

RÉGIE DE L'ÉNERGIE

REQUÊTE RELATIVE À LA DÉTERMINATION
DU PRIX UNITAIRE MOYEN DU TRANSPORT
ET À LA MODIFICATION DES TARIFS
DE TRANSPORT D'ÉLECTRICITÉ

DOSSIER : R-3401-98

RÉGISSEURS : **Me MARC-ANDRÉ PATOINE, président**
 M. FRANÇOIS TANGUAY
 M. ANTHONY FRAYNE

AUDIENCE DU 25 MAI 2001

VOLUME 26

MICHEL DAIGNEAULT
STÉNOGRAPHE OFFICIEL

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COMPARUTIONS

Me PIERRE R. FORTIN
Me JEAN-FRANÇOIS OUIMETTE
procureurs de la Régie;

REQUÉRANTE :

Me F. JEAN MOREL
Me JACINTE LAFONTAINE
procureurs de Hydro-Québec;

INTERVENANTS :

Me CLAUDE TARDIF
procureur de Action Réseau Consommateurs (ARC) et
Fédération des associations corporatives d'économie
familiale du Québec (FACEF) et Centre d'études
réglementaires du Québec (CERQ);

M. RICHARD DAGENAIS
M. VITAL BARBEAU
représentants l'Association coopérative d'économie
familiale de Québec (ACEF de Québec);

Me ÉRIC DUNBERRY
procureur de l'Association de l'industrie électrique
du Québec (AIEQ);

Me PIERRE HUARD
Mme ISABELLE CÔTÉ
représentants de l'Association des redistributeurs
d'électricité du Québec (AREQ);

Me GUY SARAULT
procureur de la Coalition industrielle formée de :
l'Association québécoise des consommateurs industriels
d'électricité (AQCIE),
l'Association des industries forestières du Québec
limitée (AIFQ),
l'Association québécoise de la production d'énergie
renouvelable (AQPER);

M. PHI P. DANG
représentant Gazoduc TransQuébec et Maritimes inc.;

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Me JEAN-FRANÇOIS GAUTHIER
procureur du Groupe de recherche appliquée en
macroécologie (GRAMÉ) et Union pour le développement
durable (UDD);

Me DOMINIQUE NEUMAN
procureur de Le Groupe Stop et Stratégies énergétiques
(STOP-SÉ);

Me ANDRÉ DUROCHER
procureur de New-Brunswick Power Corporation (NB
Power);

Me TINA HOBDAV
procureure de New York Power Authority (NYPA);

Me PIERRE TOURIGNY
procureur de Ontario Power Generation (OPG):

Me ÉRIC FRASER
procureur de Option consommateurs (OC);

Me MARC LAURIN
Me MÉLANIE ALLAIRE
procureurs de PG&E National Energy Group Inc. (NEG);

Me HÉLÈNE SICARD
procureur du Regroupement national des conseils
régionaux de l'environnement du Québec (RNCREQ);

Mme MARCIA GREENBLATT
représentante de Sempra Energy Trading Corporation
(SET);

Me JOCELYN B. ALLARD
procureur de Société en commandite Gaz Métropolitain
(SCGM).

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PRÉLIMINAIRES

(8 h 30)

L'AN DEUX MILLE UN (2001), ce vingt-cinquième
(25e) jour du mois de mai :

PRÉLIMINAIRES

LA GREFFIÈRE :

Audience du vingt-cinq (25) mai de l'an deux mille
un (2001), dossier R-3401-98. Requête relative à
la détermination du prix unitaire moyen du
transport et à la modification des tarifs de
transport d'électricité.

Les régisseurs désignés dans ce dossier sont :
maître Marc-André Patoine, président, de même que
monsieur François Tanguay et monsieur Anthony
Frayne.

Les procureurs de la Régie sont maître Pierre R.
Fortin et maître Jean-François Ouimette.

La requérante est Hydro-Québec, représentée par
maître F. Jean Morel et maître Jacinte Lafontaine.

Me JACINTE LAFONTAINE :

Bonjour.

Me F. JEAN MOREL :

Bonjour.

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LE PRÉSIDENT :

Bonjour.

LA GREFFIÈRE :

Les intervenants sont :

Action Réseau Consommateurs, Fédération des associations corporatives d'économie familiale, et Centre d'études réglementaires du Québec, représentés par maître Claude Tardif.

Association coopérative d'économie familiale de Québec, représentée par monsieur Richard Dagenais et monsieur Vital Barbeau.

Association de l'industrie électrique du Québec, représentée par maître Éric Dunberry.

Association des redistributeurs d'électricité du Québec, représentée par maître Pierre Huard et madame Isabelle Côté.

Coalition industrielle, formée de : l'Association québécoise des consommateurs industriels d'électri-cité, l'Association des industries forestières du Québec limitée et l'Association québécoise de la production d'énergie renouvelable, représentées par maître Guy Sarault.

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Me GUY SARAULT :

Bonjour.

LE PRÉSIDENT :

Bonjour.

LA GREFFIÈRE :

Gazoduc TransQuébec et Maritimes inc., représentée
par monsieur Phi P. Dang.

Groupe de recherche appliquée en macroécologie et
Union pour le développement durable, représentés
par maître Jean-François Gauthier.

Me JEAN-FRANÇOIS GAUTHIER :

Bonjour.

LE PRÉSIDENT :

Bonjour.

LA GREFFIÈRE :

Groupe STOP et Stratégies énergétiques,
représentés par maître Dominique Neuman.

Me DOMINIQUE NEUMAN :

Bonjour.

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LE PRÉSIDENT :

Bonjour.

LA GREFFIÈRE :

New-Brunswick Power Corporation, représentée par
maître André Durocher.

Me ANDRÉ DUROCHER :

Bonjour.

LE PRÉSIDENT :

Bonjour.

LA GREFFIÈRE :

New York Power Authority, représentée par maître
Tina Hobday.

Ontario Power Generation, représentée par maître
Pierre Tourigny.

Me PIERRE TOURIGNY :

Bonjour.

LE PRÉSIDENT :

Bonjour.

LA GREFFIÈRE :

Option consommateurs, représentée par maître Éric

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Fraser.

PG&E National Energy Group Inc., représentée par maître Marc Laurin et maître Mélanie Allaire.

Regroupement national des conseils régionaux de l'environnement du Québec, représenté par maître Hélène Sicard.

Sempra Energy Trading Corporation, représentée par madame Marcia Greenblatt.

Société en commandite Gaz Métropolitain, représentée par maître Jocelyn B. Allard.

Y a-t-il d'autres personnes dans la salle qui dési-ent présenter une demande ou faire des représenta-tions au sujet de ce dossier?

Je demanderais par ailleurs aux intervenants de bien s'identifier à chacune de leurs interventions pour les fins de l'enregistrement. Merci.

LE PRÉSIDENT :

Bonjour, Maître Morel, est-ce que vous avez des documents à nous produire ce matin étant donné que vous avez repris votre place traditionnelle de général?

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Me F. JEAN MOREL :

Vous avez remarqué. Merci bien. Moi, j'ai remarqué que j'ai toujours mon vieux micro, mais ce n'est pas grave, il est bon.

M. FRANÇOIS TANGUAY :

Comme dirait mon gars de service, il est * back order + depuis deux semaines. J'ai dit : * Si je ne suis pas capable de le mettre devant maître Morel avant la fin des audiences, je vais en entendre parler pendant un an. +

Me F. JEAN MOREL :

Mais ça me rassure, c'est une bonne excuse, Monsieur Tanguay.

M. FRANÇOIS TANGUAY :

J'apprends des avocats.

LE PRÉSIDENT :

Non, mais, Maître Morel, c'est parce que...

Me F. JEAN MOREL :

C'est en * back order + puis les engagements, c'est exactement le même problème, Monsieur le Président, ils sont en * back order +. Je n'ai rien à déposer ce matin.

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LE PRÉSIDENT :

C'est parce que vous avez une voix qui porte tellement que les gens sentent que c'est moins nécessaire de vous donner un micro qui vous rapproche.

Me F. JEAN MOREL :

Ça va. Merci bien pour complimenter ainsi ma voix. Sérieusement, je n'ai pas d'engagements ou de réponses d'Hydro-Québec...

LE PRÉSIDENT :

Monsieur Bastien non plus.

Me F. JEAN MOREL :

... aux engagements qui restent.

M. MICHEL BASTIEN :

R. On travaille, on travaille.

Me F. JEAN MOREL :

Merci.

LE PRÉSIDENT :

Maître Durocher.

Me ANDRÉ DUROCHER :

Alors, nous allons produire comme témoin monsieur

Marshall. Je voudrais l'assermenter. Vous voyez, nous avons une présentation, nous désirons faire une présentation, on pourrait peut-être la distribuer pendant que nous procédons à l'assermentation du témoin.

