

**DEMANDE DE RENSEIGNEMENTS N°1 D'OPTION CONSOMMATEURS (OC) À  
HYDRO-QUÉBEC DISTRIBUTION (HQD) ET CONCENTRIC ENERGY ADVISORS  
(CEA)**

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

**R-4011-2017**

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**Inflation Factor I**

**1. Référence :**            i)    **Pièce B-0178, HQD20-D2, p. 21.**

**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%).”*

**Demande :**

- 1.1 Has Mr. Coyne conducted an independent analysis of HQD's index proposal for the I factor? If so, please file these data.
- 1.2 Would Mr. Coyne please provide his opinion of the HQD 3 factor inflation index and proposed weightings and provide references to other jurisdictions (other than Alberta) with similar indices and weightings.
- 1.3 In reference i), Mr. Coyne quotes the paragraph 428 of the Alberta Utility Commission finding :

*“428. Accordingly, since **both** (emphasis added) components of the approved I factors can be considered input based price indexes, there is no need in this case for the Commission to consider*

*an adjustment to TFP for an input price differential or productivity differential in the calculation of the X factor.”*

Has Mr. Coyne considered whether a 3 factor inflation index and proposed weightings, in particular including costs related to assets as proposed by HQD, affects his recommendations regarding:

- i) Input price differential;
- ii) Treatment of capital in the IRM formula.

If so, please provide an opinion on these.

### **Productivity Factor X**

- 2. Référence :**            i)        **B-0178, HQD20-D2, p.23-25.**

#### **Préambule :**

- i)        *“The longer-term utility productivity growth of -1.1% declined to -2.1% over the most recent five-year period. All of the studies show lower (or more negative) productivity growth in the more recent time period, suggesting these longer-term averages may overstate current productivity trends due to the leveling of demand growth without a comparable reduction in inputs.”*

#### **Demande :**

- 2.1      What is the similar decline in productivity growth in the US sample of utilities used by Mr. Coyne? Please provide these data.
- 2.2      Please discuss how the differences between US and Canada productivity trends and the underlying factors (e.g. lower customer/load additions, declining use per customer, etc.) affect a determination of the appropriate X factor for HQD.
- 2.3      How much of the estimated North American industry productivity trend is influenced by the US Sample vs. the Canadian Sample? Please provide this information.
- 2.4      Please discuss how this response reconciles with the recommendation for a zero productivity offset (plus a stretch factor)?

- 3. Référence :**            i)        **Pièce B-0178, HQD20-D2, p. 14 et 20.**

**Préambule :**

Mr Coyne notes :

*“HQD has, however, provided evidence of its productivity in its document “Études, analyses et rapports pour la détermination du Facteur X déposés dans le cadre de l'établissement du mécanisme de réglementation incitative du Distributeur” filed in response to the Régie’s decision D-2017-043 (R-3897-2014, A-0161), including a significant decrease in its workforce for the period 2008-2017. HQD has also seen improvements in efficiency indicators as presented in file R-4011-2017.*

*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 Mr. Coyne examine the impact of HQD’s productivity and efficiency improvements on the distribution revenue requirement and the return on equity for the recent and IRM periods? If so, please provide this review/assessment. If not, please provide an opinion based on a review of the recent and forecast 2018 O&M costs and return on equity data, whether further efficiencies can be achieved under the IRM. Please relate this to the projection for Hydro One Distribution provided at page 14 of the evidence and to Mr. Coyne’s recommendations on the X and stretch factors.
- 3.2 Did Mr. Coyne examine data for HQD and other utilities regarding growth factors and the relationship to the appropriate X and stretch factors? If so, please provide this.
- 3.3 Given the Régie’s decision to allow a 0.75% growth factor, did Mr. Coyne examine the effect on treatment of capital under the IRM? If so, please provide this. If not, please provide an opinion regarding how the growth factor may or may not affect exclusions and the appropriate threshold for Y factors.

**4. Référence :**           i)     **Pièce B-0178, HQD20-D2, p. 16.**

**Préambule :**

Mr. Coyne discusses the Eversource new PBR program and notes:

*“The Department determined it was appropriate to address the \$400 million grid modernization investment outside the PBR plan, and therefore reduced the X factor by that amount, resulting in an approved X factor of -1.56% (-2.64% + 1.08%).”*

**Demande :**

- 4.1 Other than for the new IRM program of Eversource in Massachusetts, is Mr. Coyne aware of other North American tribunals that have recognized a negative X factor?
- 4.2 In general, is Mr. Coyne aware of North American tribunals that have recognized a negative X factor for a first generation IRM?

**Impact of HQD IRM Formulation**

- 5. Référence :**
- i) **Pièce B-0013, HQD3-D4, p. 11-25.**
  - ii) **Pièce B-0020, HQD5-D1, p. 10-11.**
  - iii) **Pièce B-0178, HQD20-D2, p. 14 et 20.**
  - iv) **Incentive Ratemaking Report (CEA), EB-2012-0459, Exhibit A, Tab 9, Schedule 1.**

**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 on the rates based on the recommendations of CEA and HQD for the IRM Formula.

**Demande :**

- 5.1 Has Mr. Coyne/HQD 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 the evidence of Concentric and HQD. The format should be similar to the projection for Hydro One Distribution referenced at page 14 of the 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.
- 5.2 Has Mr. Coyne/HQD examined the sensitivity of the revenue requirement/return on equity to a higher productivity/stretch factor? If so, please provide this.
- 5.3 Did Mr. Coyne consider placeholders for capital and other items, as he recommended for the Enbridge Gas Distribution Custom 2014-18 IRM Plan in reference iv)? Please discuss in detail, including why this was rejected in favor of Y factors for incremental capital.

### **Y factors – Pension costs**

- 6. Référence :**
- i) Pièce B-0177, HQD20-D1, Annexe B, p. 16.**
  - ii) Pièce B-0176, HQD15-D1.5, p. 21.**
  - iii) Ontario Energy Board, EB-2015-0114, Appendix D, p. 23-24.**

**Préambule :**

- i) *“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.”*

In reference ii), Mr. Coyne presents in Table 1 the treatment of Y factors in other North American jurisdictions.

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

**Demande :**

- 6.1 Has Mr. Coyne examined regulatory practice regarding inclusion/exclusion of pension and Other Post-Employment Benefits (OPEBs) in IRMs other than the ones presented in reference ii)? If so, please provide any relevant information.
- 6.2 Please elaborate on the treatment of pension costs and OPEBs in Ontario described in Table 1 of reference ii) as “Partial”.

- 6.3 If as HQD suggests, the variations in pension and OPEBs are primarily market valuation and actuarial, does Mr. Coyne have an opinion whether rather than exclusion, a pension and or OPEBs variance account is an option, similar that for Enbridge Gas Distribution?