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MEMBRE DU BARREAU DU QUÉBEC

Montréal, le 28 mai 2015

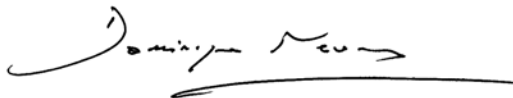
M^e Véronique Dubois, Secrétaire de la Régie
Régie de l'énergie
800 Place Victoria
Bureau 255
Montréal (Qué.)
H4Z 1A2

Re: Dossier RDÉ R-3897-2014.
Hydro-Québec TransÉnergie et Hydro-Québec Distribution – Mécanisme de
réglementation incitative (MRI).
**Questions supplémentaires à *Elenchus Research Associates, inc.* par l'*Association
québécoise de lutte contre la pollution atmosphérique (AQLPA)* et *Stratégies
Énergétiques (S.É.)*.**

Chère Consœur,

Nous serions gré à la Régie si celle-ci pouvait transmettre à la firme *Elenchus Research Associates, inc.* les quelques questions supplémentaires ci-jointes de *Stratégies Énergétiques (S.É.)* et de l'*Association québécoise de lutte contre la pollution atmosphérique (AQLPA)* au présent dossier et faire part de ses réponses.

Espérant le tout à votre entière satisfaction, nous vous prions, Chère Consœur, de recevoir l'expression de notre plus haute considération.



Dominique Neuman, LL.B.
Procureur de *Stratégies Énergétiques (S.É.)* et de l'*Association québécoise de lutte contre la
pollution atmosphérique (AQLPA)*

c.c. La demanderesse et les intervenants.

RÉGIE DE L'ÉNERGIE
DOCKET NO. R-3897-2014

ADDITIONAL QUESTIONS TO ELENCHUS RESEARCH ASSOCIATES, INC.

BY
STRATÉGIES ÉNERGÉTIQUES (S.É.) / ENERGY STRATEGIES (E.S.)
ASSOCIATION QUÉBÉCOISE DE LUTTE CONTRE LA POLLUTION ATMOSPHÉRIQUE /
QUEBEC ASSOCIATION TO FIGHT AGAINST AIR POLLUTION (AQLPA)

ADDITIONAL QUESTION SE-AQLPA-1-1

Reference(s) :

- i) **ÉLENCHUS RESEARCH ASSOCIATES, INC.**, Régie de l'énergie Docket no. R-3897-2014, Exhibit A-0003, page 27 (adobe 33), lines 1-18 :

IR/PBR was originally described as “light-handed” regulation. The formulaic approach of price control regulation was expected to reduce regulatory costs because the PBR regimes tend to be streamlined compared to traditional cost of service regulation, at least initially. It was also argued that price controls streamlined the regulatory process because it reduced the regulator’s need for information as a basis for determining the prudent level of costs. In theory, the efficiency incentive motivates the utility to pursue efficiency without a detailed review. Counter-arguments quickly arose, however.

Observers noted that under a mature price control regime the regulator still needs to undertake comprehensive reviews to establish an appropriate productivity target, to ensure that the utility is optimizing service levels, and to ensure that the utility is prudently managing its operations in the long-run interests of the customers it serves.

IR/PBR seeks to reduce the regulatory burden overall and over the long term, but specific proceedings may well be more resource intensive than a one-year cost of service proceeding. As well, the analytical work to establish productivity measures

and assess efficiency performance can be significant. For example, total factor productivity (“TFP”) studies require a significant investment in data and analysis. It is important to consider cost and revenue data carefully – on an aggregated and disaggregated basis – and for both the utility and for a peer group; historical and projected.

[Bold and underlined by SE-AQLPA]

- ii) During the May 28 2015 hearing, Mrs. Chaplin from Elenchus expressed the view that a PBR does not necessarily translate in a reduction of regulatory costs but more into a shift of regulatory costs to more value-added regulatory activities.

