

**Réponse du Distributeur et du Transporteur  
à la demande de renseignements no 1  
de l'Association hôtellerie Québec et  
de l'Association des restaurateurs du Québec  
(« AHQ-ARQ »)**



1

## DEMANDE DE RENSEIGNEMENTS N° 1 DE L'AHQ-ARQ

2

### DISTRIBUTION

3    1.    **Référence :**

4              C-HQT-HQD-0023, HQTD-2, document 1, page 8.

5    **Préambule :**

6              « As shown below for 2016, electricity and transmission purchases are the  
7              two largest components of HQD's revenue requirements and are not  
8              controllable by management. Electricity purchases are recovered through the  
9              pass-through mechanism and do not influence earnings. Similarly, HQD  
10             maintains a deferral account to track any differences between projected and  
11             actual transmission costs. These expenses, together with fuel costs that  
12             are also not controllable by management, comprise more than three-quarters  
13             of the HQD's revenue requirement at 77.1%. » (Nous soulignons; notes de  
14             bas de page omises)

15    **Demandes pour Concentric :**

16    1.1    Veuillez indiquer si vous considérez que les coûts d'approvisionnement d'électricité  
17           sont totalement non-contrôlables par le Distributeur comme semble l'indiquer la  
18           référence. Dans l'affirmative, veuillez élaborer et justifier votre réponse. Dans la  
19           négative, veuillez indiquer quels éléments des coûts d'approvisionnement  
20           d'électricité du Distributeur sont sous son contrôle et les mécanismes qui pourraient  
21           être mis en place pour inciter le Distributeur à optimiser de tels coûts.

22    **R1.1**

23           See response to Régie Question 1.4 in HQTD-4, Document 1.

24    1.2    Veuillez indiquer si vous considérez que les achats de transport sont totalement  
25           non-contrôlables par le Distributeur comme semble l'indiquer la référence. Dans  
26           l'affirmative, veuillez élaborer et justifier votre réponse. Dans la négative, veuillez  
27           indiquer quels éléments des achats de transport sont sous le contrôle du  
28           Distributeur et les mécanismes qui pourraient être mis en place pour inciter le  
29           Distributeur à optimiser de tels achats.

30    **R1.2**

31           HQD has very limited ability to influence transmission costs, particularly in the  
32           near-term. Once HQD informs HQT of its energy and power needs, resulting  
33           from the growth in demand and the supply strategy in place to satisfy its  
34           customers, HQT assesses transmission network capacity by considering all  
35           transmission customers' needs.

36           HQD has some ability to impact transmission costs in the long-term through  
37           the promotion of conservation and demand management programs if such  
38           programs are significant enough to impact the timing of need for new  
39           distribution and transmission facilities that would otherwise be required to  
40           meet demand growth.

1    1.3    Veuillez indiquer si vous considérez que les coûts de combustible sont totalelement  
2    non-contrôlables par le Distributeur comme semble l'indiquer la référence. Dans  
3    l'affirmative, veuillez élaborer et justifier votre réponse. Dans la négative, veuillez  
4    indiquer quels éléments des coûts de combustible sont sous le contrôle du  
5    Distributeur et les mécanismes qui pourraient être mis en place pour inciter le  
6    Distributeur à optimiser de tels coûts.

7    **R1.3**

8    **Réponse de Concentric**

9    In the annual rate cases, the Régie approves fuel costs and the related deferral  
10   account. This annual review of supply and fuel costs is the best incentive to  
11   ensure that these costs are the lowest they can possibly be for customers.

12   **Complément de réponse du Distributeur**

13   Le Distributeur fait une gestion active des achats de combustibles de façon à  
14   répondre aux besoins tout en minimisant les coûts. Pour ce faire, il privilégie  
15   la concurrence entre les fournisseurs lorsque le marché le permet. De plus, les  
16   contrats d'achats de combustibles pour les réseaux autonomes sont indexés  
17   au prix du marché et comportent des options permettant de les reconduire ou  
18   de les résilier s'ils ne sont plus avantageux pour le Distributeur.

19   **2. Références :**

- 20   (i)    C-HQT-HQD-0023, HQTD-2, document 1, page 12;  
21   (ii)    C-HQT-HQD-0023, HQTD-2, document 1, page 13.

