RÉGIE DE L'ÉNERGIE

DOSSIER : **R-4156-2021, Phase 2**

EGI – DEMANDE CONJOINTE RELATIVE À LA FIXATION DE TAUX DE RENDEMENT ET DE STRUCTURES DE CAPITAL

DEMANDE DE RENSEIGNEMENTS N^{O} 1
DU DR. HOPKINS AU DR. BROWN

Montréal, le 25 février 2022

INFORMATION REQUESTS NO 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.

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

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.

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?

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"?

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?

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?

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?

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?

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.