

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

**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

REVISED MRI APPROACH FOR HQT

1. Références :
- i) [C-HQT-HQD-0095](#), p. 6.
 - ii) [R-3981-2016, B-0015](#), p. 3.
 - iii) [R-3981-2016, B-0016](#), p. 8.

Préambule :

In reference i), Concentric Energy Advisors (CEA) provides the formula for the updated hybrid MRI proposal of HQT :

$$\text{Revenue Requirement}_{t+1} = \text{OPEX}_{t+1} + \text{Other Components}_{t+1} + Z_{t+1}$$

Where:

$$\text{OPEX}_{t+1} = [\text{OPEX}_t - \text{Specifically Tracked Items}_t] * [1 + (\text{Inflation}_{t+1} - \text{Efficiency})] + \text{Growth}_{t+1} + \text{MGA}_{t+1} + \text{Adjustment for Recurring Activities}_{t+1} + \text{Specifically Tracked Items}_{t+1}$$

Other Components = Adjustment for expenses subject to variance and deferral accounts beyond management's control, Capital Charges, and Other Residual Items,¹² where:

$$\text{Capital Charges} = \text{Amortization} + (\text{Return on Rate Base} * \text{Rate Base}) + \text{Taxes}$$

Z = Adjustment for costs resulting from unanticipated/exogenous events outside of management's control.

The most recent estimates of service delivery costs for years 2015 to 2017 are presented in Table 1 of reference ii). Also, Table 2 of reference iii) presents elements of the global parametric approach to setting the 2017 *Charges d'exploitation net* (CNE).

Demandes :

- 1.1 For each item in table 1 of reference ii), please specify to which cost category they refer under the hybrid formula proposed by CEA. Please specify if they are covered or not by “I-X”.
- 1.2 Please provide a definition for the “MGA_{t+1}” item of the formula in reference i). Please confirm “MGA_{t+1}” consist of operating expenses only.
- 1.3 Please confirm “MGA_{t+1}” is what is called “*Mise à niveau de la maintenance*” in table 2 of reference iii). If not, please explain if “*Mise à niveau de la maintenance*” is included in the formula of reference i).
- 1.4 Please provide explanations as to why “MGA_{t+1}” should be excluded from the I-X coverage.
- 1.5 Please provide a definition for “*Adjustment for Recurring Activities*” in the formula of reference i). Please specify if “*Adjustment for Recurring Activities*” is part of the current revenue requirement framework and provide references.
- 1.6 Please provide explanations as to why “*Adjustment for Recurring Activities*” should be excluded from the I-X coverage.
- 1.7 Please confirm all CAPEX related costs are included in “*Capital charges*”.
- 1.8 With the exception of changes made to the annual rate filings, please highlight in which ways the revised approach differs from the current regulatory framework in establishing the revenue requirement of HQT.

- 2. Références :** i) [C-HQT-HQD-0108](#), p. 7.

Préambule :

In reference i), HQT presents a table comparing HQD and HQT MRI features as proposed by CEA. For HQT, the “*I-X coverage*” would include “*Charges nettes d’exploitation (CNE) avec ajustements pour la croissance des activités, la pérennité (MGA) et les activités récurrentes (hormis les éléments de suivi particulier - coût de retraite et budget spécifique)*”.

Demandes :

- 2.1 Please confirm that “*ajustements pour la croissance des activités*”, “*pérennité (MGA)*” and “*activités récurrentes*” are not covered by the I-X formula.

TREATMENT OF CAPEX

3. **Références :** i) **C-HQT-HQD-0095, p. 7.**

Préambule :

- i) *“Capital trackers have been used to isolate the rate effects of certain types of expenditures, such as replacements for leak-prone pipe by gas distributors. Large capital projects may be separately tracked while smaller projects rolled into an I-X framework. Or, the utility may be allowed to apply for “K-factor” treatment for projects deemed out of the ordinary course of business and beyond management’s direct control. These latter examples are all derived from electric T&D or integrated utilities, or gas distributors in North America; none have been applied to a transmission specific entity.”*

Demandes :

- 3.1 Please provide the list of utilities where “*Large capital projects may be separately tracked while smaller projects rolled into an I-X framework*”.
- 3.2 Please provide the list of utilities where there is a “*K-factor*” *treatment for projects deemed out of the ordinary course of business and beyond management’s direct control*”.
- 3.3 Please explain what are the benefits/shortcoming of those approaches, as opposed to excluding all of capital costs from I-X coverage as proposed by CEA in the hybrid framework.

4. Références : i) [C-HQT-HQD-0026](#), p. 25-28.

Préambule :

Forecasted investments for HQT for 2017 to 2026 are detailed in reference i). The amounts for the main categories are reproduced in the table below.

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Investissements ne générant pas de revenus additionnels	1158,5	1513,3	1096,6	1082,1	1047,3	1304,5	1396,9	1347,1	1480,9	1050,5	1050,5
Maintien des actifs	910,5	849,7	822,2	855,7	894,8	938,4	1020,6	1177,1	1223,9	917,5	917,5
<i>(moins de 25 M\$)</i>	438,3	410,2	458,4	483,4	496,1	525,6	543,1	555,1	568,1	579,1	597,4
Maintien et amélioration de la qualité	137	266,5	255,8	208	134,5	348,1	358,3	152,0	239,0	115,0	115,0
<i>(moins de 25 M\$)</i>	50,9	55,8	54,0	52,0	50,3	50,0	58,0	60,0	60,0	60,0	60,0
Respect des exigences	111	397,1	18,6	18,4	18,0	18,0	18,0	18,0	18,0	18,0	18,0
<i>(moins de 25 M\$)</i>	35,8	17,1	18,0	18,0	18,0	18,0	18,0	18,0	18,0	18,0	18,0
Investissements générant des revenus additionnels	416,7	805,2	677,6	453,5	-586,6	231,4	235,7	309,2	382,7	218,3	218,5
Intégration de production et Interconnexions	443,6	552,1	530	159,5	-962,3	26,2	30,1	103,8	177,4	12,6	12,6
Croissance de charge locale	-26,9	253,1	147,6	294	375,7	205,2	205,6	205,4	205,3	205,7	205,9
Investissements globaux	1575,2	2318,5	1774,2	1535,6	460,7	1535,9	1632,6	1656,3	1863,6	1268,8	1268,9

Demandes :

- 4.1 In preparing the evidence, did HQT/CEA consider including capital charges of investment projects under 25 M\$ under the I-X coverage ? If they were considered, please specify the reasons for excluding them.
- 4.2 In preparing the evidence, did HQT/CEA consider creating a separate capital tracker for the investment categories “*Maintien des actifs*” et “*Maintien et amélioration de la qualité*” ?
- 4.3 In preparing the evidence, did HQT/CEA consider creating a separate capital tracker for investments generating additional revenues ?