INFORMATION REQUESTS N^{O} 1
OF DR. HOPKINS TO DR. BROWN ON BEHALF OF THE INDUSTRIAL GAS USERS ASSOCIATION (« IGUA »), THE ASSOCIATION DES HÔTELIERS DU QUÉBEC ET ASSOCIATION RESTAURATION QUÉBEC (« AHQ-ARQ »), THE CANADIAN FEDERATION OF INDEPENDENT BUSINESS (« CFIB ») AND OPTION CONSOMMATEURS (« OC ») ON SETTING RATES OF RETURN AND CAPITAL STRUCTURES

MATERIALS PROVIDED

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

Requests:

1.1 Identify all materials provided to Dr. Brown by the Utilities/counsel.

Réponse :

All materials provided to Dr. Brown which he relied on in developing his testimony are cited in his testimony. Copies of all non-public materials are provided in Dr. Brown's workpapers.

1.2 Provide copies of all materials provided to Dr. Brown, if they are not already in the record in this proceeding.

Réponse :

See response to 1.1.

1.3 Dr. Brown states that he has relied upon the Aviseo report for his assessment of the Utilities' business risks. Has Dr. Brown conduced any independent research regarding the business risks or opportunities facing the Utilities? That is, has he conducted any research regarding the Utilities beyond those materials provided to him by Utilities?

1.3.1. If so, please identify the materials that he has relied upon.

1.3.2. If so, please provide copies of all the materials that he has relied upon.

Réponse :

Dr. Brown relied on the Aviseo report for relevant facts about the Utilities and the environment in which they operate. Dr. Brown supplemented the Aviseo report where necessary with his own research, as noted in his testimony (for example, in relation to

greenhouse gas emissions or electricity prices (Q/A 34)). All materials Dr. Brown relied on are cited in his testimony and all non-public materials are provided in his workpapers.

FUNDAMENTAL PRINCIPLE

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

Requests:

2.1 Regarding the "fundamental principle of permitting the recovery of prudent investment and providing a reasonable opportunity to earn a fair return on unrecovered prudently-invested capital", could Dr. Brown please elaborate on the range of utility management actions that, in his opinion, are subject to regulatory review for prudence? In particular:

2.1.1. Does the "fundamental principle" include recovery of all prudently incurred operations and maintenance costs?

Réponse :

Dr. Brown considers that, in most jurisdictions in North America, it is test year costs that are assessed for prudence and authorised for recovery in rates. Subsequent to the test year, actual operation and maintenance expenses are generally not relevant for setting rates and so would not be tested for prudence.

2.1.2. Is the rate of depreciation used to recover prudently invested capital subject to its own review for prudence? For example, could the rate of depreciation used for an asset when developing the cost of service be "imprudent"?

Réponse :

Dr. Brown is not aware of any examples of a depreciation rate having been tested for prudence. Nonetheless, Dr. Brown would expect depreciation rates to be in line with expected economic asset lives. Please also see answer to 1.8 of EGI-22.1.

UTILITY SAMPLES

3. **Reference: (i) EGI-1, exhibit B-0027, pp. 14-16.**

Requests:

3.1 Did Dr. Brown contribute to the development or selection of any of the utility samples presented by Dr. Villadsen?

3.1.1. If so, which samples? Why?

3.1.2. If so, in what way did Dr. Brown contribute?

3.1.3. Has Dr. Brown considered other gas utilities which are not included in his report? Why has he discarded them?

Réponse :

No.

3.2 Has Dr. Brown conducted an assessment of the business opportunities facing the Utilities or the utilities in Dr. Villadsen's gas LDC sample (or other samples)?

3.2.1. If so, please share any documents or analysis completed that informed Dr. Brown's testimony.

3.2.2. Does Dr. Brown believe that is it appropriate for an assessment of business risk, when informing the allowed capital structure, to include an assessment of business opportunities?

Réponse :

Dr. Brown is not sure what the request means by “business opportunities”. If the request means “growth opportunities for the utility” then Dr. Brown considers that this is not likely to be relevant for an assessment of business risk, because such growth would not change the nature of the utility’s business. If a utility were shrinking over time, then this could be relevant for an assessment of business risk because this could signal increased uncertainty over capital recovery. Dr. Brown does not consider this to be relevant in the present proceeding. If the request means “growth opportunities outside the utility business”, then Dr. Brown considers that this would not be relevant for an assessment of the Utilities’ business risk, since by definition the Utilities have no relevant unregulated operations. Dr. Brown considers that it could be relevant to the assessment if companies in Dr. Villadsen’s sample had significant non-utility growth opportunities because such opportunities could have different risk characteristics and could thus result in cost of capital estimates for the sample that do

not only reflect the risks of utility operations but also incorporate the risks of some non-utility operations. However, Dr. Villadsen's sample as a whole is "pure play", so Dr. Brown would not expect significant growth opportunities in non-utility activities.