22   **Préambule :**

23   (i)    « HQD has managed a 23% reduction in its workforce from 2008  
24   levels. This substantial decline was accomplished through the  
25   implementation of new technologies (the smart meters project)  
26   combined with the optimization of HQD's internal processes, but  
27   should not be assumed to be sustainable. This is reflected in current  
28   rate case (R-3933-2015) as HQD has proposed that it will not be able  
29   to achieve efficiency gains in the coming year. The ability to achieve  
30   efficiency gains in future years will also be impacted by this recent  
31   experience. » (Nous soulignons; notes de bas de page omises)

32   (ii)    « On balance, the proposed framework expands on the incentives  
33   under the existing formula, retains elements of the parametric formula  
34   familiar to both the Régie and HQD, and also responds to the third  
35   objective of Article 48.1, a streamlining of the process by which the  
36   Régie fixes rates. » (Nous soulignons)

37   **Demandes pour Concentric :**

38   **2.1**    Veuillez fournir les faits précis permettant à Concentric d'affirmer que la baisse  
39   substantielle (« substantial decline ») ne peut pas être durable (« not be assumed  
40   to be sustainable », selon la référence (i)).

1      R2.1

2      Concentric understands that HQD was able to achieve a 23% reduction in its  
3      workforce and a sustainable efficiency gain of \$398 million since 2008  
4      principally as a result of its smart meter program; this program provides a one-  
5      time opportunity to achieve significant efficiency gains through the  
6      replacement of meter-reading and other operating staff. This gain results also  
7      from the technological improvements and modernization of HQD's processes.  
8      It would be extremely difficult to sustain in the future the 3.3% annual  
9      reduction in expenses related to core activities realized since 2008 without  
10     jeopardizing the reliability of HQD's electricity service.

11     Concentric would note that efficiency estimates from productivity studies  
12    show that efficiency gains have slowed considerably over the past decade. For  
13    example, recent testimony filed by the Brattle Group before the AUC<sup>1</sup> to update  
14    its PBR parameters concludes the following:

15     “We have developed X-factor evidence using the same Total Factor  
16    Productivity (TFP) methodology that was used to calculate the X-factor  
17    adopted by the AUC in the first generic proceeding. In the first generic  
18    proceeding, the adopted X-factor was equal to the result of a TFP  
19    calculation plus a stretch factor, specifically the estimated 0.96% TFP  
20    trend over the 1972–2009 period, plus a stretch factor of 0.2%. We have  
21    updated the TFP calculation to include data for the years 2010 to 2014.  
22    This information was of course not available to the AUC in the generic  
23    proceeding. In updating the TFP calculation we followed the same  
24    methodology that the AUC relied on in the first generic proceeding.

25     We find that the TFP methodology previously relied on by the AUC  
26    suggests negative TFP growth of -1.25% during the last five years, in  
27    contrast to the positive TFP trend of 0.96% identified in the first generic  
28    proceeding. Statistical tests suggest that the results of the last five  
29    years are inconsistent with and different from the X-factor adopted in  
30    the first generic proceeding.” (reference omitted)

31     This result may suggest that the utility industry has undergone a change at  
32    some point in the last several years, such that a very long-run TFP trend going  
33    back to 1972 would not be a reasonable guide to conditions for the 2015–2017  
34    period.

35     Finally, Concentric is aware that, in HQD's most recent rate case  
36    (R-3933-2015), HQD indicated that it was challenged to implement additional  
37    efficiencies and proposed that X-factor be set to zero in the parametric formula  
38    for 2016.

39    2.2

40    Étant donné la tendance du Distributeur à sous-estimer ses gains d'efficience au  
41    cours des dernières années, veuillez indiquer les conclusions que Concentric  
42    peut tirer sur le potentiel des gains d'efficience des prochaines années avec  
43    l'affirmation de la référence (i) selon laquelle « *This is reflected in current rate*  
44    *case (R-3933-2015) as HQD has proposed that it will not be able to achieve*  
45    *efficiency gains in the coming year* ».

