

**DEMANDE DE RENSEIGNEMENTS N° 1 D'OPTION CONSOMMATEURS (OC) À
HYDRO-QUÉBEC DANS SES ACTIVITÉS DE DISTRIBUTION ET TRANSPORT
(HQDT)**

**ÉTABLISSEMENT D'UN MÉCANISME DE RÉGLEMENTATION INCITATIVE
ASSURANT LA RÉALISATION DE GAINS D'EFFICIENCE PAR LE DISTRIBUTEUR
D'ÉLECTRICITÉ ET LE TRANSPORTEUR D'ÉLECTRICITÉ**

R-3897-2014 – PHASE 1

MRI FOR HQD

- 1. References:**
- i) C-HQT-HQD-0023, p. 10.
 - ii) C-HQT-HQD-0023, p. 14.

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)

Figure 8: HQD Proposed Plan Parameters

Plan Feature	Proposed Parameters*
Term	3 forecast rate years
Coverage	OPEX (currently included in the present parametric formula) Corporate expenses Taxes Amortization expenses (excluding weather normalization and Energy efficiency programs)
Capital Plan	Capital projects approved as they are today; greater than \$10M approved on a project-by-project basis; less than \$10M as part of a yearly investment budget.
Exclusions	Specifically Tracked Items (OPEX beyond the control of the Distributor or other specific budgets) Energy efficiency programs (CAPEX) Return on rate base
Revenue Requirement Determination	Indexed-based revenue cap on covered expenses adjusted for customer growth plus exclusions, and adjustments for Y and Z factors
Inflation factor	Weighted combination of the Distributor's labor inflation and Canada's general inflation, similar to current inflation measure
Productivity (X factor)	Estimated with appropriate consideration of HQD's operating circumstances (see the following section)
Variance/Deferral Accounts	Y Factors to allow for annual adjustments in revenue requirements based on those currently recognized by the Régie (e.g., electricity purchases (pass-on), transmission costs, pension costs, weather normalization, fuel cost, etc.)
Earnings Sharing	To be aligned with the overall MRI ratemaking framework and linked to SQL results
Off-Ramp	Yes, expressed as +/-range from allowed ROE
Service Quality Thresholds	Yes, limited number of performance indicators to be linked to earnings sharing
Autonomous Networks	Covered under the I-X formula (as they are today under the parametric formula)
Unanticipated Events	Z Factors to allow for unanticipated/exogenous events outside of management's control

** Some other features, such as a carry-over mechanism, could be evaluated and incorporated in a subsequent term of HQD MRI.*

Request:

- 1.1 Please confirm that all “Specifically Tracked Items” are outside of HQD management’s general control. If not, please specify.
- 1.2 Please provide a complete list of items that should be included as Y factors for HQD’s MRI.
- 1.3 Please specify the criteria and provide the complete list of items that should be included as Z factors for HQD’s MRI.

MRI FOR HQT

2. References: i) **C-HQT-HQD-0023, p. 17.**

Preamble:

(i) “These challenges are documented in the Elenchus report, and are present for distribution utilities as well, but even more so for transmission companies, such as HQT, where capital represents the vast majority of its revenue requirements. Concentric is not aware of any North American jurisdiction that has adopted an MRI program for a transmission specific entity. Where capital expenditures are large and uneven, a typical I-X program would be a poor fit. This suggests that the Régie should give very careful consideration to HQT’s specific characteristics in choosing an MRI.”

Request:

- 2.1 Please provide a list of references for other North American transmission companies with MRIs.
- 2.2 Please provide a list of integrated utilities that have MRIs for both transmission and distribution activities.
- 2.3 Please provide a list of transmission companies with some type of multi-year cost of service similar to what Concentric is proposing for HQT. For each company, please indicate the comparable Building Block parameters (e.g. OPEX, CAPEX, indexing, etc...)
- 2.4 Please explain how capital volatility may be addressed in an MRI for transmission companies and provide relevant examples.

3. Référence: i) **C-HQT-HQD-0023, p. 21.**

Preamble:

(i) “Based on the goals of Article 48.1 and HQT’s unique characteristics, Concentric recommends a “building block” MRI approach, which is a comprehensive “bottom-up” approach that sets a future revenue path based on a detailed forecast and review of capital and operating expenses.”

Request:

- 3.1 Please explain what the building blocks would be in the multi-year cost of service revenue requirement formulation.
- 3.2 Please explain how each of the building blocks forecasts will be determined.
- 3.3 Please explain how the load forecast will be factored into the revenue requirement forecast. Please explain how it will be adjusted annually.
- 3.4 Please explain how cost benchmarking will be used to determine appropriate productivity improvements.

