

**R-3401-98**

**Summary of Régie de l'énergie  
Decision D-2002-95**

**Note:** This summary reproduces the highlights of Régie Decision D-2002-95. It does not replace in any way the Decision. Only the full French text of the Decision has legal force.

June 28, 2002

## INTRODUCTION

### ***Background***

On June 2, 2000, the Régie de l'énergie (the Régie) determined the issues to be discussed at a public hearing concerning modifications to electric power transmission rates.<sup>1</sup>

On August 15, 2000, Hydro-Québec, in its transmission related activities (the Provider), filed an amended application for modifications to electric power transmission rates.

On December 19, 2000, the Régie declared the existing rates for electric power transmission service to be interim rates as from January 1, 2001.<sup>2</sup>

The Régie began consideration of the case on October 29, 2001, the date on which the Provider's final reply was filed.

### ***The Quebec electricity sector***

The bulk of the Provider's revenue is derived from the *Hydro-Québec Distribution* (the Distributor) (approximately 88% of revenue), which is responsible for supplying Quebecers with electric power, and from *Hydro-Québec Production* (nearly 12%), the main user of point-to-point transmission services.

In Québec, as in the rest of North America, the electricity sector is in a process of change, which accelerated after FERC issued orders 888 and 889 intended to open up the wholesale market and transmission systems.

In the fall of 1996, the Government of Québec published its Energy Policy, which stated that the restructuring of electricity markets represents both an opportunity and a challenge for Hydro-Québec, and hence for Québec.

The Energy Policy also led to the creation of the Régie under Bill 50, which was passed into law on December 23, 1996.<sup>3</sup>

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<sup>1</sup> Régie Decision D-2000-102, June 2, 2000, concerning issues to be discussed, documents and information to be produced with the amended application, the timetable and expenses for the information phase.

<sup>2</sup> Régie Decision D-2000-222.

<sup>3</sup> L.R.Q. c. R-6.01. An Act respecting the Régie de l'énergie (the Act).

On March 5, 1997, the Government of Québec approved Hydro-Québec Bylaw 659,<sup>4</sup> which among other things sets rates for transmission services. Hydro-Québec's Service Agreement for transmission service, which appears in Attachment A to Bylaw 659, came into effect on May 1, 1997, opening up Hydro-Québec's transmission system to wholesale wheeling.

In this context, Hydro-Québec's TransÉnergie division, which is responsible for Hydro-Québec's transmission operations, was created.

Hydroelectric power accounts for a large portion of the power generated in Québec. Québec's hydroelectric facilities are located primarily in northern Québec, far from the urban centres in the south. *Hydro-Québec Production* is the main generator.

Québec has one of the highest levels of reliance on electric power of any region in the world. Electricity satisfies 50% to 65% of non-transport energy needs, depending on the sector.

The context in Québec differs in several respects from that which FERC must take into account in exercising its jurisdiction.

Québec has no electricity exchange. Moreover, only the wholesale electricity market is open to competition in Québec; the retail market is not.

The Régie operates under legislation that differs from the legislation governing FERC.

The Régie takes into consideration FERC decisions brought to its attention by participants, but with the caution and qualifications required by the different legal environments and bearing in mind the Régie's duty to respect the Quebec legislative context and to take into account the specific features of the electricity market in Québec.

In June 2000, major amendments to the Act<sup>5</sup> were passed, including clarifications concerning the process for fixing and modifying electricity transmission rates and a provision for uniform rates throughout the territory served by the transmission system.

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<sup>4</sup> *Hydro-Québec Bylaw #659 respecting the conditions and rates for open access transmission service* (Bylaw 659), R.R.Q. 1981, c. H-5, r. 0.3.

<sup>5</sup> *An Act to amend the Act respecting the Régie de l'énergie and other legislative provisions*, assented to June 16, 2000 (RSQ 2000, c.22).

The new legislative provisions, which are a distinctive feature of Québec's electricity regulation system, have had a significant impact on the scope of the Régie's jurisdiction and its leeway.

Examination of the application for modifications to electric power transmission rates was conducted in a specific rate environment. The Distributor's electric power rates for retail markets have been frozen since May 1, 1998. The Distributor is contemplating increases as of 2004.

## **FINDINGS OF THE RÉGIE**

### **2. TRANSMISSION ACTIVITIES OF HYDRO-QUÉBEC**

#### **2.1.2<sup>6</sup> FUNCTIONAL SEPARATION**

The Régie expects the Provider to operate as a distinct, independent company, as far as possible, and to maintain integrated services only where it is possible to realize economies of scale and/or economies of scope. The Régie also expects the Provider to deal with its affiliates at arm's length.

