DEMANDE DE RENSEIGNEMENTS NO 1 D'OPTION CONSOMMATEURS (OC) À PACIFIC ECONOMICS GROUP (PEG)

IMPLANTATION D'UN MÉCANISME DE RÉGLEMENTATION INCITATIVE (MRI) – PHASE 3

R-4011-2017

Inflation factor I

1. Référence : **i) Pièce B-0178, HQD20-D2, p. 21.**
ii) Pièce B-0177, HQD20-D1, p. 8-9.
iii) Pièce C-AQCIE-CIFQ-0032, p. 51.

Préambule :

In reference i), Mr. Coyne quotes HQD's evidence that presents the Distributor's proposal for the inflation factor :

> *"The proposed "I" is a three-part index, with weights based on HQD's projected expenses in year 1 of the 4-year MRI.*
>
> *1) Compensation Growth - fixed weighted index of average hourly earnings in Québec (all industries) to establish the indicator of changes in salary costs (weight: 16.6%)*
> *2) Costs Related to Assets - implicit index of business investment, the fixed capital investment component, published in the quarterly economic accounts of Québec's GDP (weight 56.8%)*
> *3) Other Expenses - the annual variations in the Québec CPI services, according to the method proposed by the Régie (weight: 26.6%).*"

In reference ii), HQD discusses the biases associated with using non-adjusted average hourly earnings of the EERH survey.

In reference iii), Dr. Lowry concludes "*that the* $IPC^{Québec}$ *is a reasonable subindex for HQD's inflation measure if the formule d'indexation applies to fuel costs. The GDPIPI for final domestic demand in Canada merits consideration if the Régie decides to add a price subindex for fuel cost to the inflation measure".*

Demande :

1.1 Has Dr. Lowry considered HQD's 3 factor inflation index proposal? If so, please provide comments. Please address HQD's remarks on biases associated with non-adjusted average hourly earnings.

1.2 Has Dr. Lowry considered whether a 3 factor inflation index and proposed weightings, in particular including costs related to assets, as proposed by HQD, affects his conclusion for the appropriate I factor? If so, please comment.

Productivity factor X

2. Référence :
i) Pièce C-AQCIE-CIFQ-0032, p. 14.
ii) Pièce C-AQCIE-CIFQ-0032, p. 29.
iii) Pièce B-0178, HQD20-D2, p. 23.

Préambule :

i) *"PMF trends of the U.S. and Canadian economies are detailed in Table 2. It can be seen that the PMF trend of the U.S. economy was fairly brisk, averaging 1.06% annual growth annually from 1998-2015. A sizable adjustment to the X factor is thus warranted in a U.S. formule d'indexation when the GDPPI is used as the inflation measure. The PMF trends of the Canadian and Québec economies have, meanwhile, been much closer to zero. This reality complicates comparisons of X factors in the United States and Canada.*"

ii) *"Due to the limitations of Canadian data, regulators in Alberta and British Columbia have based X factors in their MRIs for gas and electric power distributors on the productivity trends of national samples of U.S. distributors. The Ontario Energy Board used estimates of U.S. productivity trends to choose the productivity target in its third-generation MRIs for power distributors but used Ontario data in two other MRIs.*"

Demande :

2.1 What is the decline in productivity growth for US and Canadian utilities? If available, please provide these data, together with comments.

2.2 Please discuss if/how the differences between US and Canada utility productivity trends and the underlying factors (e.g. lower customer/load additions, declining use per customer, etc.),

influence a determination of the appropriate X factor for HQD. Please add any other relevant comments.

2.3 In reference iii), Mr. Coyne includes Table 6. Please discuss if/how these data relate to the appropriate input price differential for HQD.

3. Référence : i) Pièce C-AQCIE-CIFQ-0032, p. 56.
ii) Pièce B-0178, HQD20-D2, p. 20.

Préambule :

Dr. Lowry notes in reference i): *"There is no credible argument for setting stretch factors at zero just because utilities have operated for a few years under a cap on the revenu requis for charges d'exploitation."*

Mr. Coyne notes in reference ii): *"Furthermore, the Régie has already accounted for an expectation that HQD should have economies of scale built into its formula with the G factor. By selecting a G of 0.75% of HQD's customer growth, the Régie has built in additional efficiency gains beyond those captured in the X factor. The Régie recognized this relationship in its Phase I Decision:"*.