4. References: i) C-HQT-HQD-0023, p. 22.

Preamble:

(i)

Figure 14: HQT Proposed Plan Parameters

Plan Feature	Proposed Parameters*
Term	3 forecast rate years
Coverage	Comprehensive including full revenue requirements, with exceptions for costs beyond management's control
Capital Plan	Capital projects approved as they are today: greater than \$25M approved on a project-by-project basis; less than \$25M as part of a yearly investment budget.
Revenue Requirement Determination	Multi-year projection of full revenue over term of MRI plan, updated for changes in expenses beyond management's control and for demand for transmission services
Inflation factor	Embedded in revenue requirement forecast
Productivity	Embedded in revenue requirement forecast
Variance/Deferral Accounts	Y Factors to allow for annual adjustments in revenue requirements for costs beyond management's control based on what is currently recognized by the Régie (e.g., pension costs, point to point transmission service revenues, costs related to projects pending approval by the Régie, penalty revenues related to ancillary services.)
Earnings Sharing	To be aligned with the overall MRI ratemaking framework and linked to SQI results
Off-Ramp	Yes, expressed as +/-range from allowed ROE
Service Quality Thresholds	Yes, limited number of performance indicators to be linked to earnings sharing
Unanticipated Events	Z Factors to allow for unanticipated/exogenous events outside of management's control

** Some other features, such as a carry-over mechanism, could be evaluated and incorporated in a subsequent term of HQT MRI.*

Request:

- 4.1 Please provide a complete list of items that should be included as Y factors for HQT's MRI.
- 4.2 Please specify the criteria and provide the complete list of items that should be included as Z factors for HQT's MRI.

PRODUCTIVITY STUDY

- 5. Référence:** i) **C-HQT-HQD-0023, p. 23.**

Preamble:

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

Request:

- 5.1 For each of the four methodologies (Total Factor Productivity Study, Partial Factor Productivity Study, Benchmarking and Judgment), provide a list of utilities and which methodology(ies) they use to determine the "X" factor.

- 6. Référence:** i) **C-HQT-HQD-0023, p. 24.**
 ii) <http://www.hydroone.com/RegulatoryAffairs/Documents/EB-2014-0140%20Tx%20Rates%202015/HONI%20Stakeholder%20Consultation%20Notes,%20February%2011%202015.pdf>

Preamble:

(i) “Benchmarking studies face many of these same challenges. There is an important distinction, however. Benchmarking studies inform the determination of “X”, along with other relevant information and the application of judgment; productivity studies produce an estimate of “X” that frequently begins a lengthy, costly, and complicated discussion of all aspects of the study (or studies in many jurisdictions).”

Request:

- 6.1 Please discuss the challenges facing benchmarking studies.
- 6.2 Please clarify your position on whether benchmarking studies only inform the “X” factor and/or whether benchmarking is also useful for setting forecasts in a building block approach.
- 6.3 Please provide specific examples of the uses of benchmarking.
- 6.4 Please indicate whether Concentric is aware of any recent benchmarking studies in which HQD or HQT participated in. If so, provide the references and any results, preliminary or otherwise, from these studies.
- 6.5 Please confirm that HQT was approached to participate in the current Ontario Energy Board (OEB)-directed Hydro One Transmission benchmarking study mentioned in reference ii).
- 6.6 Subsequent to this request, did HQT agree to participate or not. If so, provide the references and any results, preliminary or otherwise. If it did not, please explain the reasons for not participating.

REGULATORY PROCESS AND FILING REQUIREMENTS FOR THE MRI

- 7. Référence:**
- i) C-HQT-HQD-0023, p. 28.
 - ii) C-HQT-HQD-0023, p. 30.

Preamble:

- (i) *“At the outset, this third objective of Article 48.1 can be met in Phase 3 at the design stage of the MRI, by favoring, for example, simple approaches and a limited number of parameters.”*
- (ii) *“Concentric proposes a rebasing of rates, followed by a two-year MRI term for both HQD and HQT.”*

Request:

- 7.1 Please explain why a full test year cost of service review is not required for both HQD and HQT to establish the base year cost of service and rates.
- 7.2 With respect to HQD, please discuss if, rather than full cost of service, an indexed base year is or is not an approach that Concentric would support. If so, provide comments on which components of the revenue requirement would be indexed and how the indices would be developed and applied.
- 7.3 Please comment on a similar approach for HQT relative to a full cost of service test year for base year.

8. Référence: i) C-HQT-HQD-0023, p. 29.

Preamble:

- (i) *“Even though Hydro-Québec is moving toward a multi-year rate filing, HQD and HQT continue to provide annual filings.”*

Request:

- 8.1 Please list in tabular form the reporting proposed for both HQT and HQD relative to current reporting requirements.
- 8.2 Since Concentric has considerable experience with scorecards, please provide a strawman scorecard for each HQT and HQD.
- 8.3 Please indicate which scorecard performance parameters could include financial rewards/penalties and how these may be structured.