DEMANDE DE RENSEIGNEMENTS N° 1 DE L'AQCIE-CIFQ (PEG) RELATIVE À LA DEMANDE DU TRANSPORTEUR ET DISTRIBUTEUR RELATIVE À LEURS MÉCANISMES DE TRAITEMENT DES SURPLUS ET DES MANQUES À GAGNER CUMULÉS RESPECTIFS («MTSM»)

BRATTLE EVIDENCE

1. Références : (i) Pièce B-0006, pp. 11, 12 and p. 33

Préambule :

(i) Brattle states on p. 11 that

« The objective of the jurisdictional scan was to identify utilities that are most comparable to HQTD. » This turned out to be electric utilities in Canada with ESMs and electric utilities in the United States with ESMs and a cost of service regulatory framework.

On page 33 Brattle states that

« We reviewed the Canadian utilities within the jurisdictional scan to determine whether their ESM were explicitly linked to any service quality indicators. We found that no utilities had this explicit link, regardless of whether they were regulated under a PBR or cost-of-service framework. »

On page 12 Brattle indicates that its jurisdictional scan included FortisBC. However, FortisBC was not included in the service quality jurisdictional scan.

Brattle reports details of ESMs in multiyear rate plans that included these mechanisms but did not provide information on multiyear rate plans that don't have ESMs.

Demandes:

1.1 Please confirm that since the surveyed Canadian utilities generally did not have service quality performance incentive mechanisms ("PIMs"), such mechanisms cannot be expected to be attached to ESMs.

1.2 Did you review the prevalence of service quality PIMs in US rate plans? If yes, please provide the results. If not, why not?

1.3 Please confirm that service quality PIMs affect earnings even if they are not expressly tied to earnings sharing mechanisms.

1.4 Why weren't FortisBC or BC Hydro included in the service quality jurisdictional scan?

2 Références : (i) Pièce B-0008

Préambule :

(i) Brattle surveyed the ESMs of US and Canadian companies that had ESMs.

Demandes:

2.1 Did Brattle do research for HQTD that it didn't submit in evidence on multiyear rate plans that *don't* have ESMs? If so, please provide results of this research. If not, why not? Isn't this information relevant for determining whether HQTD should have a symmetrical ESM?

2.2 Please confirm the following statements, explaining any unwillingness to confirm.

2.2.1 Many North American utilities have operated under multiyear rate plans ("MRPs") that don't have ESMs.

2.2.2 These have included California energy utilities, BC Hydro. and the dozens of Ontario power distributors that operate under price cap incentive ratemaking.

2.2.3 Many of the MRPs that have lacked ESMs have had plan terms exceeding 3 years.

3. Références : (i) Pièce B-0004
(ii) Pièce B-0006

Préambule :

(i) In Pièce B-0004, HQTD makes some controversial statements about the incentive impact of the proposed MTSM.

They state on p. 6 that

> « Un ESM incite l'entreprise à mieux maîtriser les coûts sous son contrôle et est généralement utilisé conjointement avec d'autres dispositifs réglementaires pour le traitement des coûts hors de son contrôle, tels que les CER. Par ailleurs, comme mentionné par Brattle, un ESM bien conçu peut être avantageux pour l'entreprise et sa clientèle. Aligner les incitatifs financiers pour que l'entreprise réduise les coûts de gestion courante pendant la période tarifaire peut se traduire par des gains d'efficience opérationnelle, une baisse des coûts et une augmentation des rendements. »

They state on p. 9 that

> « En conclusion, les paramètres des MTSM proposés par HQTD, combinés au maintien des CER reconnus en COS, sont cohérents, notamment avec l'article 52.3 de la LRE, en prévoyant un mécanisme symétrique dont les modalités sont établies pour couvrir les écarts de prévision sur le cycle tarifaire de trois ans, cela tout en maintenant un incitatif à réaliser des gains d'efficience. »

They state on p. 16 that

> « HQTD demandent à la Régie de prendre acte de la suffisance des MTSM proposés à titre de mécanismes incitatifs prévus à l'article 49 (4°) de la LRE. »

and that

> « HQTD soumettent que les modalités des MTSM proposées…constituent un incitatif à la réduction des coûts ainsi qu'à l'efficience de la gestion opérationnelle des entités réglementées ».

