

**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 totale
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 AUC¹ 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 Étant donné la tendance du Distributeur à sous-estimer ses gains d'efficience au
40 cours des dernières années, veuillez indiquer les conclusions que Concentric
41 peut tirer sur le potentiel des gains d'efficience des prochaines années avec
42 l'affirmation de la référence (i) selon laquelle « *This is reflected in current rate
43 case (R-3933-2015) as HQD has proposed that it will not be able to achieve
44 efficiency gains in the coming year* ».

¹ 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-3933-2015², 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'efficacité récurrentes et permanentes associées aux
8 actions de gestion courante, le Distributeur n'est pas en mesure de remettre
9 des gains d'efficacité supplémentaires pour l'année 2016.

10 Le Distributeur souligne que la prise en compte des pistes d'efficacité dans
11 l'élaboration de ses prévisions se fait de façon prudente afin de s'assurer que,
12 d'une part, l'efficacité 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'efficacité 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'efficacité
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** Veuillez expliquer de quelle expérience il est question dans la citation « *impacted by*
23 *this recent experience* » de la référence (i).

24 **R2.3**

25 See response to Question 2.1.

26 **2.4** Veuillez lister et décrire les incitatifs de la formule existante dont il est question à la
27 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.

² 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'efficacité 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 testimony³ 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.⁴ 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'efficacité 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.

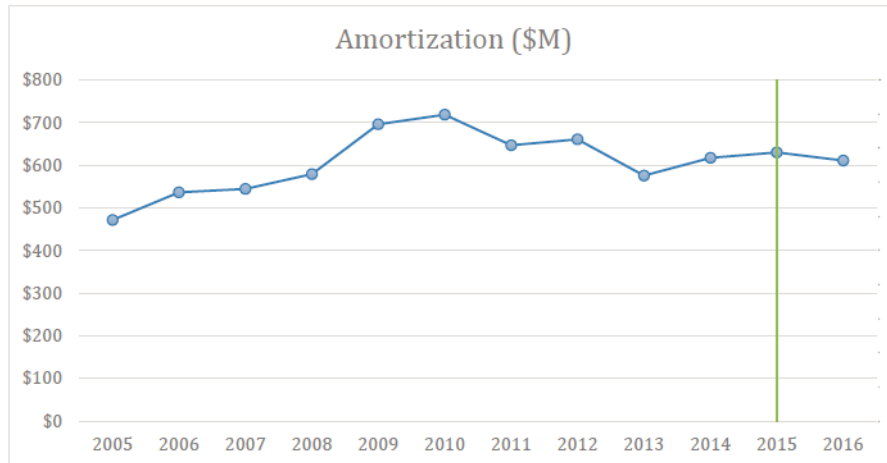
³ HQTD-2, Document 1, page 20.

⁴ R-3934-2015, HQT-3, Document 1 et HQT-6, Document 2.

1 **Préambule :**

2 (i)

Figure 4: HQD Amortization 2005-2016



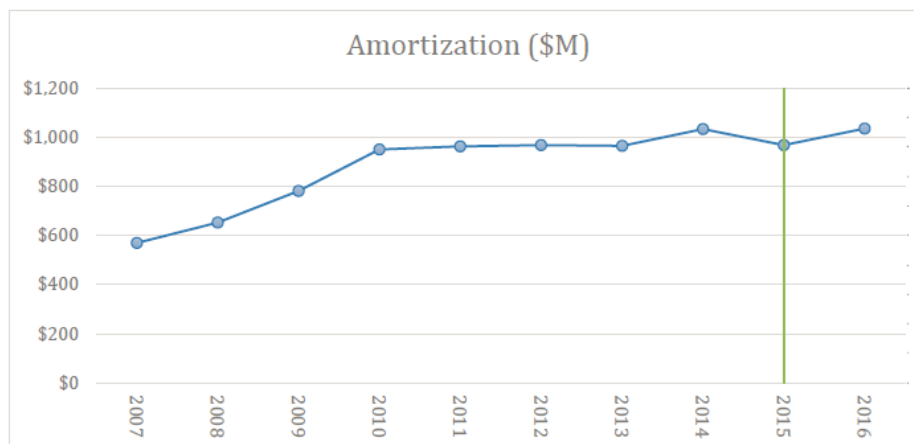
Data Source¹⁸

3

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



Data Source²⁵

11

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 HQT-D-2, Document 1, page 21, responses to~~
36 ~~Régie Question 9.2 in HQT-D-4, Document 1 and AQCIE-CIFQ Questions 10.3~~
37 ~~and 10.4 in HQT-D-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**

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

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

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

20 **4.3** Veuillez démontrer que la recommandation de la référence (iv) amène des incitatifs
21 d'efficacité conformes aux objectifs de l'Article 48.1, tel qu'il est mentionné par
22 Concentric à la référence (iv).

23 **R4.3**

24 ~~See response to Question 4.2.~~

25 **4.4** Outre la notion de « *multi-year* », veuillez indiquer en quoi la recommandation de la
26 référence (iv) est différente de la réglementation actuelle.

27 **R4.4**

28 ~~See response to Question 4.2.~~

29 DÉTERMINATION DU FACTEUR « X »

30 **5. Références :**

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

33 **Préambule :**

- 34 (i) « *There are alternative ways to derive "X" that range from the*
35 *application of judgment applied to past observed productivity gains to*
36 *industry benchmarking studies to complex productivity studies. Both*
37 *benchmarking studies and productivity analyses rely on large data*
38 *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 Total Factor Productivity (“TFP”) Study	Measures the efficiency of a utility in converting all of its inputs (labor, capital, and materials) into outputs (customers serviced)
2 Partial Factor Productivity (“PFP”) Study	Focuses on a subset of these inputs – labor, materials, and other inputs that are deemed to be significantly within utility management’s control.
3 Benchmarking	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 Judgment	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)

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