The Régie expects the Provider to modify its compensation policy to ensure a more thorough functional separation and to eliminate the link between the compensation of the Provider's managers and the overall performance of Hydro-Québec as an integrated company.

#### **2.2.2 CODE OF CONDUCT**

The Régie considers the document submitted to it to be incomplete. The Régie's responsibilities extend beyond the scope of the Code as it stands, and the Code does not specifically govern relations between the Provider and Hydro-Québec's other affiliates.

Moreover, in the Régie's view, the proposed Code makes no mention of protecting customers of the regulated service, except in the case of transactions in the wholesale power market. It does not detail either standards for relations with the other affiliates or the transfer pricing policy to which the Code refers. The Régie believes that a reference to

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<sup>6</sup> The numbers refer to the sections of the decision D-2002-95 which cover the opinions of the Régie on the topics indicated.

the principles set out herein concerning the transfer pricing policy would facilitate application of the Code and thereby prevent any form of cross-subsidization.

The Régie finds that staff training in application of the Code of Conduct appears to suffer from shortcomings and notes that responsibility for the Code of Conduct lies with the Secretary General of Hydro-Québec, not an officer of the Provider. The Régie asks the Provider to provide on-going training on the application of the Code of conduct to all relevant staff. The Régie also asks the Provider to appoint a person independent of Hydro-Québec<sup>7</sup> to assume responsibility for the Code of Conduct in the future.

The Régie orders the Provider to submit for final approval, within 120 days of this Decision, an amended Code of Conduct specifically covering the Provider's relations with all Hydro-Québec affiliates and including the following points:

- description of the nature of transactions and business relations with affiliates;
- the Provider's method for reporting its transactions with Hydro-Québec affiliates to the Régie;
- sharing of staff, information, premises and equipment;
- the Régie's access to the books and records of non-regulated entities;
- description of transfer pricing policy;
- on-going training for relevant staff;
- Code of Conduct compliance audits;
- procedure for treating and reporting breaches of the Code involving the Provider;
- annual report to the Régie on application of the Code and breaches of the Code;
- the information on application of the Code of Conduct that must be published on OASIS;
- keeping of separate books and records by the Provider;
- publication of the Code on OASIS.

The Régie asks the Provider to amend the "Conditions and rates" for its transmission service to eliminate the reference to Part 37 of FERC's regulations concerning the Code of Conduct, so as not to have two codes of conduct applicable simultaneously.

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<sup>7</sup> See decision D-2002-142 relating to precisions requested by Hydro-Québec. It was decided that the expression "Independent of Hydro-Québec" signifies independent of Hydro-Québec "Corporative", in the context of functional separation.

### **2.3.2 IDENTIFICATION OF TRANSMISSION ACTIVITIES**

The Régie cannot conclude that the list of non-regulated activities, as submitted, is “complete and accurate” as the Provider requests, since the evidence on this point is insufficient.

The Régie recognizes, for the purpose of this rate case, that the activities included on the Provider’s list are non-regulated, except for Cedar Rapids Transmission (CRT) activities. Concerning the latter, the Régie should be able to ensure, on its own assessment, that operations are non-regulated, which has not been established by either the evidence or the participants’ arguments.

The Régie recognizes that, with the exception of development of non-regulated products and services, TransÉnergie’s activities related to its mission are activities that are necessary for the delivery of the various regulated transmission services.

The Régie considers that support services are also necessary in order to provide the service and their cost may therefore be included in the revenue requirement, even if these services may be offered by entities other than the Provider in order to optimize the use of resources and reduce costs.

To ensure the transparency of transactions with non-regulated affiliates, the Régie requires that the following information be included in TransÉnergie’s next rate filing:

- list of affiliates;
- the following financial information on affiliates: revenue, expenses, earnings, total assets, total debt, financing guarantees, extraordinary and exceptional events;
- total annual transactions between each affiliate and the Provider, with classification of transactions;
- a report classifying as regulated or non-regulated all new Provider activities and any modification.

### **2.4.2 TRANSFER PRICING**

Transfer pricing for services must be based on the fully allocated cost of transactions with other divisions and subsidiaries, with possibility of exceptions which must be submitted to the Régie for prior authorization.