<sup>1</sup> See Attachment HQTD-4, Document 2.1, pp. 4-5

1      R2.2

2      See response to Question 2.1.

3      **Complément de réponse du Distributeur**

4      Dans son dossier R-3933-2015<sup>2</sup>, le Distributeur souligne qu'une portion des  
5      gains intégrés aux tarifs en 2015 (de l'ordre de 25 M\$) ne s'est pas encore  
6      concrétisée dans ses processus. Puisqu'il est de plus en plus difficile de  
7      trouver des pistes d'efficience récurrentes et permanentes associées aux  
8      actions de gestion courante, le Distributeur n'est pas en mesure de remettre  
9      des gains d'efficience supplémentaires pour l'année 2016.

10     Le Distributeur souligne que la prise en compte des pistes d'efficience dans  
11    l'élaboration de ses prévisions se fait de façon prudente afin de s'assurer que,  
12    d'une part, l'efficience identifiée est récurrente et, d'autre part, les moyens  
13    ciblés cadrent avec les conventions collectives et les enjeux organisationnels.

14     Cependant, le Distributeur est toujours à l'affût des opportunités qui  
15    pourraient lui permettre de réaliser des gains d'efficience additionnels. Si dans  
16    le cours de ses activités, de telles opportunités se manifestent, il les saisit,  
17    que ces gains aient été planifiés dans les tarifs ou non. Les gains d'efficience  
18    récurrents non planifiés sont alors incorporés dans les revenus requis des  
19    années subséquentes et remis à la clientèle dès que constatés.

20     Les clients bénéficient en 2016 de gains récurrents cumulatifs de l'ordre de  
21    398 M\$ intégrés au fil des ans sur la période 2008 à 2016.

22     2.3

23     Veuillez expliquer de quelle expérience il est question dans la citation « *impacted by  
this recent experience* » de la référence (i).

24     R2.3

25     See response to Question 2.1.

26     2.4

27     Veuillez lister et décrire les incitatifs de la formule existante dont il est question à la  
référence (ii).

28     R2.4

29     The existing parametric formula provides HQD with an incentive to operate  
30    more efficiently with respect to the activities that are addressed by the  
31    formula. Concentric's proposal expands the list of costs to be addressed by  
32    the parametric formula to include amortization, taxes and corporate expenses.  
33    Additionally, expanding the term of the plan to 3 years creates greater  
34    incentives than a one year cost of service approach.

<sup>2</sup> Dossier R-3933-2015, Notes sténographiques, Volume 2, page 22.

1

## TRANSPORT

2     **3. Référence :**

3                 C-HQT-HQD-0023, HQTD-2, document 1, page 19.

4     **Préambule :**

5                 « OPEX have generally tracked below the rate of inflation over the past  
6                 decade, as seen in the first figure below, indexed to 2007. But, this trend  
7                 reversed in 2013, suggesting these efficiency gains may be more difficult to  
8                 find in future years, as illustrated in the second figure, indexed to 2012.»  
9                 (Nous soulignons)

10    **Demandes pour Concentric :**

11    **3.1**    Veuillez fournir les faits précis permettant à Concentric d'affirmer que les gains  
12                 d'efficience peuvent être plus difficiles à atteindre dans les années futures, tel  
13                 qu'il apparaît à la référence.

14    **R3.1**

15                 See response to Question 2.1 that cites a recently submitted study on North  
16                 American electric utility productivity trends. Specific to HQT, Figure 13 of  
17                 Concentric's testimony<sup>3</sup> shows the OPEX path since the 2012 rebasing and  
18                 takes into account HQT's requirements most notably for the 2015 and 2016,  
19                 using the asset management model as documented in the R-3934-2015 rate  
20                 case.<sup>4</sup> Concentric noticed that these requirements exceed those provided by  
21                 inflation, efficiency and growth factors currently used in HQT's parametric  
22                 formula.

23                 Moreover, Concentric considers that an OPEX track exceeding inflation with an  
24                 increasing variance pattern suggests in itself a greater difficulty to find  
25                 efficiency gains in the future whether they are ex-ante or ex-post.

26    **3.2**    Veuillez lister et décrire les incitatifs de la réglementation actuelle qui auraient pu  
27                 amener le Transporteur à obtenir plus de gains d'efficience qu'il n'en a vraiment  
28                 réalisés depuis 2012.

