Demande de renseignements numéro 4 au Distributeur
R-3905-2014 Le 1er décembre 2014

Questions du Dr Booth adressées à Concentric Energy Advisors relativement à leur rapport produit comme pièce HQD-3 Document 3.1

First Topic: **Regulatory and Financial Principles**

Reference: **Concentric Energy evidence pages 10 & sq.**

Preamble:

Concentric discuss basic legal and economic principles

1.1 Would Concentric suggest that the balance in a deferral account constitutes "invested capital," "capital investment" or a prudently acquired asset, necessary to provide service? If so please provide all supporting documentation for defining a deferral account as such.

1.2 Would Concentric agree that where "capital Investment" is referred to by the Supreme Court of Canada (page 10) in its definition of a fair rate of return it specifically states "(which will be net to the company)" and that this refers to the gross plant and equipment adjusted (or net) of accumulated depreciation? If not please explain what the passage in the quoted definition means.

1.3 Concentric quotes Bonbright (page 14) in terms of the requirement to include working capital in rate base:

a) Please confirm that by working capital Bonbright means "net working capital" that is current assets minus current liabilities. If not, please confirm that if the gross working capital is included in rate base it means that items like accounts payable need to be included in the WACC as financing with a cost rate of zero. If not please explain in detail.

b) Please confirm that with regulation using a forward test year it is the forecast (net) working capital required to provide service that should be included in rate base. If not why not?

c) Please explain whether the balance in a deferral account represents any of the forecast working capital items referenced by Bonbright: inventory, petty cash balance; prepayments, minimum bank balances; or a cost of providing service.

1.4 In the example on pages 17-18 please confirm that if a utility is deemed a 60:40 capital structure based on its underlying business risk and then unexpectedly acquires a significant lower risk short term asset then Concentric would agree that its business risk has declined and the regulator could respond by lowering the common equity ratio or allowed ROE? If not please explain in detail why the unexpected acquisition of a new lower risk asset has no impact on the risk of the utility.

1.5 Please confirm that Concentric is aware of the Stores Block decision by the Supreme Court of Canada and the recent regulatory decision of the Alberta Utilities Commission Decision 214-297 where the AUC quotes its decision 2013-417 that

> ***… [t]hat it is required to remove from rate base and customer rates assets that are not presently used, are not reasonably used and are unlikely to be used in the future to provide utility services. These assets may include obsolete property, property to be abandoned, overdeveloped property and facilities for future needs, and-property used for non-utility purposes and surplus land. These are examples of property that the Commission may exclude from rate base that the Alberta Court of Appeal has identified in the Carbon, Harvest Hills and Salt Caverns decisions. Indeed, in Salt Caverns, the Court of Appeal said in paragraph 31 that the "rate-regulation process allows and compels the Commission to decide what is in rate base, i.e. what assets (still) are relevant utility investment" according to the used and required to be used test. In Harvest Hills the Court of Appeal stated in paragraph 14 that "once it was determined that there was surplus land, it should have been removed from rate base as no longer 'required to be used'…" This implies that the Commission and the utility each have an obligation to remove assets from rate base (remove the costs from utility rates) when they cease to be "relevant utility investment."***[9]

1.6 Please indicate on what basis Concentric Energy judges that the balance in a deferral account reflecting past cost variances satisfies the "used and useful" test for an "asset" to remain in rate base and be allowed the WACC.

1.7 Further please confirm that Concentric is aware of the following passage from AUC Decision 2013-417

> ***In order to give effect to the court's guidance that the "rate-regulation process allows and compels the Commission to decide what is in the rate base, i.e. what assets (still) are relevant utility investment on which the rates should give the company a return," the Commission directs each of the utilities to review its rate base and confirm in its***

> ***next revenue requirement filing that all assets in rate base continue to be used or required to be used (presently used, reasonably used or likely to be used in the future) to provide utility services. Accordingly, the utilities are required to confirm that there is no surplus land in rate base and that there are no depreciable assets in rate base which should be treated as extraordinary retirements and removed because they are obsolete property, property to be abandoned, overdeveloped property and more facilities than necessary for future needs, property used for non-utility purposes, property that should be removed because of circumstances including unusual casualties (fire, storm, flood, etc.), sudden and complete obsolescence, or un-expected and permanent shutdown of an entire operating assembly or plant. As stated above, these types of assets must be retired (removed from rate base) and moved to a non-utility account because they have become no longer used or required to be used as the result of causes that were not reasonably assumed to have been anticipated or contemplated in prior depreciation or amortization provisions. Each utility will also describe those assets that have been removed from rate base as a result of this exercise. At this time, the Commission will not require the utilities to make additional filings to verify the continued operational purpose of utility assets.*** [10]

1.8 Please indicate whether Concentric agrees with the AUC's interpretation of the Supreme Court of Canada's Stores Block decision that assets that are no longer used and useful due to damage caused by "fire, storm or flood" should be removed from rate base and are for the shareholder's account, not that of the rate payers. If not please explain why not.