The Régie approves the transfer of assets between Hydro-Québec business units or wholly owned subsidiaries at book value. Where third parties are involved, the transfer of assets will be at a negotiated price.

When applying for approval under section 73 of the Act, the Provider will always be required to provide relevant data on book value. In examining cases submitted pursuant to section 73, the Régie may decide to apply the asymmetrical transfer pricing policy endorsed by NARUC.

The Régie accepts the treatment of three exceptions to the general principles mentioned above, namely the leasing of right of way, transmission services purchased from CRT, and the license purchased from Teqsim International Inc., a subsidiary in which TransÉnergie Technologies holds an 85% interest.

Failing the calculation of fully allocated cost by subsidiaries and affiliates, the Provider will be required to file a detailed estimate.

With respect to the cost of the transmission services purchased from CRT, the Régie orders the Provider to provide information in its next rate filing concerning the reference market and the market price.

### **3. DEMAND FORECAST AND PROJECTED CAPITAL EXPENDITURES**

#### **3.1 DEMAND FOR TRANSMISSION SERVICES**

The Régie accepts the Provider's native load peak demand forecast of 31,726 MW for the projected test year of 2001.

The Régie accepts the Provider's proposal to set long-term point-to-point reservations at 3,844 MW.

The Régie approves the proposed method for establishing demand for long-term point-to-point services on the basis of historic long-term point-to-point reservations, but orders TransÉnergie to file annually the actual level of reservations, compared with the forecast, for each month of the year, starting from the date of this Decision.

### **3.2.2 CAPITAL EXPENDITURE FORECAST FOR THE TRANSMISSION SYSTEM**

The Régie orders the Provider to produce, in its future rate filings, the information provided in this case regarding capital expenditure forecasts and their rate impacts over a 10-year horizon. In the absence of a rate filing, the Régie orders the Provider to produce annual updates of the same information.

In the future, the Provider should also provide the assumptions made concerning inflation and the cost of capital, and to provide the data and results in current dollars.

### **3.3.2 CAPITAL EXPENDITURE BUDGET**

The Régie notes that the Provider is not applying for any specific authorization for planned capital expenditures in 2001.

### **3.4.2 METHOD FOR THE APPROVAL OF FUTURE ADDITIONS TO THE RATE BASE**

A distinction must be made between authorizing additions of assets to the transmission system and taking account of their value in determining the Provider's rate base.

Whether assets were prudently acquired and are useful for the operation of the transmission system, and their fair value for the purpose of determining the Provider's rate base, must be examined in a rate case, as stipulated by section 49, paragraph 1, subparagraph 1 of the Act, even if the addition of the assets was authorized by the Régie under section 73 of the Act.

## **4. FINANCIAL PROJECTIONS**

### **4.1.2 REGULATORY PRINCIPLES, ACCOUNTING POLICIES AND METHODS**

The Régie recognizes the 11 proposed accounting policies, with certain clarifications concerning construction work in progress, revisions of useful life and major projects that have been abandoned or postponed.

The Régie agrees not to include construction work in progress in the rate base. However, in the event of a major new project with potential to cause a rate shock when commissioned, the Régie could decide on a different treatment, upon request or on its own initiative.



For the purpose of this case, the Régie approves the methodology used for internal billing, subject to reserves expressed about the treatment of telecommunications operations. Telecommunications assets are essential for the operation of the transmission system and the Régie questions why they are not directly under the Provider's control and not included in the rate base.

The Régie rejects the proposed methodology for corporate expenses for the present case and requests a new comparative study of corporate expense allocation methods.

## **4.2 EXPENDITURES NECESSARY FOR THE PROVISION OF TRANSMISSION SERVICE**

### **4.2.1.2 INFORMATION QUALITY**

The information in the initial file was insufficient concerning expenditures necessary for the provision of service. Decision D-99-120 specified the required information. The Régie asks the Provider to ensure that its planning process is adapted so as to produce quality data in a timely manner for its future rate filings.

### **4.2.2.2 EXPENSES FOR 2001 PROJECTED TEST YEAR**

In view of the above comments on information quality, the Régie concludes that the Provider has not submitted convincing evidence that the requested level of spending is necessary to meet the cost of service delivery.

The 18% increase in operating expenses requested by the Provider for the 1999-2001 period far exceeds the cumulative inflation for this period of 3.9%.

The Régie is not convinced that the overall amount of \$601 million in operating expenses submitted by the Provider is necessary to cover the cost of service.

