

**DEMANDE DE RENSEIGNEMENTS N° 1 D'OPTION CONSOMMATEURS (OC) À
HQT/NERA¹**

**DEMANDE DU TRANSPORTEUR DE MODIFICATION DES TARIFS ET
CONDITIONS DES SERVICES DE TRANSPORT POUR LES ANNÉES 2021 ET 2022**

R-4167-2021 VOLET 2

NERA REPORT

1. Reference : **i) B-0159 Report: Experience of NERA & Dr. Makolm**

Preamble: NERA has been retained by HQT to prepare a review of capital variation accounts (in the context of inclusion of a capital CER for a 2nd Generation MRI).

Questions:

- a) Please provide a listing, with references, of recent NERA studies on each of:
 - i) CER for capital in MRI.
 - ii) Capital variation deferral accounts or capital in-service variation accounts.
- b) Please include client, regulatory agency and date for each.
- c) Specifically note and reference studies reviewed by Canadian energy regulators.
- d) Please provide the scope of the Canadian studies, conclusions and recommendations.
- e) Please provide reference(s) to the regulator's decision(s).
- f) Please identify/list in the above, the regulatory reports authored in whole or part by Dr. Makolm, in the last 5 years.

¹ National Economic Research Associates Inc. (NERA), Boston, Massachusetts.

2. **References:**
- i) **B-0159 NERA Report, page 4, b. Assignment**
 - ii) **B-0159 NERA Report, pages 5-6, II. Conclusions**
 - iii) **B-0159 Nera Report, page 23, Table 2**

Preamble : NERA states on p.7 that “DVA accounting is not a useful substitute for factual examinations of the reasonableness of the project-by-project forecasts that make up the forward test year for capital additions, for three reasons.

First, DVA accounting would remove the Régie’s useful regulatory lag incentive mechanism.

Second, it would reflect a *misuse* of such deferred accounting mechanisms (as generally accepted accounting for regulated enterprises throughout North America—which are designed to deal with costs outside utilities’ control).

Third, it would not streamline the Régie’s regulatory burden—but rather introduce contentious elements of ex post scrutiny, into capital additions—given that “prudence” principle underlying Canadian regulation would still apply to such additions.” (our emphasis)

Questions:

- a) Confirm that most Canadian regulators use a forward test year for all costs of service. Provide examples of any that do not.
- b) What are the regulatory principles that apply to deferral accounts for both O&MA and capital costs? Please discuss in detail with references.
- c) Confirm whether under incentive regulation, deferral accounts are still used by some regulators. If confirmed, please provide examples to support your answer.
- d) Confirm whether one possible/likely use of capital deferral accounts relates to capital contributions from third parties. If confirmed, please provide examples to support your answer.
- e) Confirm that regulators generally apply prudence reviews to capital additions. If confirmed, provide examples, including from Québec, to support your answer.
- f) Please define and provide relevant references for “regulatory lag”. Provide specific examples, including from the Régie.
- g) With regard to Table 2, please provide an addition for all Canadian regulators NERA is aware of. Please add any notes/comments.
- h) Is NERA aware of any transmission or distribution companies (gas and electricity) regulated by the Régie, that have deferral accounts other than HQT? If so, please list these and the relevant deferral accounts.

3. Reference: i) B-00159, pages 18-19, A. Prudence

Preamble : NERA states on p. 19 that: “The force of such reasoning (Brandeis)—the search for practical regulation without endless conflict—led to the prudence standard becoming “regulatory common law” in Canada and the United States.²³ Regulators apply innumerable minor instances of “imprudence” as regulatory commission staffs assess normal rate cases. But major imprudence disallowances that threaten the credit of utilities are uncommon—and almost all related to power plant construction.”

Questions:

- a) Please provide a list of material prudence disallowances for *electricity transmission* that NERA is aware of. Provide date and regulatory entity:
 - i) in the USA.
 - ii) In Canada.

- b) Please define and discuss, in terms of gross and net plant additions to rate base, from a regulatory accounting perspective, the difference between capital additions and in-service additions to rate base. Specifically discuss timing differences.

- c) In NERA’s experience, which approach(es) are used by North American regulators? Give examples.

- d) Please comment the following assertions:
 - i. ratepayers should only pay for assets that are “used and useful” and
 - ii. whether delays in commissioning can result in assets not meeting this regulatory principle.

4. References: i) B-0159, Appendix B

Preamble : Appendix B “Impact of Forecast and Actual Spending on the Revenue Requirement” shows *hypothetical* capital spending and rate base for two years.

Questions:

- a) With respect to the examples provided in Appendix B, please confirm these are hypothetical examples and not based on actual HQT data.

- b) Does NERA support average ratebase additions or weighted averages? Which does HQT use?

- c) Please provide an example using actual HQT capital additions for one or more recent sample years where the deviation of capital spending from actual was material. Please provide answers in tabular and Excel formats.

Hydro Quebec Transmission Historic Capital Spending

5. **References:**
- i) B-0159, Page 4
 - ii) R-3778-2011, B-0004 HQT-1, Document Table 4
 - R-3935-2015, B-0004 HQT-1 Document 1 Table 4
 - R-4097-2019, B-0004 HQT-1, Document 1 Table 4
 - R-4168-2021, B-0004 HQT-1, Document 1 Table 3

Preamble: NERA states that: "Observing the differences between forecast and actual capital addition values in recent years, the Régie has posed the question of whether it would be better to use "deferral and variance account" (DVA) accounting for capital additions within the context of a forecast test year. Both the Canadian Federation of Independent Business (Fédération Canadienne des Entreprises Indépendantes "FCEI") and the Association Québécoise des Consommateurs Industriels d'Électricité/Conseil de l'Industrie Forestière du Québec ("AQCIE-CIFQ") generally support the concept of a DVA for capital additions."

