

**RÉPONSE À LA DEMANDE DE RENSEIGNEMENTS N° 2 DE LA RÉGIE DE L'ÉNERGIE (LA RÉGIE) SUR  
LA DEMANDE CONJOINTE RELATIVE À LA FIXATION DE TAUX DE RENDEMENT ET DE  
STRUCTURES DE CAPITAL ADRESSÉE AU DR TOBY BROWN**

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**RISQUES D'AFFAIRES : EFFETS DES COMPTES DE FRAIS REPORTÉS**

1. **Références :**
- (i) Pièce [B-0143](#), p. 45, R-7.1;
  - (ii) Dossier R-4151-2021, pièce [B-0073](#), p. 1, l. 10, à 12 et p. 2;
  - (iii) Dossier R-4177-2021, [D-2022-025](#), p. 7, par. 15 et p. 13, par. 47;
  - (iv) Pièce [B-0131](#), p. 2;
  - (v) Pièce [C-ACIG-0028](#), p. 12, R-26;
  - (vi) Pièce [C-ACIG-0028](#), p. 14, R-29;
  - (vii) Pièce [C-ACIG-0028](#), p. 15, R-30.

**Préambule :**

(i) « *Dr. Brown considers financial risk to be a measure of the extent to which the capital structure of the utility influences the risk borne by its equity investors. As such, Dr. Brown would not expect there to be any relationship between the use (or the extent of the use) of deferral accounts and financial risk, because deferral accounts do not influence capital structure. In contrast, Dr. Brown would expect the use of deferral accounts to influence business risk. Dr. Brown is not aware of any general principle which would cause one to expect a greater (or lesser) use of deferral accounts as between a US and a Canadian jurisdiction. In practice Dr. Brown does not consider there to be a significant difference as between the Utilities and the utilities in Dr. Villadsen's gas LDC sample (see Q/A 4 in Dr. Brown's Direct Testimony, EGI-1, B-0027)* ». [nous soulignons]

(ii) Énergir présente les informations relatives aux comptes de stabilisation tarifaire pour la température, pour les frais financiers et le nivellement du gaz perdu aux lignes 10, 11 et 12 de la page 1 ainsi que les détails relatifs aux comptes de stabilisation tarifaire pour la température et les frais financiers à la page 2.

(iii) Dans le cadre du dossier tarifaire 2022-2023 d'Énergir, la Régie a reconduit l'application du mode réglementaire allégé, incluant le découplage des revenus, tel qu'approuvé par la Régie dans le cadre du dossier tarifaire 2019-2020 pour les trois prochaines années.

(iv) Les Demanderesses présentent les taux de rendement autorisés et réalisés pour la période 2002-2021.

(v) « *Q26 What conclusions can you draw from analyzing the achieved and allowed returns for the two utilities ?*  
*A26 I conclude that both utilities have effective mechanisms in place to manage short-term risk.*

**Demande conjointe relative à la fixation de taux de rendement  
et de structures de capital, R-4156-2021**

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*During the period covered by Figure 1, the world experienced the 2008–2009 global financial crisis and the 2020–2021 coronavirus pandemic, which each shocked the economy in different ways. Regardless of these shocks, both utilities managed to earn their allowed returns for the full 20-year period, almost without exception ». [nous soulignons]*

(vi) « *Q29 Have you compared the variation in the achieved returns from the Utilities with those of the other gas utilities presented by Dr. Villadsen and Dr. Brown as comparable proxies in this docket?*

*A29 I have. Énergir and Gazifère have a smaller variation in annual returns over the 2010–2021 period than all but one of the utilities used by Dr. Brown and Dr. Villadsen as supposedly comparable utilities in the U.S. gas utility sample. Figure 2 shows the achieved annual returns on equity for the nine companies in the U.S. gas utility sample over the last decade, along with the range of allowed returns on equity for utilities owned by the firms in the sample from 2015 to 2021, as documented in their SEC 10-K filings.<sup>5</sup> ... ». [nous soulignons] [notes de bas de page omises]*

(vii) « *Q30 Do the sampled U.S. gas utilities consistently earn as much as or above their allowed rate of return on equity, like Énergir and Gazifère do ?*

*A30 No, from what I can tell they do not. Because the U.S. gas sample companies generally have lines of business beyond a single jurisdiction's regulated gas distribution business, it is difficult to make a direct comparison of allowed vs. earned returns for those portions of their business. However, I did compare the earned returns for the companies as a whole with the range of allowed returns that were presented in recent 10-K forms for each company. While the SEC does not require allowed returns to be provided, most of the companies in the sample provide at least some data on their allowed returns. Staff under my direction catalogued all of the allowed after-tax rates of return on equity listed on the 10-K forms for each company, in each year back to 2015. Many of the companies own multiple utilities that have different allowed returns on equity, and I included the full range of the component utilities in my analysis. The lowest allowed return on equity value I found for any of these component companies is 9.1 percent, and the highest is 12.0 percent. (For comparison, S&P Global Market Intelligence reports that the average gas utility allowed returns has fallen gradually, from an average of 10.15 percent for rates awarded in 2010 to 9.46 percent for rates awarded in 2020.<sup>6</sup> This indicates that the range I identified is reasonably representative.) Of the nine companies in the U.S. gas sample, only four have earned an average return of greater than 9.1 percent over the last five years, and all but one earned a return of less than 9.1 percent in at least one of the last five years. The simple average of five-year returns for the U.S. gas sample was 7.8 percent. Because the firms in the U.S. gas sample show returns on equity lower than the lowest allowed return I found in examination of any of their component utilities, it is clear that they do not generally exceed their allowed returns ». [nous soulignons] [notes de bas de page omises]*