In view of the lack of reliable data corresponding to the criteria established in Decision D-99-120, the Régie decides, for the purposes of this case, to use aggregate data from the 2000 budget, with adjustments. Therefore, the Régie approves operating expenses of \$568 million for 2001, based on direct expenditures, expenditures for shared services and corporate expenses for 2000 (\$547 million), adjusted for inflation (1.7%) and for the variation in activity levels, calculated by the Régie on the basis of the increase in annual peak demand (2.1%).

Therefore, the Régie approves total expenses of \$1,205.5 million, broken down as follows:

	AMOUNT REQUESTED (\$ MILLION)	AMOUNT GRANTED (\$ MILLION)
Operating expenses	601.4	568.1
Depreciation	447.8	447.8
Taxes	184.1	184.1
Purchases of transmission services	5.5	5.5
Total	1,238.8	1,205.5

#### 4.3.2 RATE BASE

The Provider proposed a rate base of \$14,450,273,000 for the 2001 projected test year, including unamortized expenses of \$196,042,000 and regulatory working capital of \$145,917,000.

The Régie accepts the rate base proposed by the Provider, except for five planned additions that have not received government approval in conformity with section 164.1 of the Act. The Régie lowers the requested \$824.4 million in total additions to fixed assets by \$169.7 million.

#### 4.4 RATE OF RETURN ON RATE BASE

##### 4.4.1.2 CAPITAL STRUCTURE

###### *Deemed capital structure*

For the purpose of setting transmission rates, the Régie accepts the Provider's proposal to adopt a deemed capital structure based on those of companies with comparable risk profiles and considering only the characteristics of regulated operations.

###### *Assessment of overall risk and equity component*

The Régie accepts Hydro-Québec's proposal, supported by experts of the *Coalition industrielle*, for a 30% equity component in the Provider's deemed capital structure.

#### **4.4.2.2 COST OF DEBT**

For the purpose of setting the Provider's rates, the Régie accepts a cost of debt based on the average cost of debt resulting from debt financing of Hydro-Québec as an integrated utility. It also approves the calculation method.

The Régie approves taking into account the cost of the government guarantee of Hydro-Québec's debt in the cost of debt.

As a result, the average cost of the debt for 2001 is determined to be 9.75%.

#### **4.4.3.2 RETURN ON EQUITY AND ON RATE BASE**

Among the methods discussed by the two groups of experts – discounted cash flow (DCF), comparable earnings, multi-factor, interest cover ratio, capital assets pricing model (CAPM) and empirical CAPM (ECAPM) – the Régie considers the CAPM and ECAPM models most suitable for assessing the Provider's return on equity.

##### ***Risk-free rate***

The Régie considers it appropriate to use a risk-free rate of 6.0%.

##### ***Beta***

The Régie concludes that raw beta rather than adjusted beta should be used to measure the Provider's comparative risk. The Régie believes it is reasonable to establish the Provider's beta at 0.53.

##### ***Market risk premium***

The Régie considers the arithmetical average of historical rates, calculated over a long period, to be the most appropriate method for assessing the expected market risk premium for 2001, since it is an unbiased measure of the expected value of a random variable.

In view of the overall evidence, the Régie establishes the expected market risk premium for 2001 at 6.44%.

##### ***Return on equity and on rate base***

The Régie considers a return on equity of 9.66% to be reasonable. The Régie thus determines TransÉnergie's implicit risk premium to be 3.66% in relation to the long-term

bond rate of 6% entered into evidence. It grants a rate of return on TransÉnergie's rate base of 9.72%.

#### **4.4.4.2 PROSPECTIVE COST OF CAPITAL**

The Régie accepts Hydro-Québec's proposed method for determining the prospective cost of capital. As a result, for 2001, the Régie sets a prospective cost of capital of 8.08% for the purpose of assessing project profitability.

### **5. COST ALLOCATION**

#### **5.1.2 DETERMINATION OF RESIDUAL REVENUE REQUIREMENT**

The Régie approves the Provider's proposed method for determining the residual revenue requirement and agrees to base the calculation of Hydro-Québec's transmission rates on this requirement. The residual revenue requirement is obtained by deducting revenue of short-term sales from the Provider's total revenue requirement.

#### **5.2.2 ESTIMATED REVENUE FROM SHORT-TERM SALES**

The Régie considers the Provider's revenue forecast of \$11.2 million for 2001 to be underestimated.

For the purposes of the present case, the Régie judges that the actual short-term sales revenue of \$16 million realized in 2000 is a reasonable proxy for 2001 revenue and asks the Provider to calculate its rates accordingly.