INDUSTRIAL LOAD

4. **Reference: (i) EGI-1, exhibit B-0027, p. 24.**

Preamble:

(i) ***"Q32. How Does the size of Énergir's industrial load compare to that of the utilities in Dr. Villadsen's gas LDC sample?***

A32. Approximately 62% of Énerigr's delivery volume go to industrial customers. This is high relative to the sample companies, as shown in Table 3."

(Footnote omitted)

(ii) *"A33. If Énergir's industrial load was to decline going forward, this could ultimately lead to upwards pressure on rates because Énergir's costs are largely fixed. In the short term the impact would be mitigated by the fact that the rate structure for industrial customers is also largely fixed. Thus if individual customers reduce their consumption, the revenue collected by Énergir remains relatively constant. However, if industrial customers were to leave the system entirely (or re-contract for lower quantities), there would be upwards pressure on rates, making natural gas service less attractive for the remaining customers.*"

Requests:

4.1 With respect to the reference (i), has Dr. Brown evaluated the portion of rate base or the portion of non-fuel cost of service allocated to the industrial or electric power classes for any of the Utilities or for the utilities in the gas LDC sample?

Réponse :

No.

ELECTRICITY RATES

5. **Reference: (i) EGI-1, exhibit B-0027, p. 25.**

Preamble:

(i) *"**Q34. Does the natural gas distributed by Énergir compete with electricity?***

A34. Yes. Particularly in households, electricity is a viable alternative to natural gas for customers in Énergir's service territory. While this is theoretically true for any gas LDC, competition with electricity is of particular significance because electricity in Quebec is cheaper than in almost any other location in North America. Furthermore, greenhouse gas emissions associated with electricity in Quebec are minimal, while in many parts of the US there are significant greenhouse gas emissions associated with electricity generation. Thus in situations where the cost and/or the emissions of the two energy sources is an aspect of how they compete, the balance is more likely to favour electricity than natural gas in Quebec than in other locations."

(Footnote omitted)

Request:

5.1 Was Dr. Brown aware when developing his testimony of Hydro-Quebec's marginal cost of increased electric energy or winter peak capacity? If so, how did those costs inform his assessment of the risk associated with competition between the Utilities and electricity?

Réponse :

Dr. Brown has no specific information about the marginal cost for Hydro-Quebec to increase energy supply or winter peak capacity. However, Dr. Brown is aware (from the Aviseo report) of the concept of "complementarity" between gas and electricity, and the possibility of encouraging customers to use electricity as the main source of energy and natural gas as an additional source during peak periods.

Nonetheless, comparing Énergir and Gazifère with utilities in Dr. Villadsen's sample, Dr. Brown considers that the prospect of competition between gas and electricity is greater in Quebec than in other locations in North America since electricity is cheaper in Quebec and is also arguably greener.

RATES LAG

6. **Reference: (i) EGI-1, exhibit B-0027, pp. 29-30.**

Preamble:

(i) *"A40. I understand that Énergir's distribution rates are set on a cost-of-service basis. Rates are adjusted annually, but the annual adjustments do not cover all components of a full cost-of-service rate case. There has typically been a full rate case every three years, although the allowed return on equity component of rates is typically adjusted less frequently. The O&M component of the revenue requirement is adjusted annually by means of a formula intended to capture expected [in italics in the original version] changes in O&M costs, and there are typically adjustments to the rate base-related component of the revenue requirement in between rate cases. Thus, in terms of regulatory lag (the length of time between when Énergir's costs change and the opportunity to reflect that change in allowed rates), the formula for O&M is reset every three years, changes to rate base can be reflected in allowed rates with a shorter lag, and changes to the cost of equity have a longer lag. In addition, there is an earnings-sharing mechanism which shares achieved returns above the allowed return on equity with customers (but not returns below the allowed return on equity).*"

Request:

6.1 Please provide all documents or analyses Dr. Brown relied upon to develop this answer.

Réponse :

Dr. Brown's understanding of how rates are set for the Utilities is based on rate case filings and decisions (See D-2019-028, D-2019-141, D-2017-078, D-2017-133, D-2017-133R, D-2013-081).