

**RÉGIE DE L'ÉNERGIE  
DOSSIER R-3897-2014, PHASE 1**

**RÉPONSES DE L'AQCIE/CIFQ À LA DEMANDE DE RENSEIGNEMENTS NO 1 D'OPTION  
CONSOMMATEURS (OC) À L'AQCIE-CIFQ**

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**MRI FOR HQD**

- 1. References:**
- i) C-HQT-HQD-0023, p. 10.
  - ii) C-AQCIE-CIFQ-0025, p. 102.
  - iii) C-AQCIE-CIFQ-0025, p. 104.

**Preamble:**

(i) *"HQD's OPEX represent 10.5% of revenue requirement for 2016. The majority of OPEX or "Envelope Expenses" has been subject to the parametric formula and considered to be meaningfully within management's general control. Operating Expenses excluded from the Envelope are called "Specifically Tracked Items", and represent around 22% of Operating Expenses."*

(ii) *"Reasonable candidates for Y factoring include the following:*

- *Severe storm expenses*
- *Changes in utility accounting standards*
- *Expiration of the amortization of deferral accounts.*
- *CDM expenses"*

(iii) *"For both companies, some hard to foresee costs warrant consideration for Z factor treatment. Eligibility for Z factor treatment should be limited. Materially thresholds should be high, and pertain to each incident so that the utility is not incentivized to compile numerous small incidents."*

**Request:**

**1.1 Please discuss the treatment of "Specifically Tracked Items" as part of Pacific Economics Group (PEG)'s HQD MRI proposal.**

**1.1) Réponse de l'AQCIE/CIFQ :**

Dr. Lowry recommends keeping the scope of Y factors to a minimum. All items subject to Y factor treatment would be eligible for conventional prudence scrutiny. Additionally, Dr, Lowry

recommends that power procurement cost be subject to an incentivized tracker or power cost performance incentive mechanism.

**1.2 Please provide a complete list of items that should be included as Y factors for HQD's MRI.**

**1.2) Réponse de l'AQCIE/CIFQ :**

Dr. Lowry has recommended that power supply, transmission, conservation, and demand management costs be subject to Y factor treatment. Additional cost categories are a topic for Phase 3 of the proceeding.

**1.3 Please provide a complete list of items that should be included as Z factors for HQD's MRI.**

**1.3) Réponse de l'AQCIE/CIFQ :**

This is a topic for Phase 3 of the proceeding.

**2. References:        i)        C-AQCIE-CIFQ-0025, p. 96.**

**Preamble:**

*(i) "If decoupling is instituted, several issues in the design of the revenue decoupling mechanism will require resolution. One is whether decoupling should apply to industrial customers. If the answer is "yes", an important further issue is whether baskets should be implemented that insulate residential and commercial customers and industrial customers from the revenue impact of fluctuations in each other's revenue."*

**Request :**

**2.1 Please discuss and provide relevant example of the treatment of fluctuations in revenues for baskets of customers.**

**2.1) Réponse de l'AQCIE/CIFQ :**

The term baskets in a revenue decoupling mechanism refers to the level of aggregation of services at which the true up of actual revenues to allowed revenues and the conversion of the result into rates occurs. This may be accomplished in several ways. The simplest approach is to true up the *total* actual revenue subject to revenue decoupling to the corresponding allowed

revenue by adjusting rates for *all* of the rate classes subject to revenue decoupling uniformly. We refer to this approach as a single basket.

Alternatively, these calculations can be done separately for two or more groups of rate classes included in the revenue decoupling mechanism. Each service class can have its own basket or some service classes (e.g., residential and small business services) may be grouped together in a basket.

## **2.2 Please provide a list of utilities where such baskets are used.**

### **2.2) Réponse de l'AQCIE/CIFQ :**

PEG has not undertaken a definitive review of the use of baskets in revenue decoupling mechanisms. However, they are aware of numerous gas and electric utilities that have more than one basket. The electric utilities include Puget Sound Energy, Potomac Electric Power in the District of Columbia, Baltimore Gas & Electric, Northern States Power-Minnesota, Portland General Electric, Duke Energy Ohio, and Consolidated Edison of New York.

### **MRI FOR HQT**

### **3. References:     i)     C-AQCIE-CIFQ-0025, p. 100.**

#### **Preamble:**

*(i) "As for HQT, the Company's revenue requirement history does not provide pronounced evidence of a "stairstep" cost trajectory that might be better addressed by a hybrid ARM. The HQT system may be too large and diverse for particular capex projects to have a large impact. This is an argument favoring an index-based escalator. We believe that an index based ARM should be "Plan A" for HQT given its advantages."*

#### **Request:**

### **3.1 Please provide a list of references for other North American transmission companies with MRIs.**

### **3.1) Réponse de l'AQCIE/CIFQ**

Please see the response to HQT-D-PEG 32 part c.

**3.2 Please provide a list of integrated utilities that have MRIs for both transmission and distribution activities.**

**3.2) Réponse de l'AQCIE/CIFQ**

Please see the response to HQT-D-PEG 32 part c.

