Well, I don't know. I mean, I may have done  
15 something like that, but I want to explain that...

16 Q. [476] Do you want me to refresh your memory on  
17 that?

18 A. I'll tell you, I'll accept that, subject to check.

19 Q. [477] Okay. I just...

20 A. Now, I would like...

21 Q. [478] ... if you, I just have another question.

22 A. Okay.

23 Q. [479] Which goes to another statement you made,  
24 when you said that if... if you take out the capex  
25 of the MRI, you then have to lower the X factor --

1           you said that statement?

2           A. Raise the X factor.

3           Q. [480] Raise the X factor?

4           A. Raise the X factor.

5           Q. [481] If you take in the capex, then you have to  
6           lower the X factor?

7           A. Yes.

8           Q. [482] Okay. I was just rehearsing.

9           (14 H 50)

10          Me LISE DUQUETTE :

11          Q. [483] I'm sorry, I just... because I would like to  
12          hear the clarification. So, if you could, I would  
13          appreciate it. I don't stop you, but you just asked  
14          the question before the clarification, I would like  
15          the clarification...

16          A. It's okay.

17          Q. [484] ... if it's possible.

18          A. I don't mind in this. I won't forget it.

19          Me ÉRIC FRASER:

20          Q. [485] It's very fast. I understand that in the same  
21          case, the Board has refused an MRI only on O&M, to  
22          have an MRI on O&M and capex. And I also understand  
23          that once capex has been included in the MRI, you  
24          change you recommendation for a minus point zero  
25          two (-0.02) X factor. Is that correct?

1 A. I think it was even more like minus two point 0  
2 (-2.0) than zero point two (0.2).

3 Q. [486] Well, the number I have in... and I have the  
4 decision, I think it's more... well, the number,  
5 the specific numbers, the fact is that it's an  
6 negative X factor.

7 A. Yes.

8 Q. [487] Thank you. Now you can go on with your  
9 clarification.

10 A. Okay. Well, we've established in this hearing that  
11 it's very common in Canada to have an inflation  
12 measure in the rate of revenue cap index that is  
13 sort of like an input price index. It has a labour  
14 price component, for example. We've had this  
15 disagreement about what would be a proper labour  
16 price index for that.

17 So, according to the index logic that I  
18 discuss at length in my evidence, if you use a  
19 macroeconomic inflation measure, then you have to  
20 consider the difference between the productivity  
21 trends of the industry and the economy. Now, in the  
22 United States, the productivity trend of the  
23 economy has for many years been quite rapid. In  
24 fact, it's in the neighbourhood of a hundred (100)  
25 basis points. So, when you have an X factor

1 proposal in the United States, for a company that  
2 uses a macroeconomic inflation measure, you're  
3 going to knock off the productivity trend of the  
4 economy. And so, that's where you get an O&M number  
5 that would be close to zero. Well, lots of times,  
6 in a US proceeding, the numbers will be close to  
7 zero because of the knocking off of the US  
8 productivity growth trend.

9 Now, so, once that's understood, what I  
10 said before about adding capital, making it the  
11 number go more negative, holds true. I went from  
12 zero (0) to a negative two (-2) because capital was  
13 added.

14 Q. [488] Hmm, hmm.

15 A. Now... but let me explain where the negative two  
16 (-2) came from. And this was a company that had  
17 operated under price caps for three or four... was  
18 it three or four? Three whole period... five year-  
19 periods. And during that period, they had been one  
20 of the most rapid productivity growth performers in  
21 the United States. And they did it by cutting their  
22 capex... their capital expenditures. I mean, they  
23 were... they had really remarkable capital  
24 productivity growth during that period.

25 So, you get to the end of fifteen (15)

1 years of very little capital spending. No capital  
2 tracker, by the way, and no negative X factor. But  
3 you get to the end of fifteen (15) years and they  
4 claim they couldn't do it anymore. "Now, we need to  
5 catch up with our capex." That was the company's  
6 decision, not mine. So, the question was: well,  
7 what kind of a regulatory system might work for  
8 that? Well, what CMP originally proposed is, "Look,  
9 let's do one of these hybrids," a little bit like  
10 the C factor thing in Toronto. "Let's have a hybrid  
11 and we'll just use something like cost forecast for  
12 the capital side. And we'll use an O&M index for  
13 the O&M side. We'll use an index for the O&M side."  
14 Well, as I said in my testimony, or in my evidence  
15 somewhere, that was... the Commission was so  
16 opposed to that idea that they stopped the hearing  
17 right in the middle and said, "That's got to go.  
18 You have to resubmit your proposal before we can go  
19 forward." That's completely unacceptable to us.  
20 (14 h 56)

21 Alright, so then, we're thinking, "Well,  
22 now what?" They want something where all indexes  
23 are covered, but the company claims it has a very  
24 aged system. So, how could you rigorously do that?  
25 I mean, and it's not based on a capex forecast.