#### **5.3.2 COST ALLOCATION METHODOLOGY**

Since no sufficiently detailed cost study is available, the Régie accepts the Provider's proposal to consider all costs as capacity-related for the purposes of this Decision.

For this initial rate case, the Régie accepts the Provider's proposal to allocate all transmission costs between the three transmission services (native load, network integration service and long-term point-to-point service) on the basis of the annual peak (1-CP) method.

Since the study produced by the Provider lacks precision, the Régie cannot come to any definitive conclusion as to whether the Provider's approach is appropriate in the medium term and long term.

The Régie orders the Provider to file, within one year of issuance of this decision, a cost allocation study that reflects the Régie's concerns and includes the following three components:

- cost functionalization, considering the 10 functions listed by the Provider with two added distinctions: on one hand, lines used exclusively for connections to generating plants and on the other hand, the interconnection with Churchill Falls;
- cost classification;
- cost allocation between rate classes, here equivalent to transmission services, for each function used.

## **6. SETTING OF RATES**

### **6.1.2 RATE DESIGN**

The Régie generally accepts, for the purposes of the present case, the Provider's proposed rate structure for long-term services, with rates based on the average cost of the entire system, calculated on the basis of the peak system demand.

The proposed postage-stamp rates are consistent with the spirit of section 49, paragraph 1, subparagraph 11 of the Act, which requires uniform rates throughout the territory served by the transmission system.

The Régie is of the view that rate design will have to be revisited in the future in light of the results of the detailed cost allocation study required by this Decision. No matter what the alternative considered, its acceptability will have to be assessed from the point of view of compliance with the Act, which requires uniform rates throughout the territory served by the transmission system.

The Régie accepts Hydro-Québec's proposal to apply a postage-stamp transmission rate expressed in \$/kW to firm point-to-point service customers.

The Régie considers a discount policy to be an essential complement to the proposed rate design.

### 6.2.2 LOAD-RATIO SHARE

The Régie accepts Hydro-Québec's proposal to modify the definition of load-ratio share and calculate it on the basis of annual peak loads of native load and network integration customers.

The Régie asks Hydro-Québec to add a clause to its "Conditions and rates" specifying the method for calculating the share of the Attachment H amount billable to new network integration customers who exercise their right during the year.

### 6.3.2 SHORT-TERM RATES

In view of the Provider's failure to provide a satisfactory justification and of the evidence produced by intervenors, the Régie has decided to adopt the most widely used method in North America for determining short-term rates. It therefore rejects the method proposed by Hydro-Québec, with a monthly rate determined by the ratio between residual revenue requirements and the sum of monthly firm demand peaks for transmission services forecast for 2001.

The Régie sets the monthly rate at one-twelfth of the annual rate and the weekly rate as the annual rate divided by the number of weeks in the year, i.e. 52.

The Régie has decided to use the number of working days to determine the daily rate for firm service. The rate for firm service will therefore be the annual rate divided by 260.

However, the Régie is of the view that transmission rates should reflect the quality of the short-term service provided. The Régie adopts the principle of setting the rate for non-firm service on the basis of a 100% load factor and therefore asks the Provider to calculate the rate based on the number of calendar days.

The Régie rejects the Provider's proposed short-term rates and orders it to set short-term rates as follows:

<b>RATE</b>	<b>FIRM SERVICE</b>	<b>NON-FIRM SERVICE</b>
Monthly (\$/kW/month)	Annual rate divided by 12	Same
Weekly (\$/kW/week)	Annual rate divided by 52	Same
Daily (\$/kW/day)	Annual rate divided by 260	Annual rate divided by 365
Hourly (\$/MW/hour)	Not available	Daily rate divided by 24

## 6.4.2 DISCOUNT POLICY

In the Régie's view, the Provider's proposed discount policy would give it such broad discretion that authorizing it would be tantamount to abdicating the Régie's responsibility in this area and delegating it to the very entity that the Régie is supposed to regulate. The Régie refuses to grant the Provider full discretion to set discounts.

The Régie deems that it cannot authorize the Provider to apply different rates for different transmission paths, as proposed, since this would violate the principle of uniform rates throughout the territory served by the transmission system, stipulated in the Act.

It orders the Provider to propose a new discount policy for short-term transmission services within six months. The policy must be transparent and non-discriminatory, comply with the legal framework for rate-setting and for the determination of transmission terms and conditions, particularly with respect to uniform rates throughout the territory served by the transmission system, and promote optimal utilization of the system rather than the optimization of revenue, as proposed by the Provider.