Question (s) :

- a) Please elaborate further on the type of value-added regulatory activities (and regulatory costs) that may be specifically required if the PBR chosen is based on Plans to attain objectives, including public policy objectives (such as in the RIOO model in the UK, or such as Ontario 4th Generation PBR or such as the Australian model). In your answer, please take into account a) the activities that will be needed to design the PBR, b) the activities that will be needed to design the objectives and the Plans to attain them, c) the activities needed to design the evaluation process and method, and d) the activities needed to report and evaluate the results during the multi-year Plan.
- b) Would you agree however that some of these activities could very well take place even under a COS+ROE type of regulation. For example, setting Plans to attain objectives, including public policy objectives (with the regulatory costs associated with such activities) may very well exist under a COS+ROE type of regulation. There could be Plans to deliver energy efficiency programs or Plans to maintain and improve reliability of transmission. In this context, we are trying to identify which additional regulatory costs would really be caused by the implementation of an objectives and plan-based PBR and which of these costs could be taking place regardless of the existence of an objectives and plan-based PBR. Could you elaborate on this matter.

ADDITIONAL QUESTION SE-AQLPA-1-2

Reference(s) :

- i) **ÉLENCHUS RESEARCH ASSOCIATES, INC.**, Régie de l'énergie Docket no. R-3897-2014, Exhibit A-0003, page 27 (Adobe 33), lines 22-30 :

***Negotiated solutions** reduce the burden on the regulator and may be less resource-intensive for all parties than a fully litigated proceeding. A negotiated solution may also increase acceptance by the utility and stakeholders. **However, the settlement must be consistent with the principles of IR/PBR and deliver on the regulator's objectives. A first PBR plan might not be conducive to a negotiated settlement if the regulator is concerned with ensuring a full exploration of the issues and the trade-offs between objectives.** However, subsequent rate plans may be more amenable to negotiation once the regulator's expectations are clear and there is more information about how the utility actually performs under PBR.*

[Bold and underlined by SE-AQLPA]

Question (s) :

- a) Especially when public policy objectives are at stake, it is important for the regulator to maintain a control on the decisions taken, beyond the negotiations and trade-offs taking place between stakeholders. Based on your experiences, do you have any examples of the manner in which regulators have dealt with this issue and decided the extent upon which negotiated solutions could be relied upon in the design or implementation of a PBR (especially when public policy objectives were a part of that PBR).

ADDITIONAL QUESTION SE-AQLPA-1-3

Reference(s) :

- i) **ÉLENCHUS RESEARCH ASSOCIATES, INC.**, Régie de l'énergie Docket no. R-3897-2014, Exhibit A-0003, pages 38-39 (Adobe 44-45) :

Protection against the deterioration of service quality was seen by the AUC as a key component of a successful PBR regime. The AUC's model therefore sought to ensure that service quality was not

*compromised in pursuing cost reductions. The evidence of the PBR proceeding indicates that all parties agreed that some kind of enforcement mechanism was necessary to ensure that the utilities would meet their performance standards. None of the companies argued against penalties for failure to meet service quality targets, when the failure was within their control. Consumer groups were interested in incorporating a penalty scheme into the regime. However, there was concern that a penalty scheme would involve significant burden for utilities and the regulator. **The AUC accordingly adopted a penalty mechanism that could be utilized only in the event of clearly unacceptable service quality performance.***

[Bold and underlined by SE-AQLPA]

Question (s) :

- a) Please describe what was considered as a « *clearly unacceptable service quality performance* » under the Australian PBR.

- b) Generally speaking, when a PBR provides for a « *penalty* », are we talking about a monetary adjustment that will ultimately translate into a reduction on the return awarded to the utility under the regime ? Please elaborate.

ADDITIONAL QUESTION SE-AQLPA-1-4

Reference(s) :

- i) **ÉLENCHUS RESEARCH ASSOCIATES, INC.**, Régie de l'énergie Docket no. R-3897-2014, Exhibit A-0003, page 59 (adobe 65), lines 12-14 (Australia) :

*Within the term, rates are smoothed using a CPI-X escalator. This mechanism provides an efficiency incentive **since variances from the annual allowed revenue are retained by the utility.***

[Bold and underlined by SE-AQLPA]

Question (s) :

- a) Under the Australian PBR, must we understand that there is no sharing mechanism of variances at the end of the year ?

ADDITIONAL QUESTION SE-AQLPA-1-5

Reference(s) :

- i) **ÉLENCHUS RESEARCH ASSOCIATES, INC.**, Régie de l'énergie Docket no. R-3897-2014, Exhibit A-0003, pages A-88 (Adobe 177) and ff, Definitions.

Question (s) :

- a) For the record, please provide a definition of the « *Y Factor* ». It was omitted in your definitions.
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