OC wishes to understand the underlying data on historical HQT capital additions.

Questions:

- a) With respect to Reference ii), please provide Tables and Excel spreadsheet with historic data for HQT capital additions (forecast and actual) from 2008-2020 where they are:
- i) not generating additional revenue; and
 - ii) generating additional revenue.

Provide basic statistics, - difference (ecart), difference % (ecart%) Average above/below, Standard Deviation.

Provide graphical representation(s) of data.

- b) Using the annual capex differences (écart) in the table/spreadsheet above, please provide (a) table(s) and spreadsheet showing the change (écart) in dollars and % (écart%) relative to the revenue requirement for each year.

- c) Based on this analysis, comment whether the year over year differences in capital and revenue requirement are material enough to justify a capital in-service variation account.
- d) Please provide the amounts of capital contributions for each of the historic years. Please breakdown the contributions into subsets, related to HQT business, such as Distribution, Generator, Export/intertie. (categories to be selected by HQT).
- e) What capital contributions are forecast related to the HQT supply plan outlook for 2021-2027 in absolute terms and percentage of capital.

6. References:

i) **D-2021-123, B-0011**
 ii) **B-0039, page 26, Table 24**

Preamble: OC wishes to better understand HQT's management of large transmission projects requiring approval by the Régie.

Questions:

- a) Please provide a listing of large projects 2015-2020 and if these were commissioned for the domestic market, export market or both.
- b) Please complete the following table based on reference ii) Table 24 including by the addition of two columns as highlighted. Please provide the response in both PDF and Excel formats.

Tableau 24
Dépassement de coûts de projets autorisés en vertu de l'article 73 de la LRÉ (M\$)

Projets	Décision Régie	Valeur autorisée Régie	Valeur autorisée HQ ¹	Prévision ²	Mise en service finale réelle et prévue	Suivi administratif
Ligne Grand-Brûlé - Dérivation Saint-Sauveur (R-3960-2016)	D-2016-130	98,0	119,1	128,6	2019	31 mai 2019
Ligne Grand-Brûlé - Dérivation Saint-Sauveur (R-3960-2016)	D-2016-130	98,0	119,1	128,6	2019	29 mai 2020
Ligne Grand-Brûlé - Dérivation Saint-Sauveur (R-3960-2016)	D-2016-130	98,0	119,1	128,6	2019	31 mai 2021
Reconstruction de lignes à 120kV à Gagnéau (R-4016-2017)	D-2018-028	51,6	66,7	66,0	2020	28 janvier 2021
Construction d'une nouvelle section à 120 kV et au remplacement d'un transformateur à 230-120 kV au poste de la Chaudière (R-4023-2017)	D-2018-051	47,4	58,6	58,6	2021	22 avril 2021
Construction d'une ligne à 735 kV entre les postes Miooua et du Saguenay (R-4052-2018)	D-2019-087	792,7	1000,8	1000,8	2023	31 mai 2021
Remplacement de transformateurs à 315-120 kV et l'ajout d'une section à la 25 kV au poste La Prairie (R-4029-2017)	D-2018-059	57,3	45,1	42,5	2022	31 mai 2021
Reconstruction d'une ligne souterraine entre les postes Beaumont et Dorchester (R-4071-2018)	D-2019-039	25,6	34,2	34,2	2021	8 avril 2020

Note 1: Correspond à la nouvelle valeur autorisée par la PDG et/ou au Conseil d'administration d'HQ puisqu'elle dépasse de plus de 15% la valeur initialement autorisée par ceux-ci.

Note 2: Correspond à la nouvelle prévision du projet telle que fournie à l'état d'avancement des projets majeurs du dernier rapport annuel (Rapport annuel 2020 du Transporteur, B-0016, HQT-6 Document1).

Project	Decision and Date Approved	Forecast In Service Capital cost	Forecast In service commissioning date	Forecast Impact on Revenue Requirement Year 1	Actual in Service Capital cost	Actual in service commissioning date	Actual Impact on Revenue Requirement Year 1
Grand- Brule							
La Prairie Transformers							
Micoua-Saguenay							

Other Jurisdictions

7. Reference: i) EB-2021-0110 Hydro One Networks Joint Rate Application²

Preamble: Reference i) indicates that Hydro One Transmission has an OEB- approved capital in-service variance account (Account 2405).

Questions:

- a) Were Hydro Québec and NERA aware of this account?
- b) If so, why was this not referenced?
- c) Has NERA searched for other examples of Capital Deferral/Variance Accounts in North America? What was the result?
- d) Specifically, is Hydro One Transmission the only example in Ontario?
- e) Please review Reference i) and evidence extract and provide comments relative to the HQD DVA issue pending in the current case.

² OEB EB-2020-0110 Hydro One Networks Joint Rate Application
Exhibit G Tab1 Schedule1 Page 19 Section 3.14 Capital In-Service Variation Account 2405
<https://www.rds.oeb.ca/CMWebDrawer/Record?q=CaseNumber=EB-2021-0110&sortBy=recRegisteredOn-&pageSize=400>

8. **Reference:** i) **Ontario Energy Board Filing Guidelines
Transmission³**

Preamble: The OEB Filing Requirements for Transmission Applications include Transmission System Plans for capital(Section 2.4).

Questions:

- a) Please provide the reference(s) for HQT filing requirements and specifically for long term system capital plans
- b) Please compare the Guidelines applicable to HQT to Ontario's.
- c) Please comment/discuss material differences.

³<https://www.oeb.ca/regulatory-rules-and-documents/rules-codes-and-requirements/filing-requirements-transmission-distribution-applications>