IN THE YEAR TWO THOUSAND AND ONE (2001), on this twenty-fifth (25th) day of May, PERSONALLY CAME AND APPEARED:

WILLIAM K. MARSHALL, Director, Strategic Planning, New Brunswick Power Corporation, 505 King St., Fredericton, Province of New Brunswick;

WHOM, after having made a solemn affirmation, doth depose and say as follows:

EXAMINED BY Me ANDRÉ DUROCHER:

- 1 Q. Mr. Marshall, could you briefly state your professional experience?

Mr. WILLIAM K. MARSHALL:

- A. I have been a power system planning engineer, I worked thirty (30) years in the experience, seven years in the teaching profession, some at the university, about twenty-three (23), twenty-four (24)

years in the power system business, mostly with NB Power. I have done corporate planning for over ten (10) years, I have done system power planning, system planning, and more recently have been involved in rates, deregulation issues around market structure, market design, transmission design and tariffs.

2 Q. You are the person that has prepared the testimony that has been already filed in the record?

A. Yes.

3 Q. Do you have anything that you wish to add or correct to your testimony?

A. No.

4 Q. I see that you have prepared a power point presentation. We will distribute it for the Board as NB Power exhibit number 9.

NB POWER-9: Présentation de William K. Marshall
pour NB Power Corp.

You may start with your presentation?

R. Oui, j'ai fait la présentation power point en français et en anglais...

LE PRÉSIDENT :

Merci beaucoup.

R. Et je voulais faire ma présentation orale en français, mais mon avocat, Maître Durocher, pour des raisons qui m'échappent, m'a dit de la faire en

anglais seulement; peut-être que c'est mon accent anglais.

So, the presentation which we have copies for everybody, I will talk about four main areas: The market in the northeast; the rules of access in an open market relative to the northeast and the Hydro-Québec tariff; cost of service principles in terms of regulating and looking at transmission tariffs, and the tariff proposal that Hydro-Québec has before the Board.

Firstly, the market in the northeast is a very expanded large market and it is made up of separate distinct market areas, the individual markets in New York, New England and PJM which are fully functioning individual markets today, the market for Ontario to be opened next May and there are bilateral markets, wholesale market in Québec which is part of the subject of this hearing, and there is a market proposed in New Brunswick for March of two thousand and three (2003) under the new Energy Policy in New Brunswick.

Now, a little bit of the background. These markets are not new. This market has been operating for over thirty (30) years and it has been operating essentially under bilateral utility, the utility

contracts. And again, where there are not adjacent utilities, there would be transmission wheeling contracts to non adjacent utilities where you could negotiate a transmission contract to wheel power through a utility. Hydro-Québec has done that with New Brunswick to gain access to Maine. New Brunswick has done it with Maine to gain access through to Boston at times.

Now, this market has expanded slowly over many years until the mid nineties (90s). There were more interconnections developed. The Madawaska interconnection between Québec and New Brunswick came into operation in nineteen eighty-six (1986), for example. And there have been evolutionary changes within specified market jurisdictions.

Now, business in these markets has continued under bilateral contracts, but now, in the last five to seven years, the market is undergoing revolutionary changes. There is rapid change within specific market jurisdictions and there are many more market participants, as evidenced at this hearing with power marketers like NEG and Sempra. There are many more participants in the marketplace and many more private power producers and generation owners.

The regulatory rules governing these markets require

a fair market access. Now, those rules and the drivers behind the market go back to nineteen ninety-two (1992) in the Energy Policy Act in the United States. And that Act essentially amended the U.S. Federal Power Act of nineteen thirty-five (1935) to provide wholesale access to private producers. Actually, it expanded the wholesale access of private producers and required that transmission providers provide transmission service to anyone who wanted to gain access to a wholesale customer.

In nineteen ninety-four (1994), FERC released their policy statement on transmission pricing. And this statement laid down the detailed terms of the pricing and the methodology of pricing of transmission services. And that policy statement has been filed as an exhibit before this Régie.

In nineteen ninety-six (1996), FERC Orders 888 and 889 were released. And they were released for two reasons. One, utilities were not responding fast enough to the Federal Power Act and the changes to it in nineteen ninety-two (1992). And the Act did not go far enough. Although utilities had the right or a generator had the right to gain access for transmission through a system, it required an application to FERC.

And that application could take six to nine months. And in the six to nine months, the generator's customer may be gone. So, it really did not give them full access to the marketplace. So, what FERC did was brought in Orders 888 and 889 to provide rules for open comparable, reciprocal and non-discriminatory access so that every utility would have a standing tariff that was transparent and open and any marketer or generator would then know what their price could be and could readily access it to access the market.

Since nineteen ninety-six (1996), there have been many decisions, opinions and orders from FERC, from the courts, judges and FERC themselves, on the application and clarification of the Orders 888 and 889 and on the pricing policy.

Since nineteen ninety-six (1996) in Canada, many Canadian utilities have opened their systems as well. This has occurred essentially because many Canadian utilities have been selling power to the United States for a long time. And it is a very profitable business. And so, the utilities that have been exporting to the U.S. took steps to open their systems to continue to be able to access U.S. markets.

And then, in nineteen ninety-nine (1999), FERC went

further with Order 2000. And the reason for Order 2000 essentially was to expand the market access through voluntary RTOs. And this expansion was to widen the scope of the marketplace from small, regional jurisdictions to a much larger, more expanded market, to improve access of the bulk power market through a wider region.

Now, in Québec, the market opened in May of nineteen ninety-seven (1997) provided wholesale customers with supplier choice to provide access to the transmission system and again, under the law, to regulate the market through the Régie de l'Énergie. The objective for that policy of the government was to meet FERC's reciprocity requirement to enable Hydro-Québec to participate in the U.S. markets.

Now, under that change in the market and introduction of wholesale access into Québec goes with it a quid pro quo obligation to provide a market in Québec on equivalent equitable terms to the market, to which Hydro-Québec has access in the U.S. And that market, then, should provide for fair market access to customers, should provide transmission access, rates should be just and reasonable, charges should be based on cost of service. And through that, Hydro-Québec should not get preferential treatment in access to the market.

(8 h 45)

Now, following the opening of the market in Québec, Hydro-Québec set up a subsidiary company in the United States, Hydro-Québec Energy Services US Inc. who applied to FERC for a marketing licence for the right to sell direct to customers in the United States. And in that application to FERC and this application, I believe, has been filed as an exhibit here as, I think it's RNCREQ-13, it was filed as an exhibit earlier in these proceedings.

In that application, Hydro-Québec represented the Régie de l'énergie as having the functions, powers and procedures similar to FERC that they would be empowered to balance the competing interest of electricity producers, distributors and consumers and to be the regulator of market access and the transmission tariff. And, of course, that's partly why we're here today, to review the tariff that Hydro-Québec has proposed.

But also in that application to FERC, Hydro-Québec US said that the tariff would be FERC compliant, that it would follow Order 888 *pro forma* tariff and that furthermore it would meet the FERC pricing principles for a confirming tariff. And a conforming tariff is very specific language, a confirming tariff in the FERC pricing principles means a tariff that meets the

first two goals of the five of the pricing principles and those goals are the same five goals as presented in doctor Orans testimony and in my evidence.

And the first goal is that the rates would be based on the revenue requirement but more than just based on the revenue requirement, in the FERC pricing policies there's a requirement that the allocation be by cost to service, to the different services required. And the second point was that the tariff must be comparable and non discriminatory and it must meet the comparability requirement of FERC with no preferential treatment for the local utility.

Now, we look at... there have been questions before this hearing from doctor Orans last week, that the comparability principle is being watered down, that it somewhat... the golden rule is somewhat tarnished and that it's watered down and ratcheted down and that FERC are moving away from it and they're providing more flexibility to pricing of transmission services.

I provide here some background of the history of the requirement of FERC to provide for just, reasonable and non unduly discriminatory tariffs from the *Federal Power Act* of nineteen thirty-five (1935) on through and I'm not going to go through all these,

they're there for everyone to read. I will go up to nineteen ninety-two (1992) on page 15 and, again, in the Energy Policy Act, clearly it was a requirement for a transmission utility to provide these transmission services, as I said before. And, again, that these services be just and reasonable and not unduly discriminatory or preferential.

And in the pricing policy statement, there are some excerpts that the pricing policy statement basically laid down a standard for judging whether access is unduly discriminatory or not and that being that it should offer third parties access on the same or comparable basis to the system that a utility provides to itself. Again, the requirement that pricing must reflect comparability, that comparability is an absolute requirement of any pricing proposal. The golden rule, the utility charged itself on a comparable basis instead of charging others.

And, furthermore, that costs not be highly aggregated under a methodology but the costs be desegregated in order to give a better pricing signal for the services provided in the market. And to include a certainly of pricing so that participants know the prices of the services that they're buying and they can then, based on that, enter into longer term

contracts.

