

R-4011-2017 : HQD – DEMANDE TARIFAIRE 2018-2019

**DEMANDE DE RENSEIGNEMENT N° 1 DU REGROUPEMENT NATIONAL
DES CONSEILS RÉGIONAUX DE L'ENVIRONNEMENT DU QUÉBEC
(« RNCREQ ») À PEG**

A.

Référence : C-AQCIE-CIFQ-0032, pages 19-21

Preamble :

The report discusses three approaches to calculating capital cost (COS, geometric decay, one hoss shay).

Demandes :

1.1 Based on your reading of the evidence submitted by HQD, please explain, to the extent possible, your understanding as to which of these approaches underlies HQD's proposal.

1.2 Do you agree with the approach taken by HQD? If not, why not?

Référence : C-AQCIE-CIFQ-0032, pages 24-25

Preamble :

The report presents the Kahn X factor, and uses that approach to derive an X factor value of 0.67%, based on data from 2005 through 2018 (inclusive).

2.1 Do you consider the Kahn X factor to be a valuable approach for setting the X factor for HQD?

2.1.1 If so, why? If not, why not?

2.2 Why did you choose to use values specifically starting in 2005?

- 2.2.1 What would be the value of the X factor if you used values going back to 2000?**
- 2.2.2 What would be the value of the X factor if you used only the last five (5) years? The last ten (10) years?**
- 2.2.3 Please describe the methodological issues that determine the appropriate period to use in calculating a Kahn X factor.**

Référence : C-AQCIE-CIFQ-0032, page 27

- 3.1 Please explain how the externality criterion, the sample size criterion and the “no windfalls” criterion are used in choosing a base productivity growth target.**

Référence : C-AQCIE-CIFQ-0032, page 29

Citation :

The complications of basing X on the productivity trends of other utilities have occasionally prompted regulators to base X factors on a utility's *own* recent historical productivity trend.

- 4.1 Please identify regulators that have based X factors on a utility's own recent historical productivity trend.**
- 4.2 In each of the cases cited in your response to the previous question, please:**
 - 4.2.1 describe the types of information used to establish the utility's own recent historical productivity trend, and**
 - 4.2.2 indicate whether it was the utility itself that prepared the analysis, a consultant engaged by the utility, or a third party. If the latter, please indicate how that third was chosen, and by whom it was engaged.**

Référence : C-AQCIE-CIFQ-0032, page 52

Citation :

The preponderance of evidence assembled suggests that an X factor of **+0.30%** is just and reasonable for the first-generation MRI of HQD.

5.1 Please explain in detail how you arrived at the precise figure of +0.30%, including any worksheets used.

Référence : C-AQCIE-CIFQ-0032, page 56

Citation :

For years HQD has participated in benchmarking studies of its customer services and distribution costs.⁵⁴ The company reports simple unit cost metrics and its general position related to the other participants in a benchmarking study but does not generally provide further details, nor describe the characteristics of the firms to which its scores are compared.⁵⁵ Controls for external business conditions in these studies are crude. The company refused to provide details of a recent benchmarking study in response to an information request from PEG. Thus, it is difficult to interpret the benchmarking results or know what weight to assign to them. On the basis of available evidence, it is reasonable to assume that the Company is an average cost performer.

6.1 Please describe benchmarking practices used by other utilities, and indicate which of these practices, if any, you recommend be adopted by HQD.

Référence : B-0178, HQD-20, Doc. 2, page 24

Citation :

As illustrated in Concentric's research, the current range in Canada prior to the Massachusetts Decision is 0.3% (Alberta) to 0 to 0.6% (Ontario), inclusive of stretch factors.

Concentric recommends the Régie place weight on the studies presented by experts in the Alberta, Massachusetts, and Ontario proceedings. These studies incorporate data for relatively large groups of U.S. (the

Alberta and Massachusetts studies) and Canadian utilities (the Ontario study). Considering the resulting X factor determined by the AUC of 0.3%, including a stretch factor, this would be an upper-end target for HQD in its first-generation MRI. The Mass DPU's adopted -1.31%, with a 0.25% stretch factor conditional on GDP-I greater than 2.0%, sets an appropriate lower bound. The DPU explicitly ruled that grid modernization investments proposed by the company would be considered outside of PBR, indicating the potential for significant investments outside the I-X revenue cap. The AUC's PBR also includes significant adjustments for capital investments outside of the formula, for which the Régie formula does not. Hydro One's proposal includes capital additions outside I-X that would place its effective X in the -1.04 to -2.26% range. A separate proceeding will be used in Massachusetts to determine how incremental grid modernization investment will be handled. For HQD, all capital investments, other than those excluded for a Z factor, are included in the formula. This creates a greater challenge in that regard than the Alberta utilities, Eversource or Hydro One face under their PBR plans.

Based on this evidence, Concentric recommends the Régie adopt a productivity factor of -0.75% for this first-generation MRI for HQD.

7.1 Please comment on Concentric's proposal to set the productivity factor for HQD at -0.75%.