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

DEMANDE DU TRANSPORTEUR DE MODIFICATION DES TARIFS ET CONDITIONS DES SERVICES DE TRANSPORT POUR L'ANNÉE 2019

R-4058-2018

CARACTÉRISTIQUES DU MÉCANISME DE RÉGLEMENTATION INCITATIVE (MRI)

X Factor

1. Reference : i) Pièce B-0012, p. 9-10.

Preamble :

Pursuant to the Régie's decision D-2018-011, the Carrier has to conduct a productivity study to serve as a basis for setting the X factor for the second-generation MRI. The Carrier was unable to present its proposed methodology to the Régie in the current ratecase.

Request :

1.1 To help guide intervenors and the Régie, please provide comments on the appropriate methodology for the upcoming PMF study.

2. Reference : i) Pièce B-0013, p. 11.

Preamble :

i) « *For NGET, this number is composed of a 0.5% Opex productivity target and 0.8% Capex productivity target, suggesting that Capex is dominating Opex in the Totex. These targets are based on a combination of benchmarking analysis and forecast review by Ofgem. However, there are several adjustments to allowed revenues, providing increased revenue allowances for innovation spending, for volume-based cost drivers including load and non-load related Capex, a provision for "uncertainty mechanisms" and related adjustments.*

The U.K framework is comprehensive but represents a different approach than that adopted by the Régie for this first-generation MRI for HQT. Ofgem relies on a forecast

revenue requirement factoring in a productivity target with a number of other adjustments. These forecasts cannot be uniformly applied to HQT's Opex cost trend without consideration of the many adjustments, and therefore cannot be practically used to establish an appropriate X factor for HQT. »

Request :

2.1 Please elaborate on "*targets are based on a combination of benchmarking analysis and forecast review by Ofgem*".

2.2 Please provide a list of the adjustments to allowed revenues that relate to OPEX.

3. Reference : i) Pièce B-0013, p. 15.

Preamble :

i) « *The AER also examines both total and partial factor productivity indicators (PFP) for each of the five TNSPs, and for the transmission industry in aggregate. These data, as prepared by a consultant for the AER, are presented below. This analysis shows that the total factor productivity averaged -2.07% over the entire 2006-2016 period and -1.90% over the most recent 2012-2016 period. The Opex PFP averaged -0.64% over the full 2006-2016 period, and shifted to -1.80% over the more recent 2012-2016 period.* »

Request :

3.1 Please discuss the drivers of change in TFP and OPEX PFP observed for the five TNSP's over the 2006-2016 and 2012-2016 periods.

3.2 Are reversed trends observed for all of the five TNSP's over these periods?

4. Reference : i) Pièce B-0013, p. 16-17.

Preamble :

i) « *In comparing Australia's network to Québec's, the NEM transmission network comprised of these five transmission networks are both privately and publicly owned: 3*

are government owned and 2 are privately owned. […]

While Australia's electric grid may be unique in contrast to other western countries, HQT is also unique. HQT's system serves long distances between generation and loads, and represents an even greater 25% of the average price of electricity. The Australian data therefore serves as a useful international benchmark for HQT. »

Request :

4.1 Please provide a list of similarities and dissimilarities between the HQT and NEM transmission networks.

4.2 Please discuss why CEA used the AER sample as opposed to North American FERC sample/data.

4.3 Please provide an analysis of PFP for a sample of FERC-Regulated Transmitters. Please provide references to such studies from Concentric's Research.

5. Reference : i) Pièce B-0013, p. 18.

Preamble :

i) « *There are a number of factors involved in the estimation of productivity trends, involving both the data used, methods used to determine the trend, and the time-period analyzed. In the development of industry trends of productivity, it is important to consider multiple-year periods due to the considerable annual fluctuation in results from one year to the next.* »

In reference i), CEA presents in table 6 the Kahn factor calculation for HQT.

Request :

5.1 How much of HQT's CAPEX is capitalized/expensed. Please provide a table showing percentages for the past 5 years.

5.2 Please discuss how the amount of capitalization affects the PFP result.

5.3 Please provide all the reasons for using a sample period of 2013-2017 instead of a longer period.

5.4 With such year-to-year fluctuations, how is it appropriate to use the 2013-2017 period rather than a longer period ?

5.5 Please provide graphs showing the change in PFP (OPEX) and statistics for the HQT Data for 10 years and 5 years. Specifically provide standard deviations and T-tests.