The Régie rejects the proposed policy which would grant discounts on the basis of price differentials between markets. The Provider should consider the possibility of different discounts for firm and non-firm services and different floor prices for each service.

Pending approval of the discount policy by the Régie, the Régie orders the Provider to grant a 25% discount on all short-term transactions within 15 days of the issuance of the present Decision.<sup>8</sup>

## 6.5.2 ANCILLARY SERVICES

The Régie approves the Provider's proposed modifications to rates for ancillary services and asks the Provider to provide new values, taking into account the rate-setting principles adopted by the Régie in its Decision.

## 7.2 TRANSMISSION LOSSES

The Régie approves application of a transmission loss rate of 5.2% to all transmission services and orders the Provider to delete from sections 15.7 and 28.5 of the contract the following paragraph: "*The transmission provider may replace this rate by specific rates*

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<sup>8</sup> See also decision D-2002-142 concerning precisions requested by Hydro-Québec.

*which may vary for different transmission paths and different time periods. The new rates will be posted on OASIS.”* The Régie orders that customers be billed for losses of 5.2% of the maximum hourly throughput as measured at the point(s) of delivery, in accordance with the terms of the contract.

## **8.2 ADDITIONS TO THE TRANSMISSION SYSTEM**

The Régie agrees that the cost of improvements to the transmission system be added to the rate base if they are deemed to be prudently acquired and useful.

The Régie agrees to include in the rate base the cost of additions to the transmission system required to meet native load, point-to-point and network integration demand, when these additions are deemed to be prudently acquired and useful. However the amount that may be added to the rate base is limited to the discounted value of the transmission rate over a 20-year period, taking into account O&M expenses and the capital tax.

The direct assignment facilities referred to in Bylaw 659 do not reflect the situation in Québec. The Provider should use a different expression to describe non-regulated operations.

## **9.2 PERFORMANCE INDICATORS FILED BY THE PROVIDER**

The Régie asks the Provider to develop indicators specifically concerning transmission customers and submit them in the next rate filing.

The Régie requires the Provider to submit benchmarks for its performance indicators, either with other systems or between regions within its own system.

With respect to the indicator for social and environmental responsibilities, the Régie asks for the addition of indicator(s) for public health and safety.

The Régie requests a report on the development of specific indicators for the Provider's performance in containing operating costs.



With respect to electric power supply, service continuity and power quality, the Régie encourages the Provider to discuss the related issues with industrial customers and to report to the Régie on the progress and results of the discussions.

## **10. COMMERCIALISATION**

### **10.1.2 OPEN ACCESS SAME-TIME INFORMATION SYSTEM (OASIS)**

The Régie attaches great importance to the transparency of the transmission reservations system (OASIS) and to non-discriminatory access to the system for all players in the wholesale market.

The Régie orders the Provider to post system information as described in Part 37 of FERC's regulations on its OASIS site.

The Régie asks the Provider to inform it of changes to its OASIS site on an ongoing basis. Customers must be informed by systematically announcing changes on the Provider's OASIS site.

The Régie orders the Provider to post all new service requests, including renewal requests pursuant to article 2 of the "Conditions and rates" systematically and without delay.

The Régie orders the Provider to amend articles 1.26 and 4 of the "Conditions and rates" by adding a reference to the stipulations concerning OASIS contained in this Decision.

The Régie asks the Provider to revise the definitions of point-to-point wheeling to remove territorial distinctions.

The Régie orders the Provider to publish a detailed manual specifying the following information on its Web site and its OASIS site within 3 months:

- customer access to wheel in, wheel out, wheel through and wheel within services;
- special conditions for access to each of the paths posted on OASIS.

The Régie orders the Provider to publish on its OASIS site the explanations necessary to understand its ATC calculations, and to keep a file posted on the site containing customers' questions and the Provider's answers.

The Provider's general policy must be to coordinate its transfer capacity calculations and results with other systems; should this requirement be inapplicable for one or more paths, the Provider must submit to the Régie a specific application for an exemption, including details of proceedings undertaken with NERC/NPCC.

The Régie rejects OPG's request for an annual independent audit. It will make an inspection of the Provider's OASIS site for compliance with Part 37 of FERC's regulations and with the Régie directives contained in this Decision. The inspection will be performed in 2002 or as soon as possible.