**Demandes :**

- 1.1 Veuillez confirmer que les comptes de frais reportés cités en référence (ii) et le mécanisme de découplage des revenus cité en référence (iii) permettent à Énergir de diminuer la volatilité du rendement réalisé annuellement et par conséquent favorise la réalisation du rendement

autorisé sinon de l'excéder comme le suggèrent les résultats de la référence (iv) et (v). Dans la négative, veuillez expliquer.

**Réponse :**

Confirmed that deferral accounts and decoupling mechanisms result in lower volatility of achieved returns year over year. Not confirmed that decoupling or deferral accounts increase the chance of earning at or above the authorized rate. These mechanisms reduce volatility of achieved returns but do not bias the achieved return up or down (relative to no decoupling or fewer deferral accounts).

- 1.2 Selon la référence (iv), le rendement réalisé annuellement d'Énergir, Gazifère et Intragaz, au cours de la période 2006 à 2021, a dépassé le rendement autorisé. Par ailleurs, en références (vi) et (vii), les rendements réalisés des entreprises inclus dans l'échantillon des comparables américains ont été plus volatils et n'ont pas toujours atteint les rendements autorisés. Veuillez préciser si, d'une part, cette situation a été prise compte lors de votre examen et, d'autre part, veuillez justifier votre énoncé présenté à la référence (i) : « *Dr. Brown is not aware of any general principle which would cause one to expect a greater (or lesser) use of deferral accounts as between a US and a Canadian jurisdiction* » en tenant compte des informations présentées aux références (iv), (vi) et (vii).

**Réponse :**

The precise nature of the achieved returns for the US sample companies discussed in reference vi/vii is not clear. Dr. Brown assumes that the achieved returns are at the company level rather than the utility level. Thus they are not comparable with authorized returns because a) they are an "average" of achieved returns across several utilities within the same group and b) the returns are measured on the basis of financial accounting rules while authorized returns relate to regulatory accounting.

In general Dr. Brown considers that the volatility of historical accounting returns or a comparison of historical accounting returns with authorized returns are of little relevance for analyzing business risk. Investors care about future market returns, not historical accounting returns (market returns are the returns received by equity investors, made up of dividends and changes in the price of shares overtime). Dr. Brown therefore did not analyse this historical accounting returns data for the purposes of his business risk analysis. Dr. Brown stated (in response to IR 7.1 as referenced in i) above) that he was "not aware of any general principle which would cause one to expect a greater (or lesser) use of deferral accounts as between a US and a Canadian jurisdiction", and that he "does not consider there to be a significant difference as between the Utilities and the utilities in Dr. Villadsen's gas LDC sample (see Q/A 4 in Dr. Brown's Direct Testimony, EGI-1, B-0027)" in relation to the use of deferral accounts. The cited references do provide no information about the use of deferral accounts by the Utilities nor about the use of deferral accounts by the utilities owned by companies in the US sample. Dr. Brown considers that some jurisdictions make

greater use of deferral accounts and others lesser use. However, the relevant point for present purposes is that, in Dr Brown's view, this is not a source of business risk difference (as explained in Dr. Brown's evidence at Q/A 41 and workpaper 1).

- 1.3 Les résultats présentés à la référence (iv) démontrent que le rendement annuel réalisé excède systématiquement le rendement autorisé sur la période de 2006 à 2021. Veuillez préciser si, d'une part, un investisseur tiendrait compte de ces résultats historiques dans l'appréciation du risque d'affaires d'Énergir, Gazifère et Intragaz, d'autre part, s'il évaluerait le risque d'affaires de ces trois mêmes entreprises en tenant compte du cadre réglementaire en vigueur ayant permis l'atteinte de ces résultats. Dans la négative, veuillez expliquer.

**Réponse :**

Dr Brown considers that, in general, when assessing risk, investors are considering future market returns (where market return is made up of dividends and changes in the share price over time). More specifically, investors care about the expected level of market returns (relative to the cost of capital) and the degree to which these expected market returns are a source of systematic risk (that is, the extent to which returns are expected to covary with returns from the market generally). Historical accounting returns (such as those in reference iv) provide no information about the degree to which investors would have been exposed to systematic risk in the past, because reference iv contains accounting returns, not market returns. Historical accounting returns (such as those in reference iv) can provide some information about the extent to which historical market returns exceeded or fell below the cost of capital, because market returns (which investors care about) are likely to be correlated to some degree with accounting returns. However, investors care about the future, not the past, so historical returns can only be relevant to the extent they provide some guidance about the future. Dr Brown considers that an analysis of historical returns is only of limited relevance to assessing the level of expected future returns, principally because business risk changes over time. Even if business risk were not changing, the period over which historical returns are presented in reference iv is short relative to the economic lives of utility assets.