



Establishment of a Mécanisme de  
Réglementation Incitative (MRI)  
for  
Hydro-Québec Transénergie  
Phase III

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

January 23, 2019  
HQT-14, Document 10

# New Evidence Presented by PEG

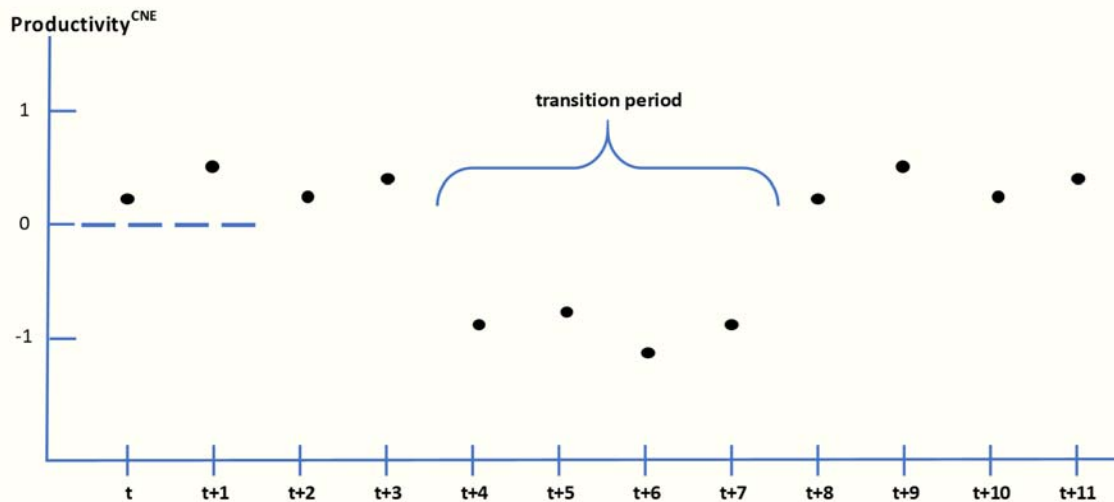
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- MGA impact on productivity factor
- PEG presents new average results in support of its proposal
  - Long-term trend is not appropriate for HQT due to changes in operating context
  - Simple average of disparate results, not applicable to HQT
- New PFP evidence is incorrect or unsubstantiated
  - Opex PFP is not more volatile than capital PFP or TFP
  - New and unsubstantiated evidence presented on Australia
  - Hydro One study mischaracterizations
    - Inflation adjustment
    - Regulatory framework adjustment
    - Hydro One comparability

# MGA Impact on Productivity Factor

- PEG suggests that the MGA trend is temporary.
- This claim is unsubstantiated, hypothetical, and contradicted by HQT's testimony and evidence.

## *Transition to Asset Management*



## 0.19% Average Now Used to Support PEG's Proposal

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- Taking the average of 4 disparate studies is an after-the-fact justification with no theoretical or evidentiary support.
- In contrast, CEA relies primarily on the HQT-specific study because there are so few valid transmission productivity studies.

### ***Key Considerations in Choosing Base CNE Productivity Trend***

Productivity<sup>CNE</sup> trend of Australian transmitters **-0.06%** [2006-2017]

Productivity<sup>CNE</sup> trends of US transmitters averaged **-0.84%** [2004-2016]

[But study flawed and most transmitters operated under formula rates]