29    **R3.2**

30                 Cette question dépasse le cadre du présent dossier.

31    **4. Références :**

- 32                 (i)      C-HQT-HQD-0023, HQTD-2, document 1, page 10, figure 4;
- 33                 (ii)     C-HQT-HQD-0023, HQTD-2, document 1, page 13;
- 34                 (iii)    C-HQT-HQD-0023, HQTD-2, document 1, page 19, figure 11;
- 35                 (iv)    C-HQT-HQD-0023, HQTD-2, document 1, page 21.

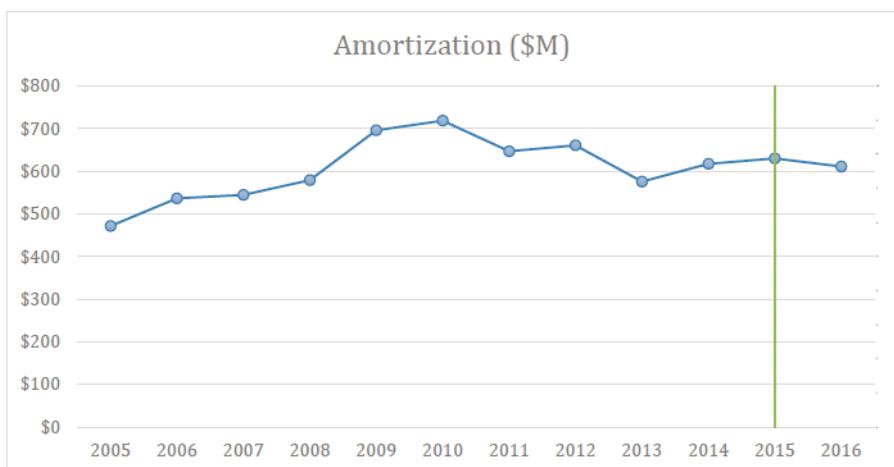
<sup>3</sup> HQTD-2, Document 1, page 20.

<sup>4</sup> R-3934-2015, HQT-3, Document 1 et HQT-6, Document 2.

1      **Préambule :**

2            (i)

Figure 4: HQD Amortization 2005-2016

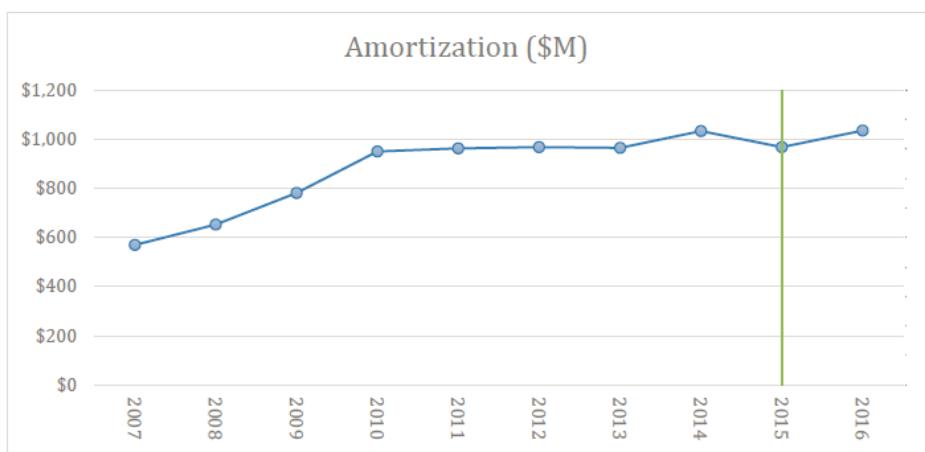


3            Data Source<sup>18</sup>

4            (ii) « Under the proposed plan, the “I” and “X” factors would have to be  
5            set according to the process adopted by the Régie. An expanded  
6            definition of operating costs under management's control would be  
7            included under the formula, and include amortization, taxes and  
8            corporate expenses, even though not directly controllable by HQD. »  
9            (Nous soulignons)

10          (iii)

Figure 11: HQT Amortization 2007-2016



11            Data Source<sup>25</sup>

12          (iv) « The combination of variability and magnitude of CAPEX, and  
13            recent trends in OPEX, suggest the need for an MRI approach that

1           can both accommodate these needs while providing the efficiency  
2           incentives envisioned in the goals of Article 48.1.