1.9 Please confirm that Dr. Booth (contrary to the statement on page20) only refers to the fair rate of return on the balance in the deferral account and not HQD's WACC. If not please reference any passages in Dr. Booth's testimony where he comments on HQD's WACC or the relevant embedded cost of debt to be included in HQD's rates.

1.10 Please indicate and provide details on any discussions Concentric Energy has had with any financial institution about selling the $380M special treatment deferral account to either a financial institution or a receivables backed commercial paper conduit to confirm the statements made at the bottom of page 20 and the top of page 21.

Second Topic: Regulatory Decisions

Reference: Concentric Energy evidence pages 24 & sq.

Preamble:

Concentric discusses certain regulatory decisions

2.1 With reference to the TransCanada Mainline decision can Concentric confirm the following passage from RH-3-2011:

> ***"The Mainline is in an unprecedented position. No major NEB regulated natural gas transmission pipeline has ever been affected by market forces to the extent that the Mainline is now affected. Throughput on the Mainline has decreased significantly, and as a result, Mainline tolls have increased substantially over a short period of time.***
>
> ***The future of the Mainline depends on how TransCanada is able to respond to the changes to its business environment. The Mainline faces increasing competition for gas supply from intra-Alberta demand, other ex-Western Canada Sedimentary Basin (WCSB) pipelines and new markets for WCSB gas. The Mainline competes with pipelines from emerging shale and tight gas basins in the United States of America (U.S.), which deliver gas to eastern markets. The Mainline must adjust to this new environment because eastern consumers may not renew contracts for long-haul service and bypass infrastructure may be built."***
>
> ***Tolls cannot continue to increase each year in response to throughput decline. Costs associated with throughput variation have been passed to remaining Firm Transportation service (FT) shippers. Those shippers have borne all of the costs of, and the risk associated with, competition. If this were to continue, the Mainline's competitiveness could further erode and exacerbate the root cause of throughput declines.***

2.2 Can Concentric confirm that during that hearing some parties felt that the risks faced by the Mainline were so severe that the assets in the Northern Ontario Line (NOL) were no longer used and useful and should be written down to zero and further that TransCanada itself wanted to reallocate accumulated depreciation to the NOL to dramatically reduce its book value? If not please explain why the NEB decision and example would be put forward to justify treatment of an HQD deferral account.

2.3 Please indicate whether in Concentric's judgment, and like the Mainline, HQD is in an "unprecedented position" and is now affected by market forces to a degree that no other utility regulated by the Regie has ever been, and that the throughput (use) of HQD's facilities has decreased significantly causing a substantial increase in HQD's rates over a short period of time. If Concentric cannot so confirm, please explain what relevance the NEB decision has to the situation faced by HQD.

Third Topic: **Response to Intervenor evidence**

Reference: **Concentric Energy evidence page 31**

Preamble:

Concentric discusses AQCIE-CIFQ evidence

3.1 Please indicate where in Dr. Booth's evidence he suggests any of the treatments in the example created by Concentric in Figure 1. Please be specific in referencing passages in Dr. Booth's testimony.

3.2 On page 35 Concentric indicates that Dr. Booth states that the balance "did not result from and were not necessary to provide service." Please confirm that this is not a direct quote and that Dr. Booth states that it is "not necessary to provide service." Is it Concentric's view that the balance in the deferral account is necessary to provide future service, that is, that a regulatory asset is used and useful in the same sense as a physical asset in providing future service? If the answer is yes please explain how a cost variance in the past affects the provision of future service?

3.3 Further to 3.2 above, is it Concentrics' view that utilities that do not operate with the range of deferral accounts available to HQD cannot offer appropriate service?

3.4 Is Concentric aware that Enbridge Gas Distribution Inc (EGDI) and Union Gas operate without weather deferral counts? In Concentric's view if particularly bad weather caused significant losses to either EGNB or Union would the inability to pass these losses to a deferral account to be passed on to future rate payers impair their ability to provide service? Please explain in detail how this can happen.