1 Well, what I did is I looked at all the companies  
2 in the sample, in the Northeast sample, and said  
3 well, which of those companies, at the start of the  
4 sample period, had a degree of system age that was  
5 similar to where Central Maine Power was at that  
6 point, and then how did their productivity growth  
7 go after that? In other words, what would be the  
8 typical productivity behaviour of a company after  
9 they had extremely aged system? So that, in my  
10 opinion, is a rigorous way, or was an attempt at a  
11 rigorous way to come up with a special X factor for  
12 an unusually aged system. So that's why the...  
13 That's where the negative two (-2) came from.

14 Now one punch line to the story: what did  
15 the Commission think of this idea? Well, dead on  
16 arrival. And that gets back to what I said. I  
17 didn't say that you could never... that a negative  
18 productivity trend could never happen, but no  
19 commission has been willing to embrace this in  
20 North America. Even when I...

21 Q. [489] In North America.

22 A. In North America, yes.

23 Q. [490] But there are some Commissions outside that  
24 have given negative productivity factors.

25 A. There is one that I know of, and that's New

1 Zealand, has done that. I don't know the details of  
2 that, I was not involved in that study, but it...  
3 it's true. There was a negative X factor in New  
4 Zealand.

5 Q. [491] So my understanding is that not only  
6 newcomers can come up with a recommendation of a  
7 negative productivity.

8 A. For the United States, when the issue is the  
9 industry trend, only newcomers have come up with  
10 that kind of a number. And they have yet to be  
11 taken seriously, although there is always a first  
12 time. Who knows? Maybe they're right. But this is  
13 what the regulators have decided thus far. And I  
14 don't think it's going to end up any differently in  
15 Alberta this time.

16 Q. [492] We're coming to an end. From your testimony,  
17 and my understanding is that the price cap you're  
18 proposing, with the specifications you said on Y  
19 factor, the revenue cap you're proposing, and the  
20 fact that we should put everything all in the  
21 formula, the fact that you're proposing that Hydro-  
22 Québec goes from a one-year cost of service  
23 regulation to a four-year plan, I understand that  
24 there is a change in the risk profile of HQD. Do  
25 you agree with me?

1 A. Yes.

2 Q. [493] Do you know that... Are you aware that HQD's  
3 current cost of capital is... Are you aware of the  
4 current cost of capital, and how it is set?

5 A. I understand that it's low.

6 Q. [494] Yes. You understand that it's low. You're  
7 aware, so, that it's the lowest ROE for an electric  
8 distributor in Canada?

9 A. I don't know... I didn't know that specifically,  
10 but I understand it's low.

11 Q. [495] And it's low because it is considered low  
12 risk? So I understand that if we accept your  
13 proposal with the impact on risk, we would have to  
14 factor this into a new ROE, or a revision of the  
15 ROE, since the Distributor would have more risk,  
16 substantially.

17 A. You would be entitled to make a case to that. I've  
18 never heard of that actually being approved, but  
19 you would be entitled to press your case for that.  
20 Of course, it also...

21 Q. [496] You never...

22 A. It also depends on the outcome of the case, what  
23 exactly is the nature of the plan. 'Cause in some  
24 areas...

25 Q. [497] Of course.

1 A. ... you'll have less risk, in others you'll have  
2 more.

3 Q. [498] But we're in assumptions. Since you're an  
4 expert, we can go with assumptions, so... If I go  
5 with...

6 A. Since I'm an economist, we can go... Yes.

7 Q. [499] Oh, of course, because... Yes. There's a good  
8 joke about that, but... After the day. I think I'm  
9 done. I'm just gonna look into my notes, and come  
10 back to you in a few seconds.

11 (15 h 01)

12 One more. Et je crois que je vais  
13 m'adresser à messieurs Vézina et Boulanger. Dans  
14 votre compréhension de votre proposition, est-ce  
15 que... Et je parle d'allégement réglementaire. Mes  
16 questions sont très ouvertes. Je veux simplement  
17 avoir plus de détails. Dans votre compréhension de  
18 votre proposition, est-ce qu'il y aurait des  
19 dossiers tarifaires quand même pour aborder les  
20 questions qui ne seraient pas couvertes par le MRI  
21 ou même les questions qui sont couvertes par le MRI  
22 mais qui méritent d'être regardées? Est-ce que  
23 vous envisagez un dossier tarifaire annuel?