5.6 Please discuss the results in terms of statistical significance as related to an X factor of negative 0.6.

6. Reference : i) Pièce B-0013, p. 20.

Preamble :

i) « *Also consistent with the Régie's HQD Phase III Decision, Concentric does not find it necessary to add an additional stretch factor (s factor) to the X factor. Considering the introduction of HQT's parametric formula, the Carrier has been motivated by the Régie to achieve efficiencies so the measured X factor is a reasonable baseline for HQT's first generation MRI, and is supported by the evidence of international transmission trends which reveal costs exceeding inflation.* »

Request :

6.1 Please discuss in more detail/motivate the proposal to set a zero stretch factor.

6.2 Please provide a review of recent regulatory decisions regarding stretch factors for each of 1st and 2nd (or higher) generation IRM's.

Mécanisme de traitement des écarts de rendement (MTÉR)

7. Reference : i) Pièce B-0012, p. 23-30.
ii) Pièce B-0013, p. 23-24.

Preamble :

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

In reference ii), Concentric provides a benchmark of ESM and Off-Ramp precedents in Canada.

Request :

7.1 While doing its review of ESM's and Off-Ramp precedents in Canada, has CEA evaluated how indicators were linked to the ESM? If yes, please provide the results.

7.2 Please provide an assessment of HQT's proposal. Discuss specifically why HQT's proposition that exceeding the threshold in any one year should terminate the plan and lead to a return to COS regulation.

Off-ramp

8. Reference : i) Pièce B-0013, p. 23-27.

Preamble :

In reference i), CEA presents in table 8 a list of 7 Canadian Electric 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 ±150 basis points after any earnings sharing provided for by the application of the MTÉR, recognizing that HQT will continue to absorb all of earnings shortfalls under the existing MTÉR. Based on application of HQT's existing MTÉR, this is equivalent to a 500 basis point upside off-ramp for a utility that either does not have an ESM or expresses the off-ramp with reference to earnings before the ESM is applied.* »

Request :

8.1 Concerning ENMAX Power Corp. in Alberta, is the Off-Ramp adjusted to take into account the asymmetry or the deadband?

8.2 Can you confirm that all of Ontario's precedents in table 8 use the same type of Off-Ramp (+- 300 basis points)?

8.3 Please confirm that none of the companies surveyed in table 8 operate under a ±150 basis points Off-ramp.

Parametric formula for CAPEX

9. Reference : **i) Pièce B-0013, p. 30.**
ii) Pièce B-0013, p. 35.
iii) Pièce B-0013, p. 37.

Preamble :

i) « *Concentric identified three "formulaic" approaches to capital that have been adopted in other jurisdictions to determine their effectiveness for HQT and their responsiveness to the Régie's directive described above. The first approach is that approved by the Ontario Energy Board (OEB) for Toronto Hydro in its most recent Custom IR plan.44 The second approach is that approved by the British Columbia Utilities Commission (BCUC) for Fortis BC in its current performance-based regulation plan, approved in 2014.45 The third approach is the "smoothing method" employed by the AER.* »

ii) « *Adoption of the Australian approach, similar to the Toronto Hydro model, would require a capital related forecast for the term of the MRI, and Régie approval of such a forecast. As stated in the case of Toronto Hydro, this would require additional filings and be counter to the objective of regulatory streamlining.* »

iii) « *Should the Régie find the Toronto Hydro approach reasonable, the formula would need to be adjusted for consideration of the fact that Toronto Hydro operates under a price cap, and HQT will operate under a revenue cap. This distinction requires a different treatment for growth.* »

Request :

9.1 Please provide a list/references of other regulatory decisions using parametric formula for Capital Factor. Please indicate if CAPEX or PPE is used.

9.2 Please discuss the advantages and disadvantages of using a forecast approach similar to Toronto Hydro and AER instead of the Fortis BC approach.

9.3 Please provide more details for the adjustments necessary to the Toronto Hydro approach.

9.4 Please provide an additional simulation for HQT using the Toronto Hydro C Factor approach.