3           **B. RECOMMENDED APPROACH FOR HQT**

4           *Based on the goals of Article 48.1 and HQT's unique characteristics,  
5           Concentric recommends a "building block" MRI approach, which is a  
6           comprehensive "bottom-up" approach that sets a future revenue path  
7           based on a detailed forecast and review of capital and operating  
8           expenses. This approach recognizes the non-parametric nature of  
9           HQT's CAPEX and OPEX that does not readily accommodate an I-X  
10          program as well as the obligation for HQT to maintain the long-term  
11          reliability of the system. The efficiency incentives sought under Article  
12          48.1 could still be achieved by developing a multi-year rate plan that  
13          determines a future revenue cap. [note de bas de page omise]*

14          *The building block approach, whereby HQT would prepare a multi-  
15          year filing for the term of the MRI plan, is comprehensive. This  
16          approach provides the Régie and stakeholders the opportunity to  
17          examine the revenue requirements and rate path, and the Régie  
18          would continue to review and approve CAPEX, the major driver of  
19          revenue requirements, as under the existing regulatory framework.  
20          Because building block is a "bottom-up" approach based on HQT's  
21          own forecasts of operating and maintenance-related expenses,  
22          capital costs and revenue requirements, it is less of a blunt  
23          instrument than the "top-down" I-X approach, which sets a cap only in  
24          relation to inflation and a productivity offset. HQT would be required to  
25          continue showing evidence of productivity measures employed in its  
26          building block forecast of revenue requirements and to demonstrate  
27          that its forecasts are reasonable. »*

28          **Demandes pour Concentric:**

29          **4.1**       Étant donné que les références (i) et (iii) montrent des amortissements moins  
30          variables depuis 2010 pour le Transporteur que pour le Distributeur, veuillez fournir  
31          les raisons pour lesquelles Concentric ne recommande pas, pour le Transporteur,  
32          une approche semblable à celle recommandée pour le Distributeur qui est résumée  
33          à la référence (ii) qui inclut notamment les amortissements.

34          **R4.1**

35          See Concentric's testimony in HQTD-2, Document 1, page 21, responses to  
36          Régie Question 9.2 in HQTD-4, Document 1 and AQCIE-CIFQ Questions 10.3  
37          and 10.4 in HQTD-4, Document 3.

38          **4.2**       Veuillez lister et décrire les incitatifs d'efficience qu'amènerait la recommandation de  
39          Concentric de la référence (iv) en mettant en évidence les différences avec les  
40          incitatifs amenés par la réglementation actuelle.

41          **R4.2**

42          First, with respect to HQD, Concentric proposes to expand the expenses that  
43          would be subject to the parametric formula to include taxes, corporate

expenses, and amortization expenses. The extension of the rate term from one year to three years can also be expected to increase HQD's incentive to pursue operational efficiencies, particularly those that require an up-front investment or may be hard to realize. An MTÉR that provides HQD with an opportunity to retain a meaningful portion of efficiency gains between rate plans will avoid diminishing these incentives.

Second, with respect to HQT, Concentric proposes to expand the expenses that were previously covered under the parametric formula, and would now include HQT's full revenue requirements under a comprehensive revenue cap, with exceptions for any Y or Z factors beyond management's control. Cost optimization and efficiencies will be promoted in two ways. First, HQT will be required to present a three-year revenue cap based on a building block approach. The revenue cap will reflect projected efficiencies in operating and capital expenditures subject to the scrutiny of the Régie and stakeholders. Second, HQT will be incented to manage costs during the rate period to create earnings sharing for the benefit of both the shareholder and customers.

For both HQD and HQT, these proposals reflect substantially more risk and therefore efficiency incentives for the Divisions than under the existing regulatory framework.

4.3 Veuillez démontrer que la recommandation de la référence (iv) amène des incitatifs d'efficience conformes aux objectifs de l'Article 48.1, tel qu'il est mentionné par Concentric à la référence (iv).

**R4.3**  
**See response to Question 4.2.**

4.4 Outre la notion de « *multi-year* », veuillez indiquer en quoi la recommandation de la référence (iv) est différente de la réglementation actuelle.

**R4.4**  
**See response to Question 4.2.**

## DÉTERMINATION DU FACTEUR « X »

5. Références :

- (i) C-HQT-HQD-0023, HQTD-2, document 1, page 23;
- (ii) C-HQT-HQD-0023, HQTD-2, document 1, page 25.