The Régie asks the Provider to ensure that the historic data provided to customers is accompanied by the explanations needed to understand the data provided and all the information included in the original file. The Régie also asks the Provider to post historical information on wheeling as soon as it is available.

The Régie orders the Provider to post on its OASIS site all the information it is in a position to produce on the availability and use of interconnection paths, in accordance with business practices of neighbouring ISOs.

#### **10.2.2 INITIAL TRANSMISSION CAPACITY ALLOCATION AND CONTRACT RENEWAL PROCEDURES**

The Régie finds merit in the Provider's argument that section 2.1 of Bylaw 659 has become obsolete. It is clear from the wording of the section that the procedure stipulated therein was intended to apply for a limited time, since it applies specifically to requests for transmission service made during the initial 60-day period after Bylaw 659 came into force.

In the Régie's view, it is appropriate to maintain the acquired rights to priority renewal guaranteed under this section, provided that the conditions stipulated therein are respected.

The Régie finds the Provider's proposed amendment to section 2.2, which would require the customer to exercise its priority right to renew transmission capacity reservations no later than 60 days before contract expiry, to be warranted.

The Régie asks the Provider to file annually with the Régie information on reserved capacity for long-term point-to-point transmission services and capacity marketed as short-term point-to-point service.

### **10.3.2 MONTRÉAL POINT OF RECEIPT, LISTED AS HQT ON OASIS**

The Régie orders the Provider to allow all point-to-point transmission customers to designate HQT as the point of receipt in the service agreement, as *Hydro-Québec Production* is allowed to do, and to so inform customers on its OASIS site.

For purposes of transmission system operation and scheduling, the Provider may ask customers to specify physical point(s) of receipt.

The Régie orders the Provider to amend the “Conditions and rates” to reflect the authorization to use Montréal (HQT) as the point of receipt and to reflect the capacity calculation method used for billing purposes when HQT is used as the point of receipt.

### **10.4.2 PURCHASE-FOR-RESALE TRANSACTIONS**

The Régie rejects the proposal by ACEF de Québec for double-billing of transmission services in the case of pure purchase for resale transactions. In the event that imports are increased in order to promote increased exports, *Hydro-Québec Production* would have to pay on the basis of higher point-to-point volume. The Régie considers this to be adequate compensation for the native load.

## **11. MODIFICATIONS TO THE DOCUMENT “CONDITIONS AND RATES”**

### **11.1.2 CODIFICATION OF NATIVE LOAD SERVICE CONDITIONS**

The Régie orders the Provider to amend its “Conditions and rates” to include a new Part IV respecting rates and conditions for native load so as to promote transparency, facility of interpretation and comparison.

The “Conditions and rates” so codified should be described in the same manner as if the transmission service for native load were required by a body corporate distinct from Hydro-Québec.

The Régie asks the Provider to specify in its “Conditions and rates” the conditions applicable to serving native load from the heritage electricity pool and from outside the heritage electricity pool.

It would also be appropriate to specify, with references, that the cost of ancillary services for the heritage electricity pool of 165 TWh/yr<sup>9</sup> is included in the average supply rate of 2.79¢/kWh and, therefore, is not payable by the distributor.

The Régie considers the Provider's business relationship, when serving native load, to be with the distributor. All articles in the "Conditions and rates" that refer to native load must be rewritten to refer only to the Distributor and not the Producer.

### **11.2.2 RELIABILITY OF OTHER TRANSMISSION AND DISTRIBUTION SYSTEMS (SECTION 6.2)**

The Régie considers it premature to add a new section 6.2 to the "Conditions and rates" requiring neighbouring systems located in Québec to meet the Provider's reliability standards, which have yet to be approved by the Régie pursuant to section 73.1 of the Act.

### **11.3.2 CURTAILMENT OF FIRM TRANSMISSION SERVICE (SECTION 13.6 AND 33)**

The Régie deems the Provider's practice of signing firm point-to-point contracts for available transmission capacity to be beneficial to native load since it lowers the costs recoverable from native load.

Regarding network operation, the Régie is of the view that the Provider must offer firm transmission services with the rights and obligations appropriate to the quality of this type of service. The nature of firm service is such that it must not be subordinated to other services.

If several transactions must be curtailed, the Régie recognizes the appropriateness of doing so, where possible and in accordance with common practice among utilities, proportionately between native load customers, network integration customers, and firm point-to-point transmission service customers.

### **11.4.2 ISOLATED GENERATION**

The Régie accepts Hydro-Québec's proposed modification requiring a prior agreement with the generator when a turbine generator unit must be isolated to supply a neighbouring system.