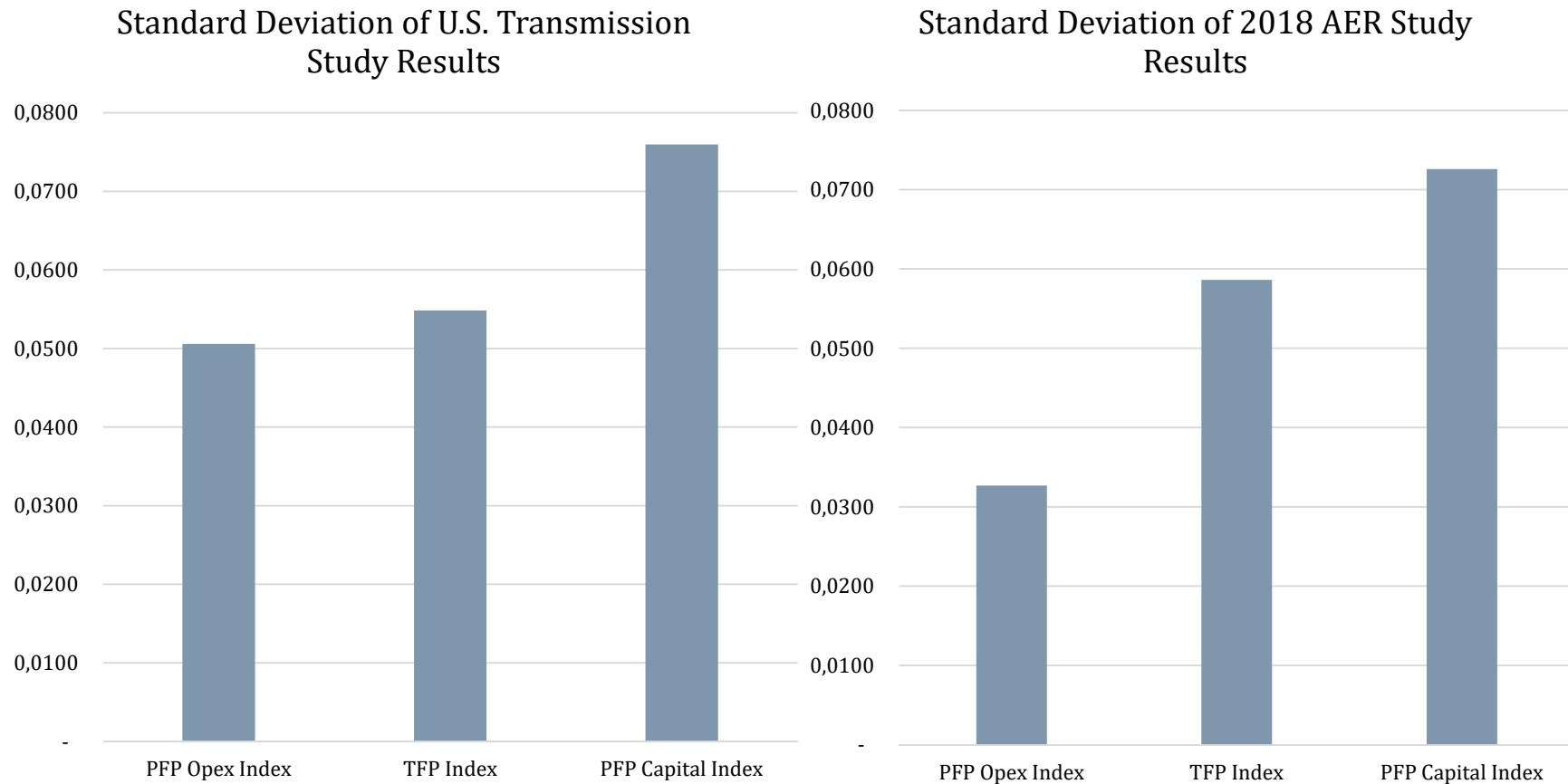
Kahn X factor for HQT's CNE **0.57%** [2009-2017],

Productivity<sup>CNE</sup> trend of Hydro One Transmission averaged **1.07%** [2005-2016]

>>> Longer sample period average: **0.19%**

AER has established a **0.00%** PFPC<sup>CNE</sup> growth target in several recent proceedings

# Opex PFP Volatility is Actually Lower Than Capital PFP or TFP Volatility



**...and does not justify a longer-term period of measurement, as claimed by PEG.**

# Australia

- PEG has introduced new evidence from Australia.
- Neither these decisions, nor citations, have been provided in evidence, nor have they been verified.
- These productivity targets are not X factors, they are used to evaluate each company’s building block forecasts.
- The average of these is 0.03%.
- One company, PowerLink, is not “most like” HQT.
- There are two large companies in Australia, the other being TransGrid.

## *Recent Productivity<sup>CNE</sup> Growth Targets for Australian Power Transmitters*

Transmitter	Approval Date	Productivity <sup>CNE</sup> Growth Target
TasNetworks	Pending	0%
Murraylink	April 2018	0%
ElectraNet	April 2018	0%
TransGrid	May 2018	0%
AusNet Services	April 2017	0%
Powerlink	April 2017	0.2%
Directlink	April 2015	N/A

Source: Australian Energy Regulator decisions

# Hydro One U.S. Transmission Productivity Study

PEG Claim	Response
U.S. productivity studies require a 100 bps adjustment for inflation differentials between the U.S. and Canada	No evidence provided in this proceeding or adopted elsewhere to support this claim
U.S. transmitter productivity was slowed during sample period by formula rates and the Energy Policy Act of 2005	No evidence provided in this proceeding or elsewhere to support this claim
Regulatory framework of U.S. transmission companies affects productivity results – the U.S. study is “flawed and most transmitters operated under formula rates”	No evidence provided in this proceeding or elsewhere to support this claim
Board did not embrace PSE’s Ontario productivity evidence in recent Hydro One distribution proceeding	No decision issued, and no evidence provided in this proceeding or elsewhere to support this claim
Hydro One is comparable to HQT	No evidence provided in this proceeding or elsewhere to support this claim