

**RÉPONSES D'HYDRO-QUÉBEC DISTRIBUTION  
À LA DEMANDE DE RENSEIGNEMENTS N° 2  
D'OC**



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**DEMANDE DE RENSEIGNEMENTS N° 1 D'OPTION CONSOMMATEURS (OC) À  
CONCENTRIC ENERGY ADVISORS (CEA)**

**DEMANDE RELATIVE À L'ÉTABLISSEMENT DES TARIFS D'ÉLECTRICITÉ POUR  
L'ANNÉE TARIFAIRE 2019-2020**

R-4057-2018

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**OFF-RAMP**

1. Reference :           i)    Pièce B-0053, Annexe B, p. 4-7.

**Preamble :**

In reference i), CEA presents in table 1 and table 2 a list of 14 Canadian ESM and Off-Ramp precedents.

CEA also states that « *Based on these factors, and the evidence above, Concentric recommends an exit clause with a symmetric off-ramp of  $\pm 150$  basis points after any earnings sharing provided for by the application of the MTÉR, recognizing that HQD will continue to absorb all of earnings shortfalls under the existing MTÉR.* »

**Requests :**

1.1 Please discuss the applicability to HQD of additional criteria, as referenced in table 1, to trigger the Off-Ramp, such as an erosion in performance levels.

**Réponse de Concentric :**

1           **As noted in Concentric's evidence, the term of HQD's plan is four years, with**  
2           **the first year revenue requirements established by a forecast of the cost of**  
3           **service followed by three years of formula-based revenue requirements. As a**  
4           **result, additional off-ramp criteria such as an erosion in performance levels**  
5           **are unlikely to have any practical application. The plan could be expired and**  
6           **up for review by the time an erosion in performance levels can be measured**  
7           **(i.e., a minimum of two years). In addition, service quality indicators are**  
8           **already linked to the earnings sharing mechanism, thereby building-in**  
9           **additional criteria to the off-ramp.**

1.2 Did Concentric review US electric and gas ESM and Off-Ramp precedents? If so, please provide tables similar to tables 1 and 2.

**Réponse de Concentric :**

10           **Concentric determined that Canadian ESM and off-ramp precedents are most**  
11           **relevant because they reveal how other regulatory commissions and**

1 intervenors have addressed similar objectives. Concentric did not undertake a  
2 full review of all US electric and gas precedents that would have met its other  
3 criteria (i.e., multi-year I-X PBR plans that have been decided in the last  
4 10 years).

1.3 Please discuss the implications of setting an Off-Ramp that would be higher than the  $\pm$  150 basis points.

**Réponse de Concentric :**

5 An off-ramp that is larger than the  $\pm$  150 basis points proposed by HQD and  
6 Concentric would create more down-side risk for the Company and impact  
7 HQD's financial risk. On the upside, the increase in efficiency incentives  
8 would be minimal given the structure of the current MTÉR.

**2. Reference :** i) Pièce B-0053, p. 6-14.

**Preamble :**

In reference i), HQD presents its proposal to link indicators to the ESM.

**Requests :**

2.1 While doing its review of ESM and Off-Ramp precedents in Canada, did CEA evaluate how indicators were linked to the ESM? If yes, please provide the results.

**Réponse de Concentric :**

9 Yes, Concentric evaluated both the Gazifère PBR (Jan 2011- Dec 2015), and  
10 the Gaz Métro PBR (Oct 2007- Sept 2012):

11 **Gazifère, D-2010-112 (pages 57-58):**

12 **4.2.13 Indices de qualité de service**

13 *“[216] The sharing of productivity gains is conditional on the*  
14 *achievement of an overall percentage of achievement of the quality*  
15 *of service indices, the thresholds of which are established as*  
16 *follows:*

- 17 • *Gazifère's overall performance must be at least 90% for*  
18 *earnings sharing to apply;*
- 19 • *If the overall performance is between 80% and 90%, Gazifère*  
20 *can keep a percentage of the gains according to the*

1 *formula: real global performance multiplied by the formula*  
2 *of sharing of the gains;*

- 3 • *If overall performance is below 80%, customers get 100% of*  
4 *productivity gains.”*

5 **Gaz Métro (Énergir), D-2007-47 (pages 21-22):**

6 **3.2.5 Indices de qualité de service**

7 *“Both the return adjustment within the rate file and the sharing of*  
8 *the over-earnings at the end of the year will be conditional on the*  
9 *achievement of an overall percentage of service quality index.*

10 *This overall index will be equal to the weighted average of the*  
11 *percentages of achievement of each index which are themselves*  
12 *calculated according to the particularities of their components.*

13 *The conditions of access to the over-earnings are as follows:*

- 14 • *A minimum 85% overall achievement index will be required*  
15 *to qualify for 85% of GM’s share of the actual over-earnings;*  
16 • *Between 85% and 100%, the percentage retained by GM will*  
17 *correspond to the overall index;*  
18 • *Below 85%, GM will not be eligible for any sharing of over-*  
19 *earnings.”*

20 **Given the Régie’s framework to link service quality to earnings, as set out in**  
21 **decision D-2014-034 and reaffirmed in decision D-2017-043, Concentric has**  
22 **reviewed the mechanics of HQD’s proposal and finds them to be reasonable.**

2.2 Please provide an assessment of HQD’s proposal contained in reference i).

**Réponse de Concentric :**

23 **HQD proposes to link its ability to retain its share of upside earnings, as**  
24 **determined by application of the Earnings Sharing Mechanism, to service**  
25 **quality performance. HQD’s share of earnings does not increase as a result of**  
26 **performance above the performance threshold. In general, establishing the**  
27 **threshold can be a matter of judgment. For example, a threshold that**  
28 **represents stretch performance or encourages the utility to make investments**  
29 **that are reflected in the cost of service may not be desirable for the utility in**  
30 **the short-term and the customers in the longer-term. A threshold that is set**  
31 **too low can provide an incentive for the utility to cut costs in the short-term in**  
32 **order to improve earnings. HQD’s proposal establishes a threshold based on**  
33 **an objective and unbiased average of all metrics over a five-year historical**  
34 **period. Basing the threshold on actual, verifiable results and maintaining the**  
35 **same formula throughout the term of the MRI has certain advantages. Most**  
36 **importantly, it is easily quantifiable and based on actual data. The alternative**

1 is to engage in a theoretical exercise that would invite argument and be  
2 controversial. The outcome of this theoretical exercise is likely to have a  
3 greater impact on HQD earnings than its actual performance. Finally, the  
4 adjustment of an average deviation of one standard deviation to establish the  
5 threshold is a reasonable solution to the fact that performance will vary from  
6 year to year for reasons that are not entirely within HQD's control. In  
7 summary, HQD's proposal is reasonable.