And the last point is that in the pricing's policy statement, FERC make it very clear that to be just and reasonable it's not the method that is... is what you would have to follow, it's the result of the method that is the controlling point.

Then in Order 888, FERC stated again, in the Order:

It's our statutory obligation under sections 205 and 206 of the Federal Power Act to remedy undue discrimination.

Indeed, it's unlawful for them not to. And, furthermore, that rates, again, must meet the standards for confirming proposals in the Commission's transmission pricing policy statement. And, again, the words key here "confirming proposals" mean then that all transmission rates that will need FERC Order 888 requirements must be based on the revenue requirement and must meet the comparability principle.

Decisions following that, the Consumers Energy decision where arguments, again, made by staff and others that Order 888 requirements for

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comparability

and mandatory unbundling of production transmission and ancillary services and, again, the presiding law judge in that case agreed and accepted that the argument is convincing on this record.

In Order 2000, and in Order 2000, when it came out as a notice of proposed rule, the NOPER in the year preceding, many utilities made comments on the Order saying "Does this increase the flexibility of pricing? Does this open up for greater alternatives in pricing in doing business?" And so, in the Order, when it was written in December of ninety-nine ('99), FERC made it very clear that nor are we abandoning the fundamental underpinnings of our traditional transmission pricing policies, that is the transmission prices must reflect the costs of providing a service. And, furthermore, that we shall also require applicants to demonstrate that the rate is just, reasonable and not unduly discriminatory.

And, again, in Order 2000A, in February of two thousand (2000), again that rates be just, reasonable and not unduly discriminatory. Indeed, even in the approval of TransÉnergie, US's application to FERC for the TransÉnergie Cross Sound Cable, the FERC still invokes sections 205 and 206 of the *Federal Power Act* and say: *The Commission accepts TransÉnergie proposed rates.*

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And these rates were a

market based proposal for rates but again they were accepted subject to certain conditions to ensure that the rates are just and reasonable.

And, finally, there have been many challenges to Order 888 and FERC's authority to issue the Order. Vermont Department of Public Service sued FERC in the Federal Court to say that FERC's jurisdiction was unlawful and they did not have the jurisdiction to do what they did in Order 888. Many utilities joined with Vermont in that case and the ruling of the US Court of Appeal in the District of Columbia Division, on that case, says that:

Open access is the essence of Orders 888 and 889. Under these orders, utilities must now provide access to their transmission lines to anyone purchasing or selling electricity in the interstate market

And again here's the comparability point:

on the same terms and conditions as they use their own lines.

And:

Finding few defects in these orders, we uphold them in nearly all aspects.

Now, in actual fact, they upheld FERC's Orders in every aspect except for two minor points that were

referred back to FERC to review and alter.

So, we're at a point that based on the record of jurisprudence and cases of FERC and of the courts that the golden rule is not tarnished, that there has been continuous pursuit of just, reasonable, comparable and non discriminatory pricing. And the reason for it is that a fair competitive market requires that all parties operate and can play in a level playing field under the same just fair rules.

Now, if we look at Hydro-Québec's proposal, it's a... these are just statements of facts of the proposal, it's a uniform postage stamp rate, it's based on the total revenue requirement of the system, that all costs and the revenue requirement are aggregated together under one revenue requirement, which includes substation transformers, generator step up transformers or GSUs, the long lines from the North that serve only Hydro-Québec Production to gain access to the load centres. In this revenue requirement in the application, there had been no attempt to allocate costs on a cost to service basis. And when I say "no attempt" I mean there's been no attempt to allocate the existing costs. There is consideration in the proposal for allocation of new costs exceeding a requirement to individual customers but not of existing costs.

If we look at the principles of costs of service, there are two basic principles of rate design, cost causation or cost causality it is sometimes called, is that the party or the class of parties that cause the costs to be incurred should bear the costs through rates based on those costs. And that the user of the services should pay for the services based on the services that they receive.

Now, I'd like to look at different aspects of costs of service of transmission services and we'll look particularly, first of all, at distribution connection services. And in particular, the substation step down transformers. In FERC, these are allocated as distribution assets in requirements of all utilities in the United States to file with FERC under their filing of their costs, the substation transformers are filed as distribution costs and they've been that way prior to nineteen ninety-two (1992) and for a long time.

And why are they filed as distribution costs?

Because they connect distribution to transmission, they flow power from transmission to distribution, they rarely, if ever back feed to the transmission system. They rarely, if ever, are used by transmission customers. The transformers are there to provide for delivery of load to the local load and distribution, so,

therefore, they're charged on a cost to service basis to distribution.

Now, if you bear with me a little bit, I've done a few diagrams here to explain why the distribution system would work the way it is and that it could not be used to support transmission. In this diagram, you can see we have a two hundred and twenty kV (220 kV) high voltage system, two substation transformers and a lower voltage of twenty-five kV (25 kV) system.

The power flows on the high voltage system through the substation transformers to the distribution load with fifteen megawatt (15 MW) load and the ten megawatt (10 MW) load.

Now, the distribution system would be operated normally in an open position. The distribution circuit would not be connected continuously from one substation transformer to the other, it would be opened in the middle and each of the loads would be fed radially from each substation transformer.

Now, if there was a fault on the system, in the second diagram, and say that the transformer on the right failed, then you could close in if the distribution circuits were built and capable of being connected in, you could close the circuit and then

you could supply the full twenty-five megawatts (25 MW) from the transformer on the left. So, this improves the reliability of service to the local load but you'll notice nothing changed in the high voltage system.

The fact that that substation transformer was not available on the right had no bearing whatsoever on the power flow on the bulk transmission system but it did improve reliability of supply to the local load.

Now, in the next diagram, let's say that there is a failure of the high voltage, two twenty kV (220 kV) system. What would happen is that the switches at each end of the circuit would be open and the fault would be isolated. And what would happen is that the network, the power network would then alter the flows of power in the bulk power network but the power would still flow through each of the substation transformers and continue to supply the local load, the fifteen megawatt (15 MW) and the ten megawatts (10 MW).

Now, let's say that the lower voltage, twenty-five kV (25 kV) system in actual fact was closed and operated as a close circuit between the substation transformers, in parallel with the high voltage system, in this case, if there was a fault on the

high voltage system, what would happen is that the hundred megawatts (100 MW) would continue to want to flow from left to right. The only path for it to flow would be through the twenty-five kV (25 kV) circuit and it would want to flow down through that circuit. But the twenty-five kV (25 kV) circuit is not capable of carrying the hundred megawatts (100 MW) so it would overload and it would also fail and the twenty-five megawatts (25 MW) of local load customers would be blacked out.

So this is why lower voltage circuits are not operated in a continuous fashion from one distribution transformer to another, it's for the reliability of supply of local load. And, again, they have no bearing on transmission power transfer across the system.

Now, this also, this phenomenon is not just applied to twenty-five kV (25 kV), it applies also to forty-four kV (44 kV), sixty-nine kV (69 kV), even a hundred and fifteen kV (115 kV) and it depends upon the circumstances of the network and of the load. For instance, if you had a three forty-five kV (344 kV) line or three fifteen kV (315 kV) line and a hundred and fifteen kV (115 kV) in parallel, you would operate the hundred and fifteen kV (115 kV) circuit open and radial the supply load.

(9 h)

Now, let's shift over and let's look at generation connection costs. The generator step-up transformers, they have been classed by FERC originally as transmission assets. And they are continued to be classed as transmission assets for reporting purposes. But since the Kentucky Utilities case in November nineteen ninety-eight (1998), generator step-up transformers are to be allocated to generators that they serve for purposes of cost allocation and tariff making.

And why are they allocated to production through the generators that they serve? Because they serve only the generators that they connect, the GSUs support delivery of power and ancillary services from those services from those generators. And power and ancillary services are marketable products. They are not regulated required products, they are marketable products and, therefore, should have the proper cost allocated to them. And Order 888 requires the unbundling of transmission in all generation services.

Now, the generation services we talk about, ancillary services, and in the Kentucky Utilities case, they acknowledged that the generator step-up transformers assist the delivery of ancillary services of the

system. And as Mr. Chéhadé said earlier in his testimony, they provide for improved reliability of the system. And indeed they do.

But the ancillary services that the step-up transformers enable the power generators to get to the system are spinning reserve, supplemental reserve and frequency control. These three ancillary services are services that are only utilized by the local load and by network service customers. They are not utilized by point to point service customers.

Point to point service customers only utilize system dispatch and voltage control. And these two ancillary services are included in the revenue requirement of TransÉnergie and are there in the tariff at no additional charge. The other three services that I mentioned are included in this tariff application with additional charges.

