

R-3897-2014

DEMANDE DE RENSEIGNEMENT N° 1 DU REGROUPEMENT NATIONAL DES CONSEILS RÉGIONAUX DE L'ENVIRONNEMENT DU QUÉBEC (« RNCREQ ») À HQT

A. Rapport d'experts

RÉFÉRENCE 1 :	R-3897	HQTD-2	Doc. 1	p. 16-22
RÉFÉRENCE 2 :	R-3897	HQTD-2	Doc. 1.3	p. 6-10

Préambule :

N.B. La référence 2 constitue un nouveau texte dans le rapport des experts Coyne et Yardley, qui remplace la référence 1.

- 1.1. Please summarize the differences in the proposals set out in Reference 1 and in Reference 2.
- 1.2. Please explain in detail in what ways the proposal in Reference 2 is superior to that in Reference 1.

Préambule :

On page 21, Reference 1 proposed a “building block” approach, described as a “comprehensive ‘bottom-up’ approach”, indicating that this is “less of a blunt instrument than the ‘top-down’ I-X approach”.

Reference 2 proposes a hybrid approach, including an I-X approach for OPEX.

- 2.1. Please explain in detail why the experts now consider the “top-down” I-X approach to be preferable for OPEX.

Citation (Reference 2, page 6):

The impact of HQT’s capital expenditures would be reflected in rates by adjusting corporate fees, amortization, taxes and the return on rate base to

correspond to changes in Rate Base each year as the non-parametric nature of HQT's CAPEX does not readily accommodate an I-X program.

- 2.2. Please explain in detail to what charges the term "corporate fees" refers.
- 2.3. Please explain in detail why corporate fees should be adjusted to correspond to changes in Rate Base each year, rather than being included in the parametric I-X program.

Citation (Référence 2, p. 9):

For reasons described in Section 5 of Concentric's Initial Report (HQTD-2, Document 1), the productivity or "X" factor should be established by the Régie with judgment being a major, if not primary, determinant.

- 3.1. Please describe in detail the factors on which the Régie should rely in applying its judgement with respect to the choice of the X factor.

Citation (Référence 2, p. 9):

The incentive to pursue sustainable efficiency improvements throughout HQT's operations is a principal objective of the MRI and recognized in HQT's proposal. The parameters of the ESM must, therefore, preserve the ability of HQT to retain a meaningful portion of the savings that are generated by efficiency improvements, particularly for efficiency gains that require an up-front investment. A strong incentive will encourage HQT to pursue efficiency gains in all areas of its OPEX including payroll (salaries and overtime), benefits, and fees for external services.
(underlining added)

- 4.1. Do payroll (salaries and overtime), benefits, and fees for external services require a significant up-front investment?
- 4.2. If not, please explain in detail why HQT requires a "strong incentive" to encourage it to pursue efficiency gains in payroll (salaries and overtime), benefits, and fees for external services.

Citation (Référence 2, p. 9):

In addition, the integration of the MGA as part of the MRI proposal is explicitly designed to optimize HQT's expenditures on maintenance when there are asset management decisions to be made with respect to whether to maintain the useful life of a facility through a maintenance solution or whether it would be better for HQT's customers to address facility condition through a capital investment solution (or a combination of both). The MGA, by design and through its application, will yield efficient outcomes that impact both OPEX and CAPEX. The OPEX efficiency incentives and MGA each contribute to an alignment of customer and HQT shareholder interests. (underlining added)

- 5.1. Does the statement that "The MGA ... will yield efficient outcomes" represent your expert opinion, based upon a full review of the MGA mechanism? If so, please describe the review you undertook and the reasons for your conclusion.

Citation (Référence 2, p. 9):

The Hybrid MRI approach maintains the visibility and review of HQT's capital program for the Régie, as specified by statute. Thus, projects greater than \$25 million are subject to a project-specific review and approval, and smaller projects are grouped together and submitted with HQT's annual investment budget. While this may not be an incremental advantage of the Hybrid MRI relative to the existing ratemaking model, it nonetheless represents an integral element of the overall proposal. It is particularly important with respect to HQT because of the contribution of the return of and on capital to the overall revenue requirement. These reviews provide an opportunity to review proposed capital projects at a critical phase in their development. HQT's annual MRI filings will include rate base updates that are consistent with the annual capital expenditure filings and based a forecast of plant to be placed in service during the rate year.

- 6.1. Under your proposal, is the amount added to rate base for new capital projects equal to the amount approved by the Régie in the s. 73 proceedings, or the amount actually spent?
- 6.2. More specifically, what are the provisions for:
- 6.2.1. cost reductions or overruns?
 - 6.2.2. situations where plant that was forecasted to be placed in service during the rate year was not, in fact, placed in service during the rate year?

6.2.3. prudency reviews?

Citation (Référence 2, p. 9):

One feature common to the existing model and all three MRI approaches (i.e., the I-X, the Building Block, and the Hybrid MRI) is the exclusion of certain items that are beyond HQT's control from the incentive mechanism. These items, which include pension costs, point-to-point transmission service revenues, costs related to projects pending approval by the Régie, and penalty revenues related to ancillary services are currently subject to variance accounts and will be trued up on an annual basis. Exclusion from the incentive mechanism ensures that neither HQT nor its customers will be exposed to a financial penalty or reward for circumstances that are beyond their control.

6.3. Please explain in what sense “projects pending approval by the Régie” are “beyond HQT's control”.

B. Caractéristiques du MRI du Transporteur

RÉFÉRENCE 1 :	R-3897	HQTD-3	Doc. 1.1
RÉFÉRENCE 2 :	R-3897	HQTD-3	Doc. 1.2

Citation (Réf. 1, p. 11) :

La réduction du temps d'examen des ajustements annuels ainsi que du processus de traitement allégé à être adopté par la Régie selon une procédure par voie de consultation.

6.4. Veuillez confirmer que, selon la proposition d'HQT, les audiences publiques orales auraient lieu chaque trois ans.

6.5. Veuillez préciser si, par l'expression « par voie de consultation », le Transporteur propose une audience publique sur dossier ou un autre type de consultation?

6.5.1. S'il s'agit d'un autre type de consultation, cette consultation mènerait-elle à l'émission d'une décision motivée de la Régie ?

Citation (Réf. 1, p. 11) :

De plus, la proposition du Transporteur n'ajoute aucune nouvelle étape réglementaire. Elle ne remet pas en cause le processus d'examen par la Régie des rapports annuels du Transporteur et le processus d'autorisation des projets d'investissement.

- 7.1. Veuillez confirmer que le processus d'examen par la Régie des rapports annuels du Transporteur n'implique ni la consultation des parties intéressées ni une décision motivée de la Régie.
- 7.2. Le cas échéant, veuillez expliquer pourquoi vous considérez qu'il n'est pas nécessaire de consulter les parties intéressées sur les « ajustements annuels » ni que la Régie les adopte par le biais d'une décision motivée.

Préambule (Réf. 2, p. 7) :

Sous le titre, « Couverture de la formule I-X », le tableau indique que, pour HQD, les frais corporatifs sont inclus dans la formule, tandis que, selon la proposition d'HQT, ils seraient exclus.

- 8.1. Veuillez expliquer en détail pourquoi les frais corporatifs devraient être traités de façon différente pour HQT, par rapport à la proposition d'HQD.