**3.3 Do you know of any transmission companies with some type of multi-year cost of service similar to what Concentric is proposing for HQT. If so, for each company, please indicate the comparable Building Block parameters (e.g. OPEX, CAPEX, indexing, etc...).**

**3.3) Réponse de l'AQCIE/CIFQ**

The only specialized transmission companies operating under attrition relief mechanisms based on multiyear cost forecasts that PEG is aware of are in Britain and Australia. Dr. Lowry has not examined the detailed cost categories considered in Australian or British plans. However, he notes that the British regulator Ofgem uses a total expenditure (“totex”) cost category in fashioning revenue requirements that consolidates some operation, maintenance, and capital spending.

As for indexing provisions, in Britain, the revenue requirement is established in real terms and then updated for inflation in a macroeconomic inflation measure. Indexing in Australia uses an inflation –X formula to smooth the revenue requirement over the plan term.

**4. References:            i)        C-AQCIE-CIFQ-0025, p.102**

**Preamble:**

- (i) *“HQT, in contrast, might need the option of requesting tracker treatment for some projects if an index-based ARM is developed. This proposed treatment would be similar to the Ontario Energy Board’s Incremental Capital Module.*

**Request:**

**4.1 Please how capital volatility may be addressed in a Transmission MRI and provide relevant examples.**

**4.1) Réponse de l'AQCIE/CIFQ**

Capital spending volatility would be addressed through a combination of cumulative revenue escalation provisions, the earnings sharing mechanism, and limited use of capital cost trackers.

**4.2 More specifically, please elaborate on the form and operation of potential capital tracker(s) for a first-generation HQT MRI.**

**4.2) Réponse de l'AQCIE/CIFQ**

Dr. Lowry discussed the role of cost trackers in the MRI for HQT on pp. 102-104 of his testimony. He makes here the following additional comments.

1. Capital cost trackers should be used judiciously in full knowledge of the many complications they give rise to.
2. The use of capital cost trackers in a multiyear rate plan for HQT is facilitated by the fact that several large capex projects have already been approved by the Regie for the period during which the plan would be operative.
3. If the terms of the two plans were staggered in such a way that the first "out year" of the plan for HQT which might be subject to indexing was 2019, it could affect the need for a capital cost tracker since there would be less concern about high capex in 2018.

- 5. References:**
- i) **C-AQCIE-CIFQ-0025, p. 102.**
  - ii) **C-AQCIE-CIFQ-0025, p. 104.**

**Preamble:**

(i) *"Reasonable candidates for Y factoring include the following:*

- *Severe storm expenses*
- *Changes in utility accounting standards*
- *Expiration of the amortization of deferral accounts."*

(ii) *“For both companies, some hard to foresee costs warrant consideration for Z factor treatment. Eligibility for Z factor treatment should be limited. Materially thresholds should be high, and pertain to each incident so that the utility is not incentivized to compile numerous small incidents.”*

**Request:**

**5.1 Please provide a full list of items that should be included as Y factors for HQT's MRI.**

**5.1) Réponse de l'AQCIE/CIFQ**

Detailed recommendations are a subject for Phase 3 of the proceeding.

**5.2 Please provide a full list of items that should be included as Z factors for HQT's MRI.**

**5.2) Réponse de l'AQCIE/CIFQ**

This is a subject for Phase 3 of the proceeding.

**6. References:     i)     C-AQCIE-CIFQ-0025, p. 59-60. Preamble:**

(i) *“These metrics and incentive programs may have financial incentives, “reputational incentives”, or no incentives. For example, there are no financial incentives tied to the primary safety and connections metrics, while energy not supplied, the customer/stakeholder satisfaction survey, and sulfur hexafluoride leakage performance are all tied to financial incentives.”*

**Request:**

**6.1 Please provide examples of transmission performance incentive mechanisms (PIMs).**

**6.1) Réponse de l'AQCIE/CIFQ**

Examples of PIMs for transmission utilities can be found in multiyear rate plans for such utilities in Britain and Australia. British transmission utilities have elaborate performance metric systems that include PIMs, discretionary financial incentives, and reporting requirements. These metrics and their ratemaking treatments are detailed in Attachment OC-AQCIE-CIFQ-6.1a.

The performance metric system for Australian transmission utilities is not as comprehensive,

and includes a Service Target Performance Incentive Scheme ("STPIS"). This scheme currently consists of an incentivized cost tracker to encourage the development of additional network capacity, and PIMs for service reliability and the effects on the marketplace of network outage constraints. The revenue impact resulting from the service reliability component is a weighted average of PIMs for several metrics: unplanned outage circuit event rate, loss of supply event frequency, and average outage duration. A separate metric for the proper operation of equipment has no revenue impact.

The FERC has developed some metrics to compare the performances of U.S. regional transmission organizations and independent system operators to those of some U.S. transmission utilities that operate independently of such entities. The FERC's metrics are provided in Attachment OC-AQCIE-CIFQ-6.1b.

## **6.2 Discuss PIMs applicability to HQT.**

### **6.2) Réponse de l'AQCIE/CIFQ**

A multiyear rate plan for a transmission utility should include PIMs to improve the balance between incentives to contain cost and incentives to achieve reliability, customer service, and safety standards.

## **6.3 Please provide key performance metrics that could be considered in a HQT PIM scorecard.**

### **6.3) Réponse de l'AQCIE/CIFQ**

Dr. Lowry sets forth recommendations for a performance metric system --- including PIMs --- for HQT on page 107 of his testimony. More detailed recommendations are a topic for Phase 3 of this proceeding.