(ii) In Pièce B-0006, Brattle makes some controversial statements on the same topic.

They maintain on p. 6 that

> « An ESM is typically used together with other regulatory arrangements such as Deferral and Variance accounts ("DVAs") to provide a utility with a financial incentive to manage costs that are under its control. »

They maintain on p. 7 that

> « A well-designed ESM can benefit ratepayers, the utility and its shareholders. Aligning financial incentives for the utility to reduce manageable costs during the rate period can result in operational efficiencies, lower costs and higher returns. »

They maintain on p. 20 that

> « A symmetrical ESM will ensure that both the customers and the utility have appropriate protection from excessive surpluses or shortfalls during the rate period, while still providing a strong financial incentive to HQD and HQT to manage costs for which it is able to do so. the Company's proposed new ratemaking system would generate a "strong financial incentive" to manage cost. »

They state on p. 27 that the MTSM « provides a financial incentive for the utility to find efficiencies. »

Demandes:

3.1 In assessing the incentive impact of the MTSM, is the comparison to a hypothetical two-way cost tracker, American-style cost of service formula rate, or a "cost variance formula" like that prescribed for gas distributors in Section 48.1 of the LRE or is it instead to a multiyear rate plan that is identical to that which HQTD proposes save that it has no ESM?

3.2 Please confirm that the addition of the proposed MTSM to an otherwise identical plan that doesn't have one would *weaken* the Company's cost containment incentives. If not confirmed, please explain why not.

3.3 When you say that HQTD would have incentives under the MTSM, are you effectively saying that it would have *some* incentive?

3.4 How do the cost containment incentives of a company operating under a 3-year rate plan based on forecasted cost and the proposed MTSM compare to those of companies operating in competitive markets?

4. Références : (i) Pièce B-0006, p. 4

Préambule :

Brattle provides a rationale for including a symmetrical ESM in the new HQTD rate plans.

(i) Brattle states on p. 4 of Pièce B-0006 that

> « HQD and HQT differ from many peers because their rates are now set under a three-year forecast cost-of-service framework with limited ability to adjust rates during the period. As a result, ESM and DVA balances may accumulate over the full rate period resulting in incremental risk for HQD and HQT.»

Demandes:

4.1 Please confirm that the following features of the proposed plan materially *reduce* the operating risk of HQTD. Please provide a full explanation for any non-confirmed statements.

- The revenue requirement will be based on a multiyear cost forecast rather than indexing or the Company's past historical capex.
- The three-year term of the plan is on the short side for a multiyear rate plan.
- Many of the Company's costs will be accorded CER treatment. These include costs of major outages, pensions, and power supply that are important potential sources of utility risk.
- Section 48 of the LRE obliges the Regie to conduct a rate review during the plan term in the event of exceptional circumstances.

4.2 Considering your response, why is a symmetrical ESM warranted for HQTD when many multiyear rate plans with riskier features have only an asymmetrical surplus-only ESM or no ESM?

4.3 Why is a symmetrical ESM, which weakens incentives to contain costs of *all* of HQTD's base rate inputs, preferable to the following alternative risk reduction measures?

- Z factors for miscellaneous difficult to foresee events.
- Base the cost forecast on an explicit inflation assumption subject to true-up in the first year of the next plan.
- Tracker treatment of certain costs of the energy transition such as the cost of accommodating electric vehicles.
- Revenue decoupling for some service classes.

4.4 What are the principal financial risks facing HQTD that are not addressed by a forward test year, a forecasted attrition relief mechanism, CERs, and other risk-reducing provisions of the new ratemaking system?

5. Références : (i) Piece B-0006, p. 12

Préambule :

(i) On page 12 of this piece. Brattle identifies the distributors included in its jurisdictional scan. Three utilities from the state of New York: Consolidated Edison, New York State Electric and Gas, and National Grid (Niagara Mohawk) are included.