24 M. LUC BOULANGER :

25 R. Non, on n'envisage pas un dossier tarifaire annuel,

1 c'est sûr. Mais il est évident que si une question  
2 se soulève, ce serait pas tellement productif de ne  
3 pas la regarder puis d'attendre que ça nous pète  
4 dans la face à un moment donné... je m'excuse pour  
5 le... plus tard dans le temps, là. Il y avait un  
6 exemple tout à l'heure qui avait été mentionné.  
7 Peut-être qu'à un moment donné il y aurait lieu de  
8 revoir et d'adresser cette question spécifique et  
9 de voir comment ça peut s'intégrer. Tout ça, ce  
10 sont des questions hypothétiques, là. On ne veut  
11 pas s'enlâcher dans un processus qui va nous  
12 étrangler. Ce qu'on veut, c'est explorer une  
13 nouvelle façon d'opérer, ajouter de la flexibilité,  
14 permettre d'enrayer l'érosion des marchés  
15 industriels et régler les problèmes au fur et à  
16 mesure qu'ils se présentent. Vous en avez soulevé  
17 un, là. Vous dites qu'il va y avoir plus de  
18 risques.

19 Q. [500] Oui.

20 R. Alors, à un moment donné, peut-être que vous allez  
21 décider d'introduire une cause. Puis on regardera  
22 dans le contexte de MRI...

23 Q. [501] Mais je parle de cause annuelle.

24 R. Non, la cause annuelle, non. Je pense qu'à ce  
25 moment-là, ce serait... ce serait ridicule

1 s'embarquer dans un processus pour en mener deux de  
2 front.

3 Q. [502] Excellent!

4 M. PIERRE VÉZINA :

5 R. D'ailleurs si vous permettez.

6 Q. [503] Oui. Bien oui.

7 R. On parlait des coûts élevés de la réglementation.  
8 Peut-être que vous n'êtes pas certain de ça. Mais  
9 il reste que c'est mentionné dans la politique  
10 énergétique du gouvernement. Ça fait partie des  
11 préoccupations de la Régie. Alors, je pense qu'un  
12 des objectifs, entre autres, de la démarche, c'est  
13 de réduire un peu la charge en réglementation.  
14 Donc, si on se représente encore systématiquement  
15 annuellement devant la Régie pour traiter les mêmes  
16 choses, essentiellement ou presque, peut-être de  
17 manière différente, je ne suis pas sûr qu'on va  
18 avoir atteint en tout cas cette partie de  
19 l'objectif.

20 Q. [504] Je vous entends. Alors je vous remercie,  
21 messieurs. Mister Lowry, thank you.

22 Dr MARK NEWTON LOWRY :

23 R. May I had one follow-up comment. My staff informs  
24 me that that number the zero point seven six (0.76)  
25 number is correct and they thought that when your

1           were explaining the potential one that you missed,  
2           the one the Ontario plans.

3       Q. [505] O.K. We will look into this. Vous avez  
4           terminé, messieurs?

5       M. LUC BOULANGER :

6       R. Juste un commentaire qui me fatigue un petit peu.  
7           Puis je pense que je vais commenter là-dessus.

8       Q. [506] Vous noterez, Madame la Présidente, que je  
9           n'ai pas posé de question.

10      R. De toute façon, je n'ai plus grand-chose à perdre,  
11         là. Alors ceci étant dit. Alors, quand on a  
12         commencé ce processus-là, Madame la Présidente, il  
13         y avait un budget qui était extrêmement limité. Si  
14         on avait fait l'exercice qu'a décrit maître Fraser,  
15         à savoir de prendre tous les plans  
16         d'approvisionnement, tous les dossiers tarifaires,  
17         toutes les décisions qui ont été prises dans tous  
18         les dossiers, on serait encore en train de  
19         travailler là-dessus.

20                 Alors, initialement ce qu'on a fait, c'est  
21         qu'on a tenté d'informer le docteur Lowry de  
22         l'ensemble du contexte de la Loi, des dispositions,  
23         mais il ne faut pas penser qu'on est allé dans une  
24         somme de détails aussi considérables que maître  
25         Fraser indiquait. Je voulais vous livrer ça.

1 Q. [507] Je vous remercie, messieurs. Mister Lowry,  
2 thank you for your time. Madame la Présidente, j'en  
3 ai terminé. Je vous remercie.

4 LA PRÉSIDENTE :

5 Merci à tous. Nous allons suspendre jusqu'à demain  
6 matin neuf heures (9 h).

7 AJOURNEMENT

8

9

10 SERMENT D'OFFICE :

11 Je soussigné, Claude Morin, sténographe officiel,  
12 certifie sous mon serment d'office, que les pages  
13 qui précèdent sont et contiennent la transcription  
14 exacte et fidèle des notes recueillies par moi au  
15 moyen du sténomasque, le tout conformément à la  
16 Loi.

17

18 ET J'AI SIGNE:

19

20

21

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