Demande :

3.1 Did Dr. Lowry consider how a 1.5% annual reduction in *charges d'exploitation* affects the determination of the X factor and is this taken into account in the recommendations for X and stretch factors?

3.2 Did Dr. Lowry examine data for HQD and other utilities regarding growth factors and the relationship to the appropriate X and stretch factors? If so, please comment.

3.3 Given the Régie' decision to allow a 0.75% growth factor, please provide an opinion regarding how the growth factor may or may not affect exclusions and the appropriate threshold for Y Factors.

Impact of HQD IRM Formulation

4.

Préambule :

It would assist OC and other parties in the Phase 3 proceeding to have a simulation/projection of the 2018-2021 distribution revenue requirement (excluding transmission and cost of power) to understand the impacts on the revenue requirements and rates based on the recommendations of PEG for the IRM Formula.

Demande :

4.1 Has Dr. Lowry examined/projected the 2018-2021 revenue requirement and return on equity under the IRM Formula? If so, please provide this.

If not, please provide a simulation/projection of the 2018-2021 HQD Distribution Revenue Requirement (excluding transmission and cost of power) using the 2018, as filed, cost of service components, together with the assumptions/recommendations for the 2018-2021 IRM as per Dr. Lowry's evidence. The format should be similar to the projection for Hydro One Distribution referenced on page 14 of Mr. Coyne's evidence.

- Please make appropriate assumptions regarding items to be determined in the final phase.
- Please include the ROE in the projection.
- Please provide the result in pdf and Excel format, including appropriate explanatory notes.

Y Factors – Pension costs

5. Référence :

i) Pièce C-AQCIE-CIFQ-0032, p. 60.
ii) Pièce B-0177, HQD20-D1, Annexe B, p. 16.
iii) Ontario Energy Board, EB-2015-0114, Appendix D, p. 23-24.

Préambule:

i) *"Y factoring retirement costs is a judgement call as there are arguments on both sides. Y factoring these costs can encourage HQD to shift employee compensation from salaries and wages to retirement benefits. Review of these costs can be challenging. On the other hand, these costs are substantial and variable due to business conditions beyond HQD's control. The labor price subindex of the inflation measure tracks trends in salaries and wages but not retirement costs. Retirement costs have been Y factored in several MRIs. The decision on whether to Y factor retirement costs should depend on the extent to which the MRI protects HQD from other kinds of risk."*

ii) *"La majorité des fluctuations du coût de retraite, tant en ce a trait au coût des services rendus qu'aux autres composantes, sont dues à des fluctuations de valeurs de marché tant au niveau du taux d'actualisation que du rendement de l'actif. Le tableau 1 montre des fluctuations une année sur l'autre jusqu'à 107 M$, soit une variation équivalente à un taux de rendement autorisé de près de 3 %. Ces fluctuations sont clairement hors du contrôle d'Hydro-Québec et une telle volatilité année sur année ne saurait être captée par la Formule d'indexation."*

Reference iii) presents the accounting treatment for the 2016 post-retirement true-up variance account (PTUVA) of Enbridge Gas Distribution.

Demande :

5.1 Has Dr. Lowry examined regulatory practice regarding inclusion/exclusion of pension and other post-employment benefits (OPEBs) in IRMs? If so, please provide any relevant information.

5.2 If as HQD suggests, the variations in pension and OPEBs are primarily market valuation and actuarial, does Dr. Lowry have an opinion regarding whether, rather than exclusion, a pension and or OPEBs variance account is an option, similar to the variance account approved for Enbridge Gas Distribution?

Y Factors – Rate of return on capital

6. Référence : i) Pièce C-AQCIE-CIFQ-0032, p. 60.

Préambule:

In reference i), HQD presents a Y_{CC} factor to account for the impact in variations in the interest rate and the rate of return on equity on the weighted average cost of capital.

Demande :

6.1 Has Dr. Lowry considered HQD's "Y_{CC}" proposal? If so, please comment.

Comptes d'écarts et de reports (CER)

7. Référence : i) Pièce B-0177, HQD20-D1, Annexe B, p. 27.

Préambule:

i) *"Par ailleurs, comme mentionné à la section 1.4, le Distributeur soutient qu'il est également nécessaire d'adjoindre un CER à chacun des éléments de coûts récurrents traités en exclusion."*

Demande :

7.1 Please comment on HQD's proposal to create deferral accounts for all proposed exclusions.

7.2 Does Dr. Lowry know if creating deferral accounts for Y factors is a common practice in other North American jurisdictions? Please comment.