Demandes:

5.1 Please confirm that these utilities operate under rate plans that typically have 3-year terms and revenue requirements are typically escalated on the basis of cost forecasts.

5.2 Please also confirm that each of these utilities have service quality PIMs.

6. Références : (i) Pièce B-0006, p. 13

Préambule :

(i) Brattle states on p. 13 that Law 24 requires a « cost-of-service framework » for HQTD.

Demandes:

6.1 Please confirm the following statements, explaining any non-confirmed statements.

1) Many multiyear rate plans feature attrition relief mechanisms based in whole or in part on multiyear cost forecasts. These include the RIIO plans in Great Britain.
2) Many of these plans have, like RIIO, been characterized by regulators as incentive ratemaking.
3) The same section 49 of the LRE that requires cost of service forecasts for transmission and distribution utilities also requires that the Regie « favour measures or incentives to improve the performance of the electric power carrier or distributor and the satisfaction of clients' needs. »

6.2 Based on your answers, how can you argue that ESM precedents of PBR plans are irrelevant? Don't they shed light on whether a symmetrical ESM is relevant for HQTD?

7. Références : (i) Pièce B-0006, p. 15-16

Préambule :

(i) Brattle maintains on pp. 15-16 that Section 52.3 of the LRE mandates a symmetrical ESM.

Demandes:

7.1 Why does a requirement in Section 52.3 of the LRE that the Regie « consider » HQTD's gains and losses in the next rate review require the Regie to include an ESM in the plans much less a symmetrical one when the LRE specifically requires a number of ratemaking practices that include a « cost variance formula » for gas distributors and the calculation of a rate base?

7.2 By Brattle's reasoning, does the requirement in Section 49 (9) of the LRE that the Regie « consider service quality» mean that the plans must have service quality PIMs?

8. Références : (i) Pièce B-0007, p. 18 du PDF

Préambule :

(i) The curriculum vitae of Adam Wyonzek indicates that he prepared a written expert report for The Board of Commissioners of Newfoundland and Labrador regarding Newfoundland Power's deferral accounts and incentive mechanisms.

Demandes:

8.1 Please provide a copy of this report.

8.2 Please confirm that none of the experts from Brattle have previously testified on the design of multiyear rate plans or earnings sharing mechanisms. If this is not confirmed, please provide copies of the applicable testimonies or sufficient detail to allow other parties to gather this information.

9. Références : (i) Pièce B-0006, p. 26
(ii) Pièce B-0009
(iii) Ontario Energy Board May 12, 2026 Decision and Order in EB-2024-0115, p. 63 du PDF.

Préambule :

(i) On page 26 of their testimony Brattle stated that

> « The key finding of this review is that utilities within the jurisdictional scan that operate under some form of PBR typically have less extensive DVA coverage compared to the utilities operating under a cost-of-service regulatory framework. In other words, those utilities under a PBR framework had greater reliance on their ESM design to address variances in costs and revenues. »

(ii) Figure 1 in the Brattle testimony lists the following utilities as having PBR: FortisBC Inc., ATCO Electric, FortisAlberta, ENMAX, EPCOR, Toronto Hydro, Hydro One, Hydro Ottawa, Alectra Utilities, and Elexicon Energy Inc.

(iii) The referenced page of the Hydro Ottawa decision discusses Group 1 DVA Dispositions including several with the acronym RSVA which is defined as retail settlement variance account.

Demandes:

9.1 Could the reported differences in the number of CERs of PBR and "cost of service" systems reflect miscellaneous circumstances that include the utility's role in power supply and its reliance on high fixed charges in the design of rates rather than a systematic difference in ratemaking regimes?

9.2 Based on the discussion in reference (iii), please explain why Hydro Ottawa is listed as not having deferral accounts for power supply variances in Brattle's jurisdictional scan. Are other Ontario distributors in Brattle's jurisdictional scan similarly affected?

9.3 Why wasn't the most recent PBR decision used for FortisBC?