Now, including the GSUs and transmission, then, creates a subsidy for the local generation. Point to point customers will be paying a part of local generation costs for those transformers. It also creates a subsidy for local load and network service because point to point customers would be paying for a share of the costs that should be allocated to the ancillary services that they do not use, that are

only used by network service and local load. Under that basis, it is discriminatory to point to point customers to be included.

Now, let's turn to the generation related transmission assets, the long transmission lines that connect generators to load centres. And again, I acknowledge that in the law, it is not an issue of whether these are prudent assets. There is no question, I said in my evidence that I have no doubt whatsoever and I have great faith in the ability of Hydro-Québec and the studies that they did and the economics of developing James Bay and the transmission lines from the north, that they were pursued in the interest of serving Québec customers in the most economical fashion.

So, there is no challenge to the prudence of those lines at all. The issue is cost of service and cost allocation of who uses them. In British Columbia, those lines are allocated to generation. In Manitoba, they are allocated to generation. Why are they allocated to generation? Because they were constructed as integral part of a generation project.

They are used only by the generation projects that they connect to the load centres. Surely, it is common sense that if Bay James had not been developed

as a large Hydro-Québec project, there would be no transmission lines running to northern Québec. I skipped a slide here.

Why generation also then -- including GRTAs transmission creates highly aggregated costs, including them in transmission creates a subsidy for the local generation. Other customers are paying for the share of the transmission that serves only the local generation. It is discriminatory to other customers, especially point to point customers, to have to make those payments.

And the result is that the high tariff, because of these highly aggregated costs, is also economically inefficient for new market entrants. For an open wholesale access market in Québec, a private producer in Montreal now has to pay under the proposal for the northern GRTAs that serve only Hydro-Québec, in addition to the southern network, when he only wants to utilize the southern network of the system.

Now, if we look at point to point cost of service, usage of point to point service can be determined by load flow analysis. And load flow is a computer simulation program which simulates the flow of power in the transmission network. And as an output, it provides the megawatt power flows on all network

elements.

NB Power has done an analysis of TransÉnergie's system utilizing the data that all systems in Northeast Power Coordinating Council have to file their transmission data in, so that common studies can be done of the whole northeast area, utilizing TransÉnergie's data for the summer of nineteen ninety-four (1994). New Brunswick ran cases for a hundred (100) megawatt flow from New Brunswick to New York and a hundred (100) megawatts from New York back to New Brunswick.

And in addition, we repeated those with an imaginary twenty-five (25) kV circuit running from the New Brunswick interconnection with Hydro-Québec at Madawaska to the Châteauguay DC terminal where it would connect on into New York. So, if there were an imaginary twenty-five (25) kV line running across that whole distance, we wanted to demonstrate how much power actually would flow through those substation transformers and down into that network, even though such a line would never be operated continuously in that manner, but it would illustrate the amount of usage potentially possible.

Now, in the next diagram, you can see here... and I apologize, this is not a detailed circuit layout of

TransÉnergie's system, but it is a simplified layout and shows that if New Brunswick was going to ship a hundred (100) megawatts to New York under the tariff, we would have to inject a hundred and five point two (105.2) megawatts in at Madawaska. And that power would flow through the southern part of the network. And it would split at Québec City...

Me F. JEAN MOREL :

5 Q. Excuse me, Mr. Marshall. I would just like to ask you where that could be found in your pre-filed evidence, where this information or this evidence could be found in your pre-filed evidence?

A. It is not in the pre-filed evidence. We had gone through a line of questioning last week in cross-examination of Hydro-Québec to talk about the twenty-five (25) kV and to try to get to a point of running a load flow and at that point, we were unable to continue asking questions and the President that we were open to come in when we present our evidence to provide our information. And this is what I am doing.

Me F. JEAN MOREL :

Monsieur le président, cet aspect de la preuve, de même que certaines preuves techniques qui ont déjà été présentées quant aux transformateurs abaisseurs de tension est une nouvelle preuve, une nouvelle preuve technique. Et à cet égard, j'avise tout de

suite la Régie que j'aimerais réserver mes droits quant au contre-interrogatoire après avoir eu l'opportunité de consulter des ingénieurs et des gens qui pourront m'aviser sur l'aspect technique chez Hydro-Québec.

Mr. WILLIAM K. MARSHALL:

- A. I continue? You can see from these load flow results that the hundred and five (105) megawatts would flow in and split and use the southern system on either side of the St. Lawrence River between Québec City and Montreal, but that none of this power flows north and changes the flows on any of the northern lines coming from Hydro-Québec generation in the north.

There is some power that flows out on the line to Bersimis, but that power is really because the calculation methodology of a load flow requires the generator to be -- the swing generator to take up the slack in the system. And so, what happens is when power flows from New Brunswick into Québec, there are no losses in the system. In actual fact, there are savings in losses and so that the five extra megawatts that we put in, plus the loss savings means that the Bersimis generator would back off then by thirteen (13) megawatts.

Now, if we go in the opposite direction and we put in

a hundred and five (105) megawatts from New York through at Châteauguay and come out at Madawaska with a hundred (100), the losses in this direction are about seven (7) megawatts, and so, the Bersimis generator has to pick up an additional two megawatts. Again, the power flow is only in the St. Lawrence corridor, north and south of the river, and no power flows in the northern radial lines.

Now, we also again, as I said, we ran those same cases with a twenty-five (25) kV line running from Madawaska all the way to Châteauguay. And you can see the distribution of the use of the system from those load flows that without the twenty-five (25) kV line, a hundred percent (100%) of the power is in the southern network. None is in the northern radial lines to Hydro-Québec generation in the north.

If you have an underlying twenty-five (25) kV line, one and a half percent (1.5%) of the power would flow through this network. So, if there theoretically was a twenty-five (25) kV line, the substation transformers might be utilized to the extent of one and a half percent (1.5%), but since they normally are never operated in that manner, in actual fact, no power would flow through the substation transformers.

Now, these results are similar for other points of

delivery on the Hydro-Québec system. We have run some load flows from Energy MacLaren to New Brunswick or to New England or to Alcan and, indeed, the results are similar.

Now, in Hydro-Québec's tariff proposal, the rationale for the proposal, as it has been presented as a single postage stamp rate based on the total highly aggregated revenue requirement, are based on articles 6.2 of the law sur la Régie de l'Énergie, where the definition of transmission includes substation transformers and generator step-up transformers, and section 49.11 of the law where it says uniform across the territory, and that is their justification for a single postage stamp rate. These are points that we will consider and argue later in these hearings when that time comes.

They also make the points that their proposal reflects industry standards. As a matter of fact, the words are "it mirrors industry standards", and that it conforms to FERC Order 888 pro forma tariff. And they have also, in cross-examining Mr. Chéhadé, said numerous times that the Hydro-Québec network is an integrated network, that it has been planned as one total network and that it is indivisible and it has to be allocated and paid for as one total network.

I would like to comment on the second two of those. First of all, the point that it mirrors industry standard, there are definite similarities in the application to industry standard, there is no question. It is a postage stamp rate, it uses average rolled-in costs. The terms and conditions of access are virtually identical to FERC's Order 888. So, there are tremendous similarities in the proposal.

The deviations in the proposal from industry standard, however, relate to the highly aggregated costs of the revenue requirement and the fact that there is no functional allocation of these costs to specific services. And to that effect, we presented last week exhibit number 7 of NB Power, a survey of cost allocation across Canada and FERC, and in the undertaking of Hydro-Québec came back and agreed that this is a reasonable and correct allocation of results in Canada. It took some issue with FERC to say there is a lot of flexibility in FERC.

We agree there is some flexibility in FERC. There is no flexibility on the distribution transformers and there is now, since Kentucky Utilities, no flexibility on the production step-up transformers. There is some flexibility in the radial lines to generators and the radial lines to load. And we acknowledge that in some of the tariffs in the U.S.,

there are still discrepancies.

Many utilities filed tariffs in nineteen ninety-six (1996) utilizing the older rules. And some of those tariffs are still in effect and that is mainly because of the workload of FERC and because others may not have protested yet to FERC so that they can undertake to have them changed. But in any tariffs that have been challenged before FERC, the rulings of Kentucky Utilities since are upheld and step-up transformers are not in the tariffs.

(9 h 20)*

Also, to look at the tariff -- or table of rates, of comparative rates, and this was presented in Mr. Bishop's evidence, it was discussed last week in the cross-examination of Mr. Chéhadé, the point that the tariffs in British Columbia and the tariffs in Manitoba are significantly lower than the tariff proposed for Québec when the systems are very similar, they're Hydro based with Hydro Generation.

In northern regions, in long transmission lines, and I subscribe that the main reason why they are significantly lower in Manitoba and British Columbia is on the basis of a cost allocation methodology, where in Manitoba only the mesh network is included in the transmission tariff, all other radial lines are charged to generation and all radial load serving

lines are charged to distribution.

