AQCIE/CIFQ

Demande de renseignements numéro 2 à Hydro-Québec
R-3905-2014 Le 7 octobre 2014

DEMANDE DE RENSEIGNEMENTS DE L'ASSOCIATION QUÉBÉCOISE DES CONSOMMATEURS INDUSTRIELS D'ÉLECTRICITÉ (AQCIE) ET DU CONSEIL DE L'INDUSTRIE FORESTIÈRE DU QUÉBEC (CIFQ) DANS LE CADRE DE LA DEMANDE DU DISTRIBUTEUR RELATIVE À L'ÉTABLISSEMENT DES TARIFS D'ÉLECTRICITÉ POUR L'ANNÉE TARIFAIRE 2015-2016

Information Requests directed to Hydro Quebec R-3905-2014, HQD-3 English Translation

First Topic: Financing Principles

Reference: Company evidence page 5-7

Preamble:

The company discusses two main types of variance and deferral accounts

1.1 Does HQD accept the general principle of the fair rate of return on common equity as enunciated by the Supreme Court of Canada that adopted Mr. Justice Lamont's definition:

> "that the company will be allowed as large a return on the capital invested in the enterprise as it would receive if it were investing the same amount in other securities possessing an attractiveness, stability and certainty equal to that of the company's enterprise."

1.2 Does HQD accept that using the weighted average cost of capital for variance and deferral accounts includes both the deemed common equity ratio and fair ROE as set by the Regie, consistent with the above definition?

1.3 Does HQD accept that "attractiveness, stability and certainty" essentially means the underlying business risk of the regulated entity? If not why not?

1.4 Would HQD accept that business risk is normally defined as having a short run and a long run dimension with short run being the return on capital, that is, the ability to earn the allowed ROE, and long run being the return of capital, that is, the risk of stranded assets?

1.5 In terms of the maturity of financing would HQD also accept the matching principle that long run assets should generally be financed with long run financing, such as long term debt? If not please explain in detail why not?

1.6 Please provide the average depreciation rate for HQD's physical plant and equipment and the associated estimated useful life for the 2015 test year.

1.7 Please provide the value weighted average maturity of HQD's debt outstanding as of the end of fiscal 2013 and the forecast for the 2015 test year.

1.8 Please confirm that the first deferral account as defined on page 3 "normally" should balance out to zero, but due to the exceptional nature of the current balance it will be amortised over five years.

1.9 Please explain in detail how financing a five year receivable with long term debt of the maturity given in 1.7 above satisfies the matching principle.

1.10 Please discuss in detail whether the five year deferral has an attractiveness, stability and certainty equal to the company's enterprise that is its physical plant and equipment.

Second Topic: Specific regulatory decisions

Reference: Company Evidence, pages 7-15

Preamble:

The Company discusses various regulatory decisions awarding costs to accounts that HQD regards as comparable

2.1 For the ATCO Gas LBA please provide the average balances presented to the AUC when it rendered its 2013 decision, where ATCO Gas stated that the balance could be carried for several years.

2.2 Please confirm that the AUC review is still outstanding, but that the key criteria were materiality of the account and its term (outstanding).

2.3 Please compare the materiality of the ATCO Gas LBA with the HQD requested deferral account (% of rate base over the five year period)

2.4 For the NB Power rate discussed on page 11 please indicate the time period (and estimated term) of the nuclear refurbishment account referred to and discuss whether this has more similarities with a standard allowance for funds used during construction (AFUDC) account than the deferral accounts discussed on page 3.

2.5 Please indicate whether HQD is aware that the Toll Stabilisation Account (TSA) was established by the NEB so that the TransCanada Mainline could charge rates less than its cost of service due to persistent load losses. Further can HQD confirm that the Mainline argued that the recovery of the balance in the TSA was highly uncertain and contingent on a recovery of its throughput?

Third Topic: HQD’s Position

Reference: Company Evidence pages 15-19

Preamble: The company lays out its positon justifying the use of the cost of capital for its deferral accounts

3.1 Please confirm that whenever a regulated entity finances an asset currently not included in rate base then its common equity ratio may deviate from that deemed for assets in the rate base. How much it deviates depends on how the asset is financed.

3.2 Please confirm that deemed common equity ratios, such as HQD’s 35% ratio, are based on underlying business risk, not short term issues.

3.3 Please confirm that HQD’s funded debt ratio would stay at 65% were it to finance short term deferrals with commercial paper at the rate set by the Ontario Energy Board for similar variance accounts.

3.4 Please provide any excerpt from any bond indenture or rating agency reports that indicate that HQD’s ability to issue long term debt would be adversely affected by financing a short term deferral with unfunded short term debt.

3.5 Please discuss whether HQD has considered securitising or factoring its short term variance/deferral accounts and if not why not.