**INFORMATION REQUESTS N^O 1
OF THE INDUSTRIAL GAS USERS ASSOCIATION (« IGUA ») TO DR. BROWN ON SETTING RATES OF RETURN AND CAPITAL STRUCTURES**

SOURCE MATERIAL

1. **Reference: (i) EGI-1, exhibit B-0027, p. 7, 12, 20, 22 and 23.**

Requests:

1.1 Please provide links and/or copies of prior expert reports/testimonies pertaining to business risks for distribution utilities and natural gas and oil pipelines in Canada and in the U.S.

Réponse :

Les Demanderesses considèrent que la demande dépasse le cadre du présent dossier. De plus, elle ne porte pas sur la preuve déposée par les Demanderesses. Par ailleurs, l'information requise est disponible publiquement et peut être obtenue directement par l'intervenant.

1.2 Please provide the link and/or copies for the NEB reference at footnote 5 of the report.

Réponse :

All of these materials are public and available online. Nonetheless, they are attached as:

- EGI-20.2.1 (NEB).
- EGI-20.2.2 (Régie).

1.3 Please provide the link and/or copies for the AUB reference at footnote 9 of the report.

Réponse :

All of these materials are public and available online. Nonetheless, they are attached as:

- EGI-20.2.3.

1.4 Please provide the link and/or copies of the analysis referred to at footnote 29 of the report.

Réponse :

All of these materials are public and available online. Nonetheless, they are attached as:

- EGI-20.2.4.

1.5 Please provide the source material, links and/or copies of the information set out in Table 2 “Notes [D]”.

Réponse :

All of these materials are public and available online. Nonetheless, they are attached as:

- EGI-20.2.5.
- EGI-20.2.6.

FUNDAMENTAL PRINCIPLE

2. **Reference: (i) EGI-1, exhibit B-0027, p. 12.**

Preamble:

(i) *“**Q14. Does an increase in business risk associated with uncertainty about capital recovery mean that investors are bearing stranding risk?***

A14. No. A fundamental principle of the regulatory framework remains that utilities are able to recover prudent investment from customers over time, and (absent a finding of imprudence) continue to have reasonable opportunity to earn a fair return on prudently-invested capital.”

Request:

2.1 Please provide the source for this statement and especially the notion “absent a finding of imprudence”.

Réponse :

Dr. Brown considers that the principle of utilities being able to recover their investment over time, and having a reasonable opportunity to earn a fair return (absent a finding of imprudence), is uncontroversial. It is simply a restatement of the facts that just and reasonable rates include a fair return on rate base, and that rate base is to include actually-incurred costs excluding any costs found to be imprudent. Dr. Brown believes this to be settled regulatory practice in North America since the 1944 *Hope Natural Gas* case in which the US Supreme Court rejected the "fair value" approach to rate base. See, for example, the discussion in *The Regulation of Public Utilities*, Phillips (Public Utilities Reports, Inc., 1984) at pp. 295–9. See also the discussion of "prudent management" in *The Process of Ratemaking*, Goodman (Public Utilities Reports, Inc., 1998) at pp. 857–8, including: "When NARUC asked the California commission to provide the section number of case citation supporting its use of original cost and a prudent net investment rate base, it responded 'regulatory common law'… …The basic authority for an agency insisting on prudent investment rests on the just and reasonable standard itself.".

FINANCIAL INCENTIVES

3. **Reference: (i) EGI-1, exhibit B-0027, p. 13, footnote 12.**

Preamble:

(i) *"In some instances regulators have incorporated financial incentives, contingent on performance, into the regulatory framework which can be expressed as an amount added to or subtracted from the allowed rate of return. However, these incentive payments are not compensation for bearing risk."*

Request:

3.1 Please provide specific references/sources for this statement and provide links and/or copies with respect to same.

Réponse :

Examples include the following:

i) The Federal Energy Regulatory Commission has a policy to encourage electric transmission utilities to become members of a Regional Transmission Organisation (RTO) or Independent System Operator (ISO). This policy operates by granting utilities which are members an increase in the level of authorised ROE to provide a financial incentive for utilities to become members.

See, for example, *FERC Proposes Further Reforms to Electric Transmission Incentives Policy*, FERC press release of April 15, 2021.

ii) The Public Utilities Commission of Hawai'i has implemented an incentive mechanism whereby the electric utility will pay a penalty of up to 0.2% of the equity portion of rate base (ie, 0.2% ROE) if reliability metrics fall below threshold values. See, for example, Hawaiian Electric Companies filing in Docket No 2019-0110.

iii) In Alberta, distribution rates are set for five years under a “Performance Based Ratemaking” (PBR) plan. There is an “Efficiency Carryover Mechanism” or ECM which operates in the two years which follow the end of a PBR plan term. The ECM is an adder to the approved ROE in the two years following the end of the plan term, and is equal to 50% of the difference between the average achieved ROE over the plan term and the average authorized ROE over the plan term (provided that the adder cannot be more than 0.5% nor less than zero). See, for example, Alberta Utilities Commission Decision 2012-237, paragraph 766.

These materials are attached as:

- EGI-20.2.7.
- EGI-20.2.8.
- EGI-20.2.9.

GAS LDC SAMPLE

4. **Reference: (i) EGI-1, exhibit B-0027, p. 14.**

Preamble:

(i) ***“Q19. What companies are in Dr. Villadsen’s gas LDC sample?***

A19. In Table 1 I list the companies in DR. Villadsen’s gas LDC sample, and I also indicate which are the main jurisdictions each company operates in. I do this by estimating the fraction of total gas distribution rate base belonging to each company that is regulated in each jurisdiction (with the exception of Chesapeake, for which I use the number of gas distribution customers in each jurisdiction).”

(Footnote omitted)

Request:

4.1 Please explain how you arrived at the estimated numbers for each company.

Réponse :

Please see the table and other materials attached as:

- EGI-20.2.10.
- EGI-20.2.11.
- EGI-20.2.12.
- EGI-20.2.13.
- EGI-20.2.14.
- EGI-20.2.15.
- EGI-20.2.16.
- EGI-20.2.17.
- EGI-20.2.18.

STAFF INTERVIEWS

5. **Reference: (i) EGI-1, exhibit B-0027, p. 16.**

Preamble:

(i) *"I understand that Aviseo's report is based on interviews with staff at each of the Utilities, as well as Aviseo's own research."*

(Footnote omitted)

Requests:

5.1 Please confirm if you were provided with said interviews and if so, provide copies of said interviews.

5.1.1. If not, have you verified exactly who provided information to Aviseo (name, function or role within the utilities, experience) and on what?

Réponse :

No.