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<sup>9</sup> The concept of heritage electricity comes from section 52.2 of the Act.

## **11.5.2 OTHER CHANGES TO THE “CONDITIONS AND RATES”**

The Régie orders the Provider to revise its “Conditions and rates for open access transmission service” within 45 days<sup>10</sup> of this Decision, taking into account the decisions set out in other sections hereof and the decisions on the specific issues addressed. The new text will be submitted to intervenors for comment. Intervenors will be given 20 days to do so.

## **12. OTHER TOPICS**

### **12.1.2 REGULATORY CLOSING OF THE BOOKS**

In the Régie’s view, the regulatory closing of the books is complementary and accessory to its mandate to fix or modify rates and conditions for the supply of electricity (section 48 of the Act), its duty to ensure that these rates and other conditions are fair and reasonable (section 49, paragraph 1, subparagraph 7 of the Act), and finally its responsibility to monitor the Provider’s operations in order to ensure that consumers are charged a fair rate (section 31, paragraph 1, subparagraph 2.1 of the Act).

The Régie considers the principle of the regulatory closing of the books to be appropriate but considers that there is no need to develop and apply the mechanism for the closing of the books at this time, since Decision D-2000-102 called only for a discussion of the appropriateness and legal basis of a regulatory closing.

The next rate decisions could therefore be subject to a regulatory closing of the books, in accordance with a mechanism to be defined.

### **12.2.2 STABILIZATION ACCOUNTS**

Since the Régie cannot draw informed conclusions on the basis of the evidence filed and the arguments submitted, it considers premature the Provider’s request for an immediate decision on the appropriateness of creating stabilization accounts in the future.

### **12.3.2 APPROPRIATENESS OF ADDRESSING THE ISSUE OF PERFORMANCE INCENTIVES**

In view of the comments contained in the evidence, the Régie considers it premature to address the appropriateness of introducing a performance incentive mechanism.

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<sup>10</sup> Decision D-2002-104 corrected a clerical error between page 355 and page 383 concerning deadlines.

However, this does not diminish the Provider's duty to systematically plan and implement concrete measures to improve its performance on an ongoing basis and to follow up on these measures in a rigorous manner.

To this end, the Régie refers to section 9 of the present decision on performance indicators, including the development of specific indicators for the Provider, in order to establish a basis for discussion when the issue of incentive-based regulation is dealt with. Monitoring of these performance indicators could be included in the Annual Report filed by the Provider pursuant to section 75, paragraph 1, subparagraph 5 of the Act. The Régie is of the view that the Provider should begin at this time compiling the data it considers necessary to establish a historical base.

#### **12.4.2 EXIT AND RETURN CONDITIONS FOR MUNICIPAL SYSTEMS**

The Régie postpones determination of exit and return conditions for municipal systems until the next rate case of the distributor.

#### **12.5 SECTION 75**

Pursuant to section 75 of the Act, the Régie orders the Provider to provide historic data on the main items and parameters used for the purpose of rate-setting.

The Provider will be required to submit the actual results generated by its rates and management practices during the year. The data provided must be detailed and reconciled with Hydro-Québec's audited financial statements.

The list of information to be included in the report is presented in Appendix 8 to the present decision.

#### **13.2 INTERIM ORDERS**

The Régie accepts the Provider's proposal to apply the electric power transmission rates authorized by the present decision retroactively to January 1, 2001.

However, the Provider may issue the retroactive bills only after the Régie has granted final approval of the text of Hydro-Québec's "Conditions and rates for open access

transmission service,” which the Régie orders the Provider to revise under section 11.5.2 herein.

## **CONCLUSION**

Regarding the requests filed by the Provider and the intervenors, the Régie has issued decisions on the points it considers essential for the purposes of this initial rate case and for the establishment of ground rules to ensure transparent and non-discriminatory treatment of all of the Provider’s customers.

The Régie has dealt with as many issues as possible on the basis of the information entered into evidence. However, not all points could be settled in this initial rate case, which is the beginning of an ongoing regulatory process.

For more details, refer to Régie Decision D-2002-95, posted on the Régie’s Web site at [www.regie-energie.qc.ca](http://www.regie-energie.qc.ca).

Québec acts and regulations are available on the Web in French at <http://publicationsduquebec.gouv.ca/fr/frame/index.html> and in English at <http://publicationsduquebec.gouv.ca/en/frame/index.html>.