

**DEMANDE DE RENSEIGNEMENTS N° 1 DE L'ACQIE-CIFQ (PEG) AU
TRANSPORTEUR (HQT) RELATIVEMENT À LA DEMANDE D'ÉTABLISSEMENT
D'UN MECANISME DE RÉGLEMENTATION INCITATIVE ASSURANT LA
REALISATION DE GAINS D'EFFIENCE PAR LE TRANSPORTEUR D'ÉLECTRICITÉ**

1. Référence :

Pièce HQT-D-2, Document 1.3, *Témoignage de MM. James M. Coyne et Robert C. Yardley de Concentric Energy Advisors sur les caractéristiques du MRI du Transporteur d'électricité* (version amendée), p. 3.

Préambule :

“The sheer geographic scale of its operations, location of traditional hydro resources and new wind generation at great distances from load centers, and challenging climatic conditions make HQT’s circumstances extraordinary as compared to other transmission companies. These factors combine to produce significant capital requirements necessary to maintain and extend HQT’s transmission facilities. These characteristics create a unique set of circumstances under which HQT is required to maintain the quality of service, within the context of an aging network and fulfill its public responsibility for maintaining the integrity of its network. These circumstances must be considered in the design of an MRI for HQT as they help identify factors within the control of HQT that impact either capital (“CAPEX”) or operating expenses (“OPEX”) and other residual items.”

Demandes :

- 1.1 Granted that HQT’s large scale and remote generating sites raise the *level* of its cost, why do these attributes make the *trend* in its cost going forward peculiar?
- 1.2 Doesn’t the fact that HQT serves a large region actually *stabilize* its revenue requirement growth relative to the growth in those of, say, eight transmission companies serving a region of similar size? For example, is there any reason to think that HQT’s revenue requirement growth is more unstable than that of individual transmission owners in the northeast United States? If so, why?

2. Référence :

Pièce HQT-D-2, Document 1.3, *Témoignage de MM. James M. Coyne et Robert C. Yardley de Concentric Energy Advisors sur les caractéristiques du MRI du Transporteur d'électricité* (version amendée), p. 6.

Préambule :

“Based on these considerations and the stakeholder feedback received to date, Concentric is proposing a “Hybrid” model for HQT, with most OPEX¹⁰ adjusted each year based on an I-X formula, subject to certain adjustments, and using cost of service for all other components of the revenue requirements, including capital-related costs... The non-parametric nature of HQT’s CAPEX does readily accommodate an I-X program”

¹⁰Pacific Economics Group (“PEG”) recognized this alternative in its report where it noted: “[s]hould an indexed escalator prove unsuitable for HQT, a hybrid approach to ARM design also merits consideration.”, Incentive Regulation for the Transmission & Distributor Services of Hydro-Québec, Pacific Economics Group, October 26, 2015, p. 101.

Demandes :

- 2.1 Please confirm that PEG was referring in its report to a hybrid *attrition relief mechanism* (ARM) (eg indexing for opex and forecasts for capital costs) rather than a hybrid of an index-based ARM for opex and cost of service regulation for capital costs.
- 2.2 Please identify all precedents Concentric is aware of that combine an index-based ARM for opex and a cost of service treatment of *all* capital costs.
- 2.3 Please identify all precedents for including a company's *own* salary index in an index-based ARM.
- 2.4 Please confirm that a provision in an MRI to adjust revenue for a change in the target *rate of return* on investment is not the same as a cost of service treatment of capital cost.
- 2.5 Doesn't this proposal provide imbalanced incentives to contain opex and capex? If not, why not?
- 2.6 Why are frais corporatifs excluded from indexation?
- 2.7 Why are amortization expenses subject to indexing in the Company's MRI proposal for HQD but not in its proposal for HQT?
- 2.8 Does the addition of an earnings sharing mechanism to the plan weaken or strengthen the Company's incentive to contain costs?
- 2.9 Doesn't the combination of annual rate cases for capital and an ESM produce *unusually weak* incentives to contain capex?
- 2.10 Please provide all a table with HQT's total capital revenue requirement for as many years as possible, along with any evidence that the growth in its total capital revenue

requirement is more volatile than HQT's opex or the capital revenue requirements of other transmission utilities.

3. Référence :

- (i) Pièce HQTD-2, Document 1.3, *Témoignage de MM. James M. Coyne et Robert C. Yardley de Concentric Energy Advisors sur les caractéristiques du MRI du Transporteur d'électricité* (version amendée), p. 8.
- (ii) Pièce HQTD-2, Document 1, *Témoignage de MM. James M. Coyne et Robert C. Yardley de Concentric Energy Advisors sur les caractéristiques du MRI du Transporteur d'électricité* (version révisée), p. 21 (deleted).

Préambule :

- (i) *"The revised MRI proposal reflects two principle changes from the original building block proposal: (1) OPEX is based on a multi-year I-X formula and (2) all other components of the revenue requirements are based on COS as currently used by HQT."*
- (ii) *"This ["bottom up"] approach recognizes the non-parametric nature of HQT's CAPEX and OPEX that does not readily accommodate an I-X program... The efficiency incentives sought under Article 48.1 could still be achieved by developing a multiyear rate plan that determines a future revenue cap."*

Demandes :

3.1 Please confirm that relative to Concentric's original proposal for HQT, which featured a "building block" ARM, the new proposal involves

- Weaker capex containment incentives
- More imbalanced incentives to contain opex and capex
- Higher regulatory cost.

3.2 Isn't the revised proposal therefore *less* consistent with Article 48.1 than HQT's original proposal in this proceeding?

4. Référence :

Pièce HQTD-2, Document 1.3, *Témoignage de MM. James M. Coyne et Robert C. Yardley de Concentric Energy Advisors sur les caractéristiques du MRI du Transporteur d'électricité* (version amendée), p. 11.

Préambule :

- *“Adjustment to maintenance expenses based on the output of the MGA and other costs related to recurring activities.*
- *Adjustments to reflect elements of Operating Expenses that are specifically tracked, including any that are subject to variance accounts.*
- *The inflation factor will be based on the average of the HQT labor cost index and the Canadian inflation rate.”*

Demandes :

4.1 Please provide a full explanation of the “adjustment to maintenance expenses based on the output of the MGA and other costs related to recurring activities.”

5. Référence :

Pièce HQTD-2, Document 1.3, *Témoignage de MM. James M. Coyne et Robert C. Yardley de Concentric Energy Advisors sur les caractéristiques du MRI du Transporteur d'électricité* (version amendée), p. 4.

Préambule :

“Taken together, the HQT depreciation and amortization expense, its return on rate base, and applicable taxes comprise 78.4% of the company’s revenue requirements.”

Demande :

Considering this remark, and the proposals to use HQT’s salary inflation index in the I factor, and to make an adjustment for MGA maintenance, approximately what percentage of HQT’s revenue requirement would be subject to the incentives generated by a conventional revenue cap index in HQT’s proposed MRI?

6. Référence :

Pièce HQTD-2, Document 1.3, *Témoignage de MM. James M. Coyne et Robert C. Yardley de Concentric Energy Advisors sur les caractéristiques du MRI du Transporteur d'électricité* (version amendée), p. 1.

Préambule :

“HQT, with direction provided by a new management team, has subsequently reconsidered its initial recommendation, and has asked Concentric to evaluate alternative MRI models.”

Demandes :

6.1 Did Concentric *recommend* a cost of service treatment for all capital costs from amongst all options considered in this work for HQT? Or did it just present options, with pros and cons, leaving the choice between options to HQT?