

# **Réponse du Transporteur à l'engagement 10**

(Demandé par RTIÉE)



## Engagement 10

(Demandé par Me Dominique Neuman).

Référence : C-RTIÉE 0026, RTIÉE-1, Document 4, page 2.

### PREAMBLE :

The first two columns with figures in that table are the information you've already submitted to us on these companies in Brattle's answer to RTIÉE (B0061, HQT-10, Doc. 6.1, page 11). The third column is the following ratio, hereafter the "ratio" :

(Total energy in MWh per year / 8760 hours) / Annual Peak demand in MW.

As mentioned by AHQ-ARQ verbally at the December 13, 2021 hearing and as confirmed in the present table, such ratio is extremely low at **1,64 % for Central Maine Power Company (first line of the table) and is extremely high at 127 % for Ohio Valley Electric Corporation (last line of that table)**. At the request of AHQ-ARQ, in view of such ratios, you have undertaken to verify the correctness of the data you have submitted in Brattle's answer to RTIÉE (B0061, HQT-10, Doc. 6.1, page 11) on the Total energy in MWh per year and on the Annual Peak demand in MW for these two companies.

1. Would you be kind enough to take the same undertaking concerning the other companies listed in the table described in the above reference ?

2. Is it your opinion that the ratio concerning these companies is impossible, improbable and abnormal? Is it therefore your opinion that the data you submitted, which generated said ratio for these companies (Total energy in MWh per year and Annual Peak demand in MW) is impossible, improbable and abnormal?

### Réponse :

- 1. We can confirm that concerning the other companies listed in the table described in the above reference, the data we provided are the data recorded in the S&P Global database, which Brattle used for its productivity and benchmarking studies and are the data that are in our model. There was no error by Brattle in transferring the data from S&P Global into our model or from transferring the data in our model into the cited table. We note that S&P Global is a well-established and respected data vendor with deep expertise in working with the FERC Form 1 data and whose databases are used in regulatory proceedings in North America, as alluded to by PEG in their Cost Research Guidelines for this TFP study<sup>1</sup> and was also used by PSE for their productivity and benchmarking studies in the MRI for Hydro One<sup>2</sup>. We also note that 7 of the 16 companies from the table provided were included in PEG's productivity sample.<sup>3</sup>**

<sup>1</sup> Cost Research Guidelines for Hydro-Québec Transmission, Pacific Economics Group Research LLC, October 17, 2019, page 22. PEG specifically recommended that Brattle

<sup>2</sup> Transmission Study for Hydro One Networks Inc.: Recommended CIR and Productivity Comparisons, Power Systems Engineering, Inc., May 23, 2018, Footnote 14, Page 21.

<sup>3</sup> The companies included by PEG are: West Penn Power Company, Niagara Mohawk Power Corporation, Public Service Electric and Gas Company, Central Hudson Gas & Electric Corporation, Avista Corporation, Monongahela Power Company, and ALLETE (Minnesota Power).

2. Some of the load factor estimates in the table seem to be anomalous. Nevertheless, they are derived from the actual data the companies report to the FERC. It is important to note, that Brattle does not use MWhs as an output measure in its productivity recommendations. It is also important to note that Brattle’s model has at least 50,000 data points used to determine productivity growth. To the extent that some of the companies cited in the reference above misreported MWhs to the FERC —something that would need to be proved—it would virtually have no impact on our results. In other words, if one were to go through the process of somehow adjusting the MWh data (which would have to be from another data source because the S&P data that Brattle uses matches those reported by the company to the FERC) in order to come up with different load factors, Brattle’s productivity recommendations would be unaffected because total energy is not an output used in the productivity study.

We also refer to our response to PEG question 6.2 for a discussion on the use of the FERC data and quote the following passages:

“In general, the FERC Uniform System of Accounts (USOA) is a time-tested and well-understood regulatory accounting system that has been in place since the mid-20th century in the U.S. and has been adopted by regulators in other parts of the world. Many of the transmission O&M accounts have been in place for a long period as well, providing industry participants with a long history of cost accounting experience and institutional expertise amid the significant evolution of the industry since its inception. The regulatory accounts of the USOA identify the costs of providing transmission services and is the basis for cost of service regulation that the FERC and states utilize for transmission revenue requirements and rates. The FERC periodically issues orders to review and revise its USOA taking into account “Commission’s ratemaking policies, past Commission actions, industry trends and external factors (e.g., economic, environmental, and technological changes, and mandates from other regulatory bodies).”

The long period of FERC accounting experience encompasses the many evolving industry structures—from one based upon vertically-integrated utilities that would interconnect and engage in limited wholesale transactions to one based upon more formal wholesale competition requirements emanating from the 1978 Public Utilities Regulatory Policies Act (PURPA), to the 1996 FERC Order 888 on transmission open access and non-discriminatory rules leading to the creation of the Open Access Transmission Tariff (OATT) and its periodic reforms, to the continued evolution of organized wholesale power markets through ISOs/RTOs.

Perfection in the underlying database is not a requirement for a TFP study which focuses on growth rates and some amount of measurement error is standard in econometric analysis and, when part of the dependent variable, presents no challenge in estimation.”<sup>4</sup>

Moreover, the companies in our database are investor-owned utilities (“IOUs”) and are publicly owned companies whose stock is publicly traded on U.S. markets, or they are part of an affiliate with the parent’s stock being publicly

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<sup>4</sup> See, <https://www.ferc.gov/enforcement-legal/enforcement/accounting-matters>.

traded. All publicly traded companies like the IOUs have to file regular reports with the U.S. Securities and Exchange Commission (“SEC”). The filing requirements at the SEC include annual Form 10-K, quarterly Form 10-Qs, periodic Form 8-K, proxy reports and certain shareholder and affiliate reporting requirements.

In addition, there are numerous internal accounting controls requirements and, importantly, there is a requirement that the company’s accounting system be independently audited. These companies are also subject to the Sarbanes-Oxley Act of 2002 that include CEO/CFO certifications requirements, prohibition on officer and director loans, and the requirement that the CEO and CFO must personally certify the content of the reports filed with the SEC and the procedures established by the issuer to report disclosures and prepare financial statements. The reports filed with the SEC are subject to SEC review and comment and the Sarbanes-Oxley Act requires the SEC undertake some level of review of every reporting company at least once every three years.

In addition to regulation at the FERC, the distribution and generation portion of the IOUs in our sample are regulated at the state level by their respective public utilities commissions (PUCs). This adds a second layer of regulation on the IOUs in our sample. The State PUCs typically have dedicated accounting and financial professionals and experts on its staff overseeing the activities of the IOUs. PUCs have been closely involved in the financial and accounting oversight of their IOUs for many decades.

Finally, as mentioned above, we obtained our data from SNL Financial, now part of S&P Global, a world leading company on financial data. SNL has been in existence since the late 1980s and has deep expertise and experience working with the FERC database. On its website, S&P Global indicates that it has an extensive quality control program to ensure accuracy of the data it collects. The company indicates that it runs thousands of automated quality checks and reviews content multiple times before publishing<sup>5</sup>.

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<sup>5</sup> See, [Quality Program | S&P Global Market Intelligence \(spglobal.com\)](https://www.spglobal.com/market-intelligence/quality-program).