

**Off-Ramp Proposal**

for  
Hydro-Québec Distribution

**Hearings before the Régie de l'énergie**

December 10<sup>th</sup>, 2018  
File R-4057-2018, HQD-16, document 2

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# Purpose of the Off-Ramp (Exit Clause)

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## As stated by the Régie in Phase 1 (D-2017-043) :

[427] The Régie agrees that an exit clause reduces the risk by protecting the regulated company and its clientele from problems related to the design or the exercise of the MRI. She noted that most participants were in favor of an exit clause.

**[428] The Régie approves the inclusion of an exit clause allowing a review or an interruption of the MRI, the terms of which will have to be specified in phase 3.**

## Specification of the Exit Clause:

- ROE Threshold (Upside and Downside)
- Performance Period (i.e., one or two years)
- Consequence of Triggering the Exit Clause (return to cost of service or an interim assessment of the MRI mechanism)

# ROE Threshold Levels

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## 3 Key Questions:

### 1) Should the Exit Clause be based on pre- or post-MTÉR earnings?

Concentric: post-MTÉR earnings. The Exit Clause, by definition, addresses the end-result for both customers and the shareholder.

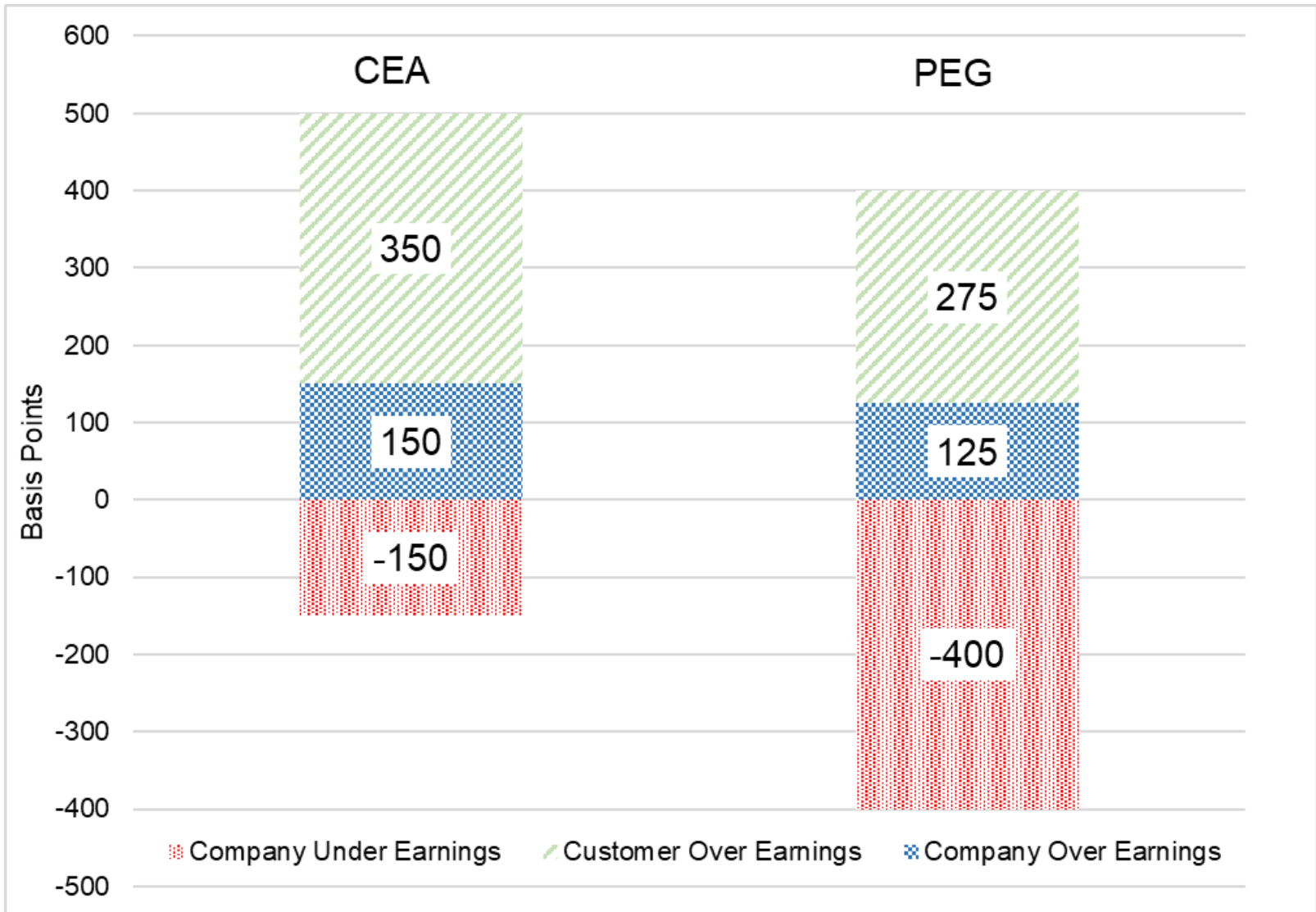
### 2) Should the Exit Clause be symmetric, i.e., have identical upside and downside ROE thresholds?

Concentric: Yes. This provides the identical protection to both customers and the shareholder and is fair to all parties.

### 3) What is the appropriate ROE threshold for HQD?

Concentric: 150 Basis Points, post-MTÉR.

# Concentric Recommends a Balanced Approach



# Performance Period: One or Two Years?

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## Concentric: One-Year Performance Period

- Appropriate for an initial MRI plan.
- MRI term is only four years, with an initial year based on the forecasted cost of service; a two-year performance period would likely have no practical consequence.
- One year may easily become two years; two years may become three years.
- This recommendation is closely connected to our recommendation on the consequence of triggering the Exit Clause.

# Summary of Concentric's Recommendations

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- 1. Symmetric Exit Clause with a  $\pm 150$  basis points threshold, post-MTÉR.**
- 2. Based on a single year's performance.**
- 3. If the Exit Clause is triggered, rates are established based on a forecasted cost of service.**