Préambule :

- (i) « *There are alternative ways to derive "X" that range from the application of judgment applied to past observed productivity gains to industry benchmarking studies to complex productivity studies. Both benchmarking studies and productivity analyses rely on large data sets comprised of data for utilities that are deemed to be sufficiently*

1        “comparable”. For a Canadian utility, this usually requires expanding  
 2        the data set to include utilities from the United States in order to arrive  
 3        at an acceptable sample size. A desire for a larger sample size in  
 4        order to improve statistical validity and the desire for comparability  
 5        tend to work against each other. This contributes to the controversy  
 6        associated with productivity studies, particularly in Canada. In  
 7        addition, these studies tend to add complexity and delays to the  
 8        process, which goes against the streamlining goal of Article 48.1.

9        These alternative methodologies are summarized in the following  
 10      table:

Methodology	Description
1	<b>Total Factor Productivity (“TFP”) Study</b> Measures the efficiency of a utility in converting all of its inputs (labor, capital, and materials) into outputs (customers serviced)
2	<b>Partial Factor Productivity (“PFP”) Study</b> Focuses on a subset of these inputs – labor, materials, and other inputs that are deemed to be significantly within utility management’s control.
3	<b>Benchmarking</b> Compares costs in aggregate (operating cost per MW) or at the disaggregated level (maintenance cost per line mile) across similar companies, with targets based on “best-of-class” performance.
4	<b>Judgment</b> Established based on a survey of other MRIs, consideration of prior efficiency gains and assessment of the potential for future efficiency gains.

11      » (Nous soulignons)

12      (ii) « Given the lack of history in applying productivity studies for HQD, the prior experience with the parametric formula (with a productivity factor), and evidence that HQD has realized significant efficiency gains over the past few years, Concentric suggests that reliance on a TFP study to determine “X” is not necessary in the determination of the appropriate model parameters. Parties may wish to cite evidence presented in other jurisdictions or adopted by other regulators. HQD may cite to its past record of productivity in relation to inflation, and project its ability to continue this trend. Some may wish to conduct a TFP or benchmarking study as a basis for recommendations for “X”, with supporting evidence and reasoning. These submissions should ultimately inform the Régie’s judgment regarding appropriate productivity expectations. This takes some of the focus off of the need to resolve the many issues with TFP and PFP studies at the outset if Concentric’s recommendation is accepted, while preserving an appropriate role for judgment by both the experts and the Régie. Concentric therefore recommends that the Régie rely upon its judgment, with input from the parties, on setting the appropriate productivity factor for HQD. A benefit of this approach is the further streamlining of the hearings process through the avoidance of a costly, contentious and time-consuming Phase 2 focused on a TFP study. » (Nous soulignons)

1   **Demandes pour Concentric :**

2   **5.1**   Veuillez indiquer en quoi la recommandation de la référence (ii) diffère de la  
3   réglementation actuelle et veuillez démontrer que ladite recommandation rencontre  
4   les objectifs de l'Article 48.1 en termes de gains d'efficience, étant donné ses  
5   ressemblances avec la réglementation actuelle.

6   **R5.1**

7   **See response to Question 4.2.**

8   **5.2**   Veuillez fournir l'évaluation de Concentric des coûts et des délais pour chacune  
9   des méthodes apparaissant au tableau de la référence (i) si elles étaient appliquées  
10   au cas du Distributeur. Cette demande vise à justifier quantitativement les  
11   affirmations de Concentric sur le « *streamlining* » apparaissant aux références (i) et  
12   (ii).

13   **R5.2**

14   **Concentric's proposal would not preclude any party from submitting any form  
15   of evidence that they believe would inform the Régie. However, the Régie may  
16   decide not to require a TFP or PFP study, thus avoiding an effort that would  
17   cost in the hundreds of thousands of dollars and lead to the expenditure of  
18   substantial costs by all stakeholders as they debate the methodology,  
19   comparator utility group, data validity, and validity of the study results. It is not  
20   too difficult to imagine that these costs could easily reach in excess of  
21   \$1 million, without producing results that are broadly accepted or eliminate the  
22   need for the application of judgment by the Régie.**