Also, I'd like to clarify a point in Mr. Bishop's evidence. He had presented that the tariff for New York was sixty-four dollars (\$64.00) and last week Mr. Chéhadé made reference to that, that the Hydro-Québec tariff wasn't that high, the New York tariff was sixty-four dollars (\$64.00) in Mr. Bishop's evidence.

That tariff of sixty-four dollars (\$64.00) was based on an hourly tariff at the time in February and mistakenly was multiplied by eight thousand seven hundred and sixty (8,760) hours. It should have only been multiplied by sixteen (16) hours a day and five days a week and then so many weeks a year.

And so the proper tariff for New York to compare is actually down in the twenty-five to thirty dollar (25-\$30.00) range, not the sixty-four dollars (\$64.00) that Mr. Chéhadé utilized.

Mr. ANTHONY FRAYNE :

Excuse me, are these all Canadian dollars?

Mr. WILLIAM K. MARSHALL:

A. Yes.

M. ANTHONY FRAYNE :

Thanks.

MR. WILLIAM K. MARSHALL:

R. Okay. Now, I would like to talk a little bit about the situation at... Hydro-Québec's network is an integrated network and I'd like to make a few comments.

First of all, it's a fact that all electric power networks are integrated networks. Power cannot flow from the generation production sites to load without transmission. Not only that, the key issue in the operation of power systems is that electricity is the only product in the world that requires that the production of the electricity and the consumption of the electricity in the system be perfectly matched at every instant in time.

If it's not perfectly balanced and matched at every instant in time, the system will speed up or slow down, the frequency will not be correct, the clocks will not run right and the time will not run correctly.

So, systems have to be operated to be integrated together with generation and load perfectly integrated for the reliable operation of the system.

This is required of all power systems and it's required for the reliable operation.

Now, in this sense, Hydro-Québec's network is not unique, it is like every other network in terms of how it is, how it's operated in that manner.

Now, there may be some factors in Hydro-Québec's network that are unique, certainly and I'm not putting down Hydro-Québec have generated, developed very high voltage transmission systems, DC interconnections and contributed significantly to the world power industry through a lot of investments and technology. But the operation of the system is no different than any other.

The issue is not the operation of a power system, the issue of a wholesale market is the unbundled transmission and generation services. In order to have a market, it's necessary that there be open comparable access through the system, that that access not be discriminatory and that it provide then for a level playing field for free trade between all participants in the marketplace.

Now, FERC Order 888 is about the unbundling of the commercial operation of the system, it is not about the unbundling of the physical operation of the

system. The operation of all power networks must indeed continue to be integrated, it's necessary for reliability and all regulatory authorities and reliability authorities agree, NERC, FERC, NPCC and I'm sure Hydro-Québec and all utility people.

Now, in summary, the actual Hydro-Québec proposal as laid down before this Régie, we see, is discriminatory. It's discriminatory for a number of reasons, it is not based on accepted ratemaking principles, it treats Hydro-Québec Distribution in a preferential manner, it treats Hydro-Québec Production in a preferential manner, it is priced much too high and blocks trade. And because of this high price, there's little opportunity for increased usage of the system and because of the little opportunity for increase usage, there's no opportunity for associated benefits of that usage to flow to Québec electricity consumers so that the price of transmission could be lowered.

And in addition, as I said earlier, there is... it is not efficient for development of new competitive power supplies from other sources from Hydro-Québec in a competitive market, in the Southern portion of the system because of the nature of the tariff.

Finally, I'd like to talk a little bit about New

Brunswick situation. New Brunswick, as you can see in this map is interconnected with Hydro-Québec and with New England.

Now, the nature of those interconnections is very important, you can see from the large arrow flowing South into Maine that New Brunswick can transfer seven hundred megawatts (700 MW) South into Maine.

But because of technical limitations, we cannot flow any power North from Maine into New Brunswick and the Maritime. We can flow power about eight hundred megawatts (800 MW) into Québec, twelve hundred megawatts (1200 MW) out of Québec into New Brunswick.

But because we cannot flow any power North from Maine into New Brunswick, in times of emergency and need, New Brunswick is dependant on Québec and the interconnection with Québec in order to get emergency assistance to maintain reliability of supply to customers in the whole Maritime area.

And a little bit of history of our relationship. New Brunswick opened its system, its transmission system on January, nineteen ninety-eight (1998) and we did so, for the same reasons, as the system was opened in Québec and in Manitoba and in BC. We opened it because we sell power to the United States and we

want to be able to continue to sell power in the United States.

When we opened the system, Hydro-Québec complained about the tariff and the structure of the tariff in New Brunswick. They had four complaints. First of all, they said that the through rate in the New Brunswick tariff unbundled interconnections separately from the rest of the system.

So, to go through the system you had to pay twice for interconnections, so there was a higher rate to go through than there was to go out. Hydro-Québec, on that basis, argued that the through rate was higher and it was discriminatory to Québec.

They also argued that there was no regulator in place to regulate the tariff and there was not and there is not yet today, but under the new energy policy in New Brunswick, there will be changes made to the *Electric Power Act* and to the *Regulations Act* in order to do that.

They also said at that time there was no functional separation under a code of conduct, and at that time there was none. And that because there was no change to the *Power Act* in New Brunswick, there was no wholesale access to customers so it was reciprocal.

And on that basis, TransÉnergie refused NB Power access through Québec and refused to take access and service in New Brunswick. And when I say they refused to take service, they refused to take transmission service.

But an actual fact, the business, the commercial business between New Brunswick Power and Hydro-Québec did not cease, they continued under the old rules and did bilateral contracts at the border and NB Power took power from Hydro-Québec and actually delivered it through to parties in Maine for a period of two years.

Now, in response to that, New Brunswick has been a little slower in acting to get to this but New Brunswick Power took action to develop and undertake everything that it could to move the tariff in the right direction. We discounted the through rate to equal the out rate to meet Hydro-Québec's demands. We committed on our OASIS that there would be no changes in price and no escalation until a regulator was put in place, so that the terms and conditions and the tariff would be frozen under that, so they would not be arbitrarily changed.

And we fully functionally unbundled our system and began operation under a full FERC compliant code of

conduct in January, two thousand (2000). And we have been petitioning the New Brunswick Government to change the *Regulation Act* and provide for wholesale access.

And I must say to that extent it's been a little slower in New Brunswick partly maybe because we had an election two years ago and the Opposition wanted to change the government, they usually cause some slowdown in policy but the energy policy has been announced in New Brunswick at the end of January this year and there will be full wholesale and large industrial retail access open for March of two thousand and three (2003).

Now, recently, what has happened as a result of those changes? TransÉnergie accepted NB Power's actions and provided access beginning of March first (1st) of last year. And not only that, TransÉnergie and NB Power entered into a memorandum of understanding to pursue potential RTO developments in May of last year. And we had a number of meetings, several meetings, one here at Lac Brome, another one at Fredericton and we had committees struck and there were several meetings through the summer of last year.

And then, in August, TransÉnergie filed the tariff

application that's before this Board and, after that, discussions waned. And in the fall, TransÉnergie discontinued joint discussions in pursuit of an RTO. And then, in December, NB Power intervened in this hearing.

I want to state that early in this hearing, in the first day, Jacques Régis spoke and said that there were no complaints relative to the tariff and that there were no complaints and that the Régie was here and that anybody could lay a complaint before the Régie.

I'd like to say that the decision of NB Power to intervene in this hearing was not taken lightly, it was a very difficult decision for us to make. We have had a long and successful satisfactory business relationship with Hydro-Québec and so, to intervene, was an issue to consider.

We would have preferred the negotiating... continue negotiating a reasonable RTO settlement so that our systems can operate mutually together for the benefit of all of our customers, that would be our preferred approach. But without the opportunity to continue those negotiations, we had no choice but to intervene in this hearing.

We have an obligation to our customers to gain access through the systems so that we can get access to the markets beyond it. And part of the reason for that is the nature of the business.

Just last week we received a letter from TransÉnergie saying that if NB Power or anybody associated... on the borders of Québec, want emergency services from TransÉnergie that the price of energy for those services will be priced at one hundred and fifty percent (150%) of the highest price market of Ontario, New York, the PJM border or New England, whereas we believe it should only be priced at the value of that market.

So, we need access through Québec for reasonable access to those markets in the interest of our customers. Thank you.

Me ANDRÉ DUROCHER :

Alors, ça termine la présentation. Maître Morel, si vous voulez contre-interroger monsieur Marshall.

LE PRÉSIDENT :

Maître Morel, tantôt vous avez parlé de réserver vos droits, je ne voulais pas qu'on parte une discussion à ce moment-là, là, je voulais juste que le témoin continue sa présentation.

