DEMANDE DE RENSEIGNEMENTS N° 1 D'OPTION CONSOMMATEURS (OC) À PACIFIC ECONOMICS GROUP RESEARCH (PEG)

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

R-4058-2018

PARAMETRIC FORMULA FOR CAPITAL COST

1. Reference : **i) Pièce C-AQCIE-CIFQ-0018, p. 38.**
ii) Pièce C-AQCIE-CIFQ-0018, p. 40.

Preamble :

i) *"Transmission operating scale is multidimensional, so HQT's use of a single scale metric may be one reason that its formule paramétrique doesn't fit its cost data better."*

ii) *"The formula should use the elasticity-weighted scale index that results from our econometric cost research, or at least incorporate transmission line miles with a substantial weight."*

Requests :

1.1 Aside from using an elasticity-weighted scale index, are there other changes to HQT's proposed formula that could be made so that the results "fit its cost data better"?

1.2 Please provide more details on how the *elasticity-weighted scale index* could be used in HQT's proposed formula. Please provide a numerical example.

PERFORMANCE INDICATORS AND THE ESM

2. Reference : i) Pièce C-AQCIE-CIFQ-0018, p. 47.

Preamble :

i) *"We recommend the following revisions to HQT's proposed service quality mechanism.*

- *The weight on the safety metrics and the customer satisfaction surveys should each be reduced to 15%. A reliability and availability category should be established that has a 70% weight. Metrics in this category would have equal weights.*
- *Consideration should be paid to using T-SAIFI and T-SAIDI as reliability metrics."*

Requests :

2.1 Please provide justifications for reducing the weight of the customer satisfaction surveys. In general, please explain why reliability metrics in an incentive mechanism should be given more weight than other areas of performance.

2.2 Please discuss the link between T-SAIFI, T-SAIDI and the two reliability indicators proposed by HQT.

2.3 Please provide a table with all of the indicators proposed by PEG with their corresponding weight.

3. Reference : i) Pièce C-AQCIE-CIFQ-0018, p. 48.

Preamble :

i) *"There is a way to avoid a deadband in the penalization for declining quality. HQT can be subject to a revenue penalty only at the end of the plan if there is an average decline in IMQ scores on balance over the four years of the MRI term. Improvements in quality in some areas would be allowed to offset quality declines in other areas. However, HQT would receive no reward for a rise in the IMQ.*

The Régie should reconsider its decision to penalize HQT for poor quality only when the Company has surplus earnings. In principle, it can approve a supplemental revenue adjustment that doesn't conflict with its decision to link the MTÉR to service quality. Here is an example.

- *Declining service quality will reduce allowed revenue formulaically. To guard against excessive penalties, it is reasonable to place a cap (e.g. 3% of allowed revenue) on these penalties.*
- *If the indicated revenue reduction for declining quality is less than HQT's share of surplus earnings under the existing MTÉR formula, the Company's share will be reduced by this amount.*
- *If the indicated revenue reduction for declining quality exceeds the Company's share of surplus earnings, it will retain no surplus earnings and allowed revenue will be further reduced by the amount necessary to achieve the indicated revenue reduction"*

Requests :

3.1 OC understands that PEG is proposing a one-time application, at the end of the MRI's term, of HQT's IQM proposal instead of annual applications. Please confirm and add comments.

3.2 Please explain how "average decline in IQM scores" would be tied to overearnings and the ESM. Please provide a numerical example.

OFF-RAMP

4. Reference : i) Pièce B-0013, p. 25-27.

Preamble :

In its report, CEA discusses HQT's ROE and equity ratio, as compared to other electric and gas distributors. CEA states that "*This supports a lower threshold than might otherwise be appropriate to achieve a comparable percentage of earnings at risk"*.

Request :

4.1 Does PEG agree with CEA's statement? Please discuss.