Mais quand vous dites que vous voulez consulter vos experts chez vous, qu'est-ce que ça implique pratiquement? Est-ce que... parce que là, je comprends que le témoin est ici aujourd'hui, vos experts ne sont pas là. Vous allez me dire * je ne savais pas d'avance qu'est-ce qu'il était pour amener de nouveau +. Je comprends, sauf que je me dis, ça signifie quoi? Vous allez exiger du témoin qu'il se représente de nouveau ou vous allez communiquer avec eux aujourd'hui pour qu'il ne soit pas libéré immédiatement mais que vous allez recontinuer vos questions après, ou... Je veux juste savoir comment on va matérialiser ce que vous voulez faire.

Me F. JEAN MOREL:

Vous avez le premier geste que je devrai poser correct, et je l'ai indiqué comme ça, avoir la chance de consulter avec mes gens qui, eux, prendront connaissance des nouveaux éléments de preuve. Et c'est suite à ces consultations que je serai en mesure d'aviser la Régie de ce qu'il aura à faire dans les meilleurs intérêts d'Hydro-Québec. C'est pour ça que j'ai demandé, seulement demandé qu'on réserve les droits de la demanderesse à cet égard. Si j'avais su lesquels, je les aurais précisés, Monsieur le Président.

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Volume 26

THÈMES 5 & 6
NB POWER
Ex. Me André Durocher

LE PRÉSIDENT :

Bon. Alors, vous avez des questions à poser?

Me F. JEAN MOREL:

Oui, et je demanderais si possible, pour digérer le plus rapidement possible le quarante-six (46) pages de présentation...

LE PRÉSIDENT :

Une suspension.

Me F. JEAN MOREL:

... d'une courte pause, s'il vous plaît, Monsieur le Président.

LE PRÉSIDENT :

Quinze (15) minutes, est-ce que c'est suffisant?

Me F. JEAN MOREL:

Oui. Merci.

(9 h 55)

PAUSE

LE PRÉSIDENT :

On vous écoute, Maître Morel.

Me F. JEAN MOREL :

Merci bien, Monsieur le président. Merci pour cette opportunité de réviser la preuve de NB Power ou de Énergie Nouveau-Brunswick. J'aurai...

LE PRÉSIDENT :

Mais vous comprenez que mon souci, c'est de trouver l'équilibre entre toutes les parties aussi parce que... puis de finir à un moment donné la cause. Si pour chacun des intervenants, on remet ça à après le premier (1er) juin, par exemple, pour finir le contre-interrogatoire, ça va être difficilement gérable.

Me F. JEAN MOREL :

Oui, je suis conscient de ça...

LE PRÉSIDENT :

C'est pour ça que je vous posais...

Me F. JEAN MOREL :

C'est une préoccupation d'Hydro-Québec, mais pas nécessairement la seule. Je pense que...

LE PRÉSIDENT :

Non; c'est une de nos préoccupations et pas nécessairement la seule, mais une des... on veut trouver un équilibre aussi.

Me F. JEAN MOREL :

Nous en tiendrons compte du mieux qu'on peut.

LE PRÉSIDENT :

Merci.

CROSS-EXAMINED BY Me F. JEAN MOREL:

6 Q. I was indicating to the Chairman that I have but a few clarification questions to put to you, Mr. Marshall. And I will be referring mostly to your presentation of this morning rather than your pre-filed evidence although I may have a few points to clarify on that document as well. In any event, the way that I had sort of planned to start off my cross-examination was to ask you to confirm, and it appears in your presentation from this morning, that New Brunswick Power does have in effect an open access transmission tariff at this time?

A. Yes, we have a through and out transmission tariff.

7 Q. Okay, in the sense that not a wheel-in because your market, the New Brunswick market is not yet open; is that a fair understanding?

A. That is correct.

8 Q. Okay. And maybe I can get to page 45 and just make another clarification I had. In the last bullet on this page 45 of your presentation, it reads in English that NB Power is currently or has petitioned the New Brunswick government for regulation and

wholesale access. In the French version, it says:
"Accès au transport de gros". I gather that
"wholesale access", you mean the wholesale
electricity market in New Brunswick?

A. Yes, in actual fact, we made a presentation to the
select committee of the legislature over two years
ago to provide for -- we laid out a number of
options, but we wanted minimal access, equivalent
to FERC Order 888 for wholesale access. We also
laid down options as potential large industrial
customer retail access at the transmission level.
And since that time, the government in their
Energy Policy release on the thirty-first (31st)
of January this year has accepted those positions
of ours and will open a market for industrial
retail access and for municipal wholesale access
March first (1st) of two thousand and three
(2003).

9 Q. This legislative intent of the New Brunswick
government, does it include creating a regulatory
environment for...

A. Yes, in the Energy Policy document, it is
available on the Internet, I could undertake to
get the Website for you and provide it to
everyone, it lays out -- it is a comprehensive
Energy Policy looking at all aspects of energy.
There is a key chapter on electricity, on the
restructuring of the electricity market, on the
regulation of that market, on the provision of
ancillary services in that market, on

the standard offer back-up requirements to the utility and how that whole market will operate.

So, yes, it requires changes to two acts in New Brunswick. It requires changes to the Electric Power Act which will then provide private producers free opportunity to build generation and connect to the system without the requirement for Order in council government approval and it will change the Public Utilities Act under which NB Power is regulated.

Today, we are under recap legislation from the government and it will empower the Public Utilities Board in New Brunswick to regulate all aspects of the market.

10 Q. And transmission rates?

A. And transmission rates, yes.

11 Q. To your knowledge, will such legislation also include the definition of what constitutes a transmission system?

A. I would expect so. Whether it is in the legislation or whether it is given to the Public Utilities Board to interpret, that at this point in time I am sure. The government process is to have a -- some key issues on the market were refer to a market design committee. That committee is currently being structured and to bring a report in within the next year and, on the basis of that, the details of the

market. But legislation is being prepared now for introduction at the next sitting of the legislature and changes to the Act will be made through next winter.

12 Q. Would you say that, if a definition of transmission system was enshrined in the legislation rather than the authority being given to a regulatory body to make such a definition, makes a big difference in the sense that the regulatory body would be bound by the definition in the act?

A. Absolutely. Any regulatory body would be bound by the definition in the act. And we do not dispute the definition of transmission in Québec under the law sur la Régie de l'Énergie. The issue is not the definition. The issue that we have is the allocation of cost to cost of service that is also required in the Act.

13 Q. You are referring to Section 49?

A. Yes.

14 Q. That applies to electricity transmission as well as gas distribution?

A. Yes.

15 Q. Okay...

A. I mean, I am not a legal expert in Québec, but that is my understanding when I read the Act.

16 Q. Okay, thank you. The current rates in New Brunswick, how were they designed? Were they designed on demand or energy or capacity or energy?

A. Capacity.

17 Q. Solely capacity?

A. Yes.

18 Q. You have also mentioned that you have introduced or applied, I guess, or applied at NB Power the FERC Code of Conduct, that you have implemented that Code as of January two thousand (2000); that is correct?

A. Yes.

19 Q. I gather for the time being there is only a functional separation then at NB Power?

A. Yes. But the business units that we have functionally separated, we unbundle all of our customer rates and do separate income statements internally for each of the business units so that there are accounting statements available to fully separate between generation and transmission.

20 Q. But in the current rate, if I understand your evidence, and the table you have provided our witnesses and summarily reproduced in your evidence this morning, transmission -- not transmission, but step-up transformers are considered transmission assets in your tariff and costed accordingly; is that correct?

A. Yes; as I said in my evidence, when the tariff was developed back in nineteen ninety-seven (1997), we were going under the FERC Code of Accounts at that point in time. It was before the Kentucky Utilities decision and we included transformers in the tariff,

just as Hydro-Québec has. We now recognize that that is incorrect and expect to change it in our filings as we go forward.

21 Q. And since the Kentucky decision, I guess, it has remained the same nevertheless?

A. Yes.

22 Q. And still is at this time?

A. Yes. The commitment that we made because there is no regulator and the issue that Hydro-Québec had with our tariff was that arbitrarily, we could change it at any time and there was no recourse. So, we said we will freeze it as it is at this point in time until there is a regulator so we can't arbitrarily change it and freeze it at the same time to protect other customers. So, when the law is changed and it goes to regulator, it will be changed.

23 Q. Subject to the regulator's decision, I gather?

A. Obviously.

24 Q. So, for the time being, the New Brunswick tariff is sort of just and reasonable -- not really just and reasonable then?

A. Well, I guess if we look at just and reasonableness as a degree, it is more just and reasonable than the TransÉnergie tariff.

25 Q. Because we step higher or we step -- when we step up, we step up higher or what?

A. Yes, and you include all the long lines and you also include substation transformers and all radial lines.

We do not include substation transformers nor radial lines to load.

26 Q. Okay. Well, since we are discussing your system, I had another query or question with respect to the couple of maps you have put in there. The one on page 3...

A. Yes.

27 Q. The one going from New Brunswick to New England, I gather, is one way; is that a fair understanding on my part?

A. Yes. Because of technical limitations, for reliability of customer load and operation of the system, not for commercial reasons.

28 Q. But technically, in order to get access to Maine, I guess, is your neighbour, right?

A. Yes.

29 Q. It therefore could be done?

A. We have filed with the National Energy Board and have a project now to build a second transmission line which will allow that interconnection to be increased south and will allow it also reversing gain access from Maine into New Brunswick. We filed that application last month and it is now being heard before the National Energy Board.

30 Q. And that will require investments from NB Power, I gather?

A. Yes.

31 Q. And those costs will be...

- A. And parties in Maine, the building side on the other side.
- 32 Q. But those investments made by New Brunswick Power will be reflected in your tariff, right?
- A. They will have to be recovered in some manner. I would expect that they would be in the tariff in some way.
- 33 Q. Okay. Now, with respect to -- I am into further clarification, so, with respect to page 39 of your presentation this morning, it is the comparison of rates. And you have first of all made a correction or a change from the evidence filed by Mr. Bishop with respect to the New York rate which you have indicated now as being twenty-nine fifty (29.50)?
- A. Again, I said this morning that is an estimate. I just calculated backwards from the hourly to what I think a reasonable number is. I tried to find the exact yearly number for New York and was not able to obtain it.
- 34 Q. Do you know if that number includes congestion costs or charges?
- A. No, I am not aware, no, that it does.
- 35 Q. Okay. So if there were congestion charges, they would be added on to the rate you have indicated?
- A. If there were congestion charges that would be additive, they would be added in.
- 36 Q. Same with Ontario, I gather? Seven dollars and eighty-six cents (\$7.86) is the basic one dollar (\$1)

rate...

- A. Exactly. The Ontario number is a one dollar (\$1) rate multiplied by seven thousand eight hundred and sixty (7,860) hours and the provision in Ontario is a bidding market. If there is congestion then, parties would bid and there would be additional charges to that if there were congestion. But there is a long way to go from seven eighty-six (7.86) to seventy-five dollars (\$75). So, there is a lot of room for congestion.
- 37 Q. Let's bid and see how much congestion is.
- A. Let's bid in Québec...
- 38 Q. I say it can get very high at times...
- A. At times.
- 39 Q. Okay.
- A. At other times, there would be none.
- 40 Q. On page 42 in your presentation or argumentation that Hydro-Québec's proposal is discriminatory, and I guess you would say a little more than NB's proposal or NB's current tariff, the last bullet reads that: "It provides little opportunity for increase usage and associated benefits for Québec electricity consumers". And I am not sure what you mean by "benefits for Québec electricity consumers" if, in your proposal, a step down asset or equipment or facility would be assigned to distribution and, therefore, paid for solely by the Québec electricity consumers and if the step-up transformer cost would

be assigned to production and paid to a great extent by the Québec electricity consumers. Why would you say then that doing away with our proposal would benefit Québec electricity consumers?

- A. Well, currently, in the application today and in the actual use of TransÉnergie's system, the amount of non-firm revenue we discern to be about eleven million dollars (\$11,000,000), somewhere in that range. Of that, a significant amount of that is Hydro-Québec Production. The amount of dollars that are flowing into Québec today for use of the system is probably only three, two or three years, four million dollars (\$4,000,000) of external non-Hydro-Québec users that are flowing into the system.

If the tariff were lowered, there would be more users externally that would come in and contract. NB Power would contract across Québec for access to other markets. We, ourselves, could bring four, five millions dollars (\$5,000,000) into the system which would increase the dollar flow into TransÉnergie and into Québec. That's more dollars coming in to pay for the system. The other dollars are all just moving from one pocket to another inside Hydro-Québec. That should improve the situation for Québec consumers.

- 41 Q. In your view, it would not be a wash or the cost that you want transferred to distribution and production would be, you are convinced, more than

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covered by the

increase usage of the transmission system?

A. I certainly would attest that there would be increased usage of the system. The issue is how much more increase usage, how much more revenue is something to be discerned in the future. The issue of whether or not it would - the distribution transformers should be charged, one place or another or who exactly should pay is an issue for the Régie to decide in its hearings on Hydro-Québec's distribution rates, in terms of allocation of costs. But we have no evidence here to look at allocation of cost, we only have one highly aggregated revenue requirement.

42 Q. In transmission. At this time, how much transmission capacity has New Brunswick acquired on the TransÉnergie's system?

(11 h 15)

A. None. So, any improvement would be an increase.

43 Q. How much energy has NB Power available to transmit on our system right now?

A. That depends on the time of day, the time of year and the state of availability of their resources.

44 Q. But transmission is available right now?

A. And if the price were reasonable, there would be energy flowing across Québec to markets.

45 Q. So, I gather when you argue that rates should be just and reasonable, "reasonable" means cheap?

A. "Reasonable" means a reasonable price based on the

cost of providing the service.

46 Q. My one last clarification and I'm referring to your written evidence, the pre-filed evidence at page 7 where you discuss discounts that you would propose or that you would want based on voltage usage and there is a table starting at line 14, point to point voltage, then you've indicated various voltages and then resulting discounts -- or applicable discounts and resulting tariff. I have maybe two clarifications. Would those discounts in your proposal or in your view also be applicable to Hydro-Québec Generation?

A. If they own their own substation transformers and they own their own step-up transformers and paid for them.

47 Q. But in this case...

A. My view is that the discounts, and what I laid out in the evidence as a means of these are discounts that Hydro-Québec today provide to large industrial customers and municipal customers inside Québec today under class L rates. They are based and we asked in cross-examination, are they based on avoided costs and are there studies to that effect? And we were given the answer "yes, they are".

If they're based on costs avoided by Hydro-Québec then it's only equitable that the same treatment for customers inside Québec, for use of the system at

high voltages should be given to customers from outside Québec for use of the system at high voltages. All we're asking is equitable treatment.

48 Q. How much costs has TransÉnergie avoided...

A. That's often, we asked...

49 Q. ... by step-up...

A. ... I don't know, we asked for that information...

50 Q. ... transformer investments in...

A. ... and we haven't got it.

51 Q. ... in the American Northeast?

A. Could you repeat the question please?

52 Q. Yes. How much costs were avoided or are avoided by TransÉnergie, by step-up transformers investments in the American North East? They used the system.

Me ANDRÉ DUROCHER :

Je ne comprends pas la question.

Mr. WILLIAM K. MARSHALL:

A. If I understand you correctly, are you asking me that the value of the energy that flows across the system into the Northeast market, the value of that comes back?

Me F. JEAN MOREL:

53 Q. No, you're saying that we've indicated, TransÉnergie has indicated that the discounts are given because of their avoided costs. No investments in Québec by

TransÉnergie have therefore been made, that's the sense of avoiding costs.

A. Yes.

54 Q. Okay, and I'm asking you what are TransÉnergie's avoided costs for investment made by third parties outside Québec?

A. The issue is it's a cost-of-service issue, the reason that TransÉnergie provide the discounts is that they avoid the costs so they... by avoiding those costs, when you subtract them from the total revenue requirement you get back to the point that the cost of providing the service at the higher voltage is only that cost, while the cost of providing the service to somebody outside the province coming in at the higher voltage is also only that cost.

55 Q. The discounts that you've indicated again at page 7, is that how the New Brunswick current transmission tariff is applied?

A. The tariff in New Brunswick does not have to be applied that way, we do not charge substation transformers in the tariff and we do not charge radial lines to loads in the tariff and our large industrial customers and municipals are billed at the high voltage side at delivery to their systems.

So, included in the rates that they get the discounts are already inherent in the rates. And I might add that that's the standard industry practice across

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North America.

Me F. JEAN MOREL :

Ceci complète mon contre-interrogatoire, Monsieur le Président. Thank you, Mr. Marshall.

LE PRÉSIDENT :

Est-ce que ça complète totalement votre contre-interrogatoire ou si vous avez des réserves?

Me F. JEAN MOREL:

La pression est grande. J'ai conféré avec les gens que j'avais ici pour les fins du contre-interrogatoire tel que nous l'avions prévu avec l'information que nous avions avant ce matin, avec la preuve écrite telle qu'elle était déposée au dossier, j'ai bon espoir, Monsieur le Président, de conférer avec d'autres conseillers ce midi et je vous aviserai au retour du *lunch*, si *lunch* il y a ou je tâcherai d'avoir...

LE PRÉSIDENT :

On comprend ça, on comprend ça.

Me F. JEAN MOREL:

... oui, d'avoir une pause suffisante à un autre moment donné pour pouvoir vous aviser le plus tôt possible et...

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LE PRÉSIDENT :

Non, bien, c'est parce que la question va se poser dans quelques minutes ou heures, là.

Me F. JEAN MOREL :

Minutes, j'espère.

LE PRÉSIDENT :

Maintenant, ça dépend, le RNCREQ, est-ce que vous avez des questions à poser?

Me HÉLENE SICARD :

Non, Monsieur le Président.

LE PRÉSIDENT :

NEG, ils ne sont pas ici. Option consommateurs?

Me ERIC FRASER :

Non plus, Monsieur le Président.

LE PRÉSIDENT :

Pas de question. OPG, est-ce que vous avez des questions, non. Bon, Groupe STOP-SÉ, vous avez des questions?

Me DOMINIQUE NEUMAN :

Oui, j'en ai.

LE PRÉSIDENT :

Alors, c'est à votre tour.

CROSS-EXAMINED BY Me DOMINIQUE NEUMAN:

- 56 Q. So, good morning, messieurs les régisseurs, good morning Mr. Marshall. For the record, my name is Dominique Neuman, I'm representing Group STOP and Energy Strategies. So, I wish to thank you for your very interesting presentation. I'll try to ask my question in English, it's possible that at some point I'll be scrambling for a translation of a term.

My first question concerns GRTAs, which are addressed at page 30 of today's presentation. On page 30, you indicate several examples of other jurisdictions that have allocated to GRTA's, to generation, I notice that you have not mentioned FERC in that list. Is it correct understanding that FERC recognizes that GRTAs should be allocated to transmission for accounting purposes and that for ratesetting FERC recognize a discretion of transporters to allocate it either to generation or to transmission?

- A. Yes, as I said, there is some degree of differentiation in FERC because of the timing of when some tariffs were filed and where they are. FERC, in the evidence that we submitted in the case of the Champion Project that Hydro-Québec own forty-nine percent (49%) of in Maine, they petitioned FERC to

have the right to connect into the system, pay their own costs, and in order to submit some of the rules in New England, and FERC agreed with that and FERC, in some of their orders have said, in connection costs, the connection costs of the generators to connect to the system should be charged to generators.

Now, the issue here is the historical costs in the past or how they are allocated to generators.

There are some jurisdictions in the US, in the Consumers Energy case where some of these radial lines have been allocated back to generators and some of the radial lines to load have been allocated to load.

There are other jurisdictions where all of the costs are still in one tariff. So, as Hydro-Québec said in their response to our exhibit 7, there are some differences still existing in the United States.

57 Q. Okay. And when you're talking about differences, both options have been recognized by FERC when the individual tariffs were approved...

A. I think...

58 Q. ... both the cases where when GRTAs were allocated to product -- to generation and the cases when GRTAs were allocated to transmission?

A. In actual fact, I wouldn't go so far as to say that FERC has approved the allocation of them to

transmission. I think it's by default that some of them are still in tariffs and are not there; in cases that have been challenged before FERC, that they've actually ruled on, the transformers and some of the lines are allocated back to generation. And for any new generation going forward, it's clear intent they'd be allocated to generation.

59 Q. And is that your statement that FERC is now refusing applications that ask for GRTAs to be allocated to transmission, is that your statement?

A. What has happened is that in nineteen ninety-six (1996), under Order 888, FERC required all public utilities in the United States to file a tariff and they all had sixty (60) days to file a tariff from the issuing of the Order. So, everybody filed a tariff.

Now, not every tariff has been reviewed and accepted and approved, they are on file and they are there so by default there may be some that do not adhere totally to the rules. And unless they've been challenged by others and have gone to court under specific challenges, they may still be some differences. So, that's part of the reason why I think there is some latitude and some differences in the United States.

60 Q. So...

A. It's simply a... it's a case of the level of workload

and the number of utilities and the delays of cases that FERC has to deal with.

61 Q. Okay. I'm trying to understand from your answer, please try to indicate to me if that's your understanding that we're not at the point where FERC is refusing applications on the basis that GRTAs are allocated to transmission. Is that a correct statement that we are not at the point where FERC is refusing such applications?

A. I don't quite understand, I think where they've been challenged and gone to FERC, they have made some rulings to take them out; where they have been in and not challenged, they have just let them ride. So, I don't think FERC has overtly gone through every application and cross-checked it, I guess, if that's what you're asking, saying no, now, we've got to do this.

62 Q. Is it a correct understanding that in New Brunswick, transmission rates include GRTAs, that GRTAs have been allocated to transmission?.

A. At this point in time, they're in transmission. But the substation transformers and the radial lines to load are not.

63 Q. Excuse me?

A. The substation transformers and the radial lines to load are not.

64 Q. Okay. Did the up... just a second. The step-up... the step-up...

A. The step-down transformers are not, the step-up are.

65 Q. Okay.

A. I mean, as we provided in our exhibit number 7, the cost allocation survey across Canada shows the current allocation in New Brunswick.

66 Q. So that was my next question, the step-up transformers. On page 29, you expressed the opinion that certain ancillary services should not be allocated to point to point customers because they are not using such services?

A. Yes, that's correct.

67 Q. And if I understand correctly, you enumerated the three services that you mentioned are the spinning reserve, the supplementary reserve, which are the two last... which are ancillary services 5 and 6 and the frequency control, I'm not sure which number it is.

A. Number 3.

68 Q. It's number 3, yes.

A. Yes.

69 Q. Would you care to expand on that, why are you stating that these three services are not beneficial to point to point customers.

A. Point to point service is a transmission service from one point of receipt to another point of delivery and it's the obligation of the user to schedule energy across that transmission path. And the user has to balance his supply every hour within that and if he exceeds and does not match up in balance within the

hour, then there is a penalty charged for any over- exceedences or under-exceedences against what he has scheduled.

So, the point to point service does not use frequency control which automatically adjust the load in the generation. This is a service only to the local load inside the system that changes continuously and the frequency control is used to manage that.

The point to point service has an obligation to provide his own in the actual service that he buys. So he only utilizes voltage support on the system and he utilizes the dispatch control centre in order to dispatch and schedule his energy. He is then obligated to deliver that amount of energy or pay a penalty. He does not utilize these other services.

(10 h 35)

70 Q. Is that a correct statement that, under FERC Orders, including FERC Order 888, all ancillary services are allocated to all clients...

A. No.

71 Q. ... both point to point...

A. No, the explanation that I just gave is FERC Order 888 pro forma standard; that a point to point customer must purchase voltage support from the transmission provider and must purchase system dispatch from the transmission provider, but not the

others, and that the transmission provider has an obligation to unbundle all five services and provide them to people who want to buy them.

72 Q. When you say that point to point customers are not forced to buy these three services, is it also correct that, if such services are not bought from the transporter, TransÉnergie, these users must provide their own three services. They are only authorized not to buy these three services if they provide it themselves?

A. It is just that point to point services do not use these three services. They do not use them, that is why they do not have to buy them. And Order 888 says that you have to unbundle all the services and make available to the market what you use. And you pay for what you use. These services are there to provide for the reliability of supply to the load inside the network. So, they are used only by the network service customers and the local load customers.

73 Q. Would it be a correct statement that, should there be a lack of spinning reserve or supplementary reserve on the network, it would affect the availability of point to point service on the network, that such service might be curtailed to compensate for the insufficiency of spinning reserve and supplementary reserve?

A. If there is a shortage of spinning reserve and supplementary reserve on the network and if there

were a contingency that a transmission line tripped or a generator tripped, then, there would be an upset to the network and that may influence the point to point transmission as well. But if I rent a space across the transmission system and I say I am going to deliver a hundred (100) megawatts and I deliver my hundred (100) megawatts to the input of the system and I am matching my schedule, it is the obligation of TransÉnergie to operate their system and to deliver it at the other end.

74 Q. And this obligation exists because TransÉnergie has take steps to avoid an insufficient spinning reserve and supplementary reserve. It is because the system of TransÉnergie prevents a lack in such reserves that it can provide that service to the point to point customers?

A. No. If you could unbundle all the systems, the hundred (100) megawatts could flow across TransÉnergie and, if it did not have any other reserves, the hundred (100) megawatts could still flow. Those reserves are there to provide for reliable supply to the load connected on the system. Let me explain a little bit more.

The whole reliable operation of the power systems in North America is governed by NERC. This is the North American Electric Reliability Council. They set out the rules by which a reliable operation happens. And

they have broken up the whole North American power system into what they call control areas. Each control area has a responsibility to balance its load and its generation and to keep the interchange across the borders between the control areas at a minimum.

And there are standards by which they have to do this. A point to point service going across a control area or out of a control area has an obligation to balance his requirement and then has no, no influence on the remaining balance across the area. That is to balance the local load and the generation. The ancillary services are there to do the balance of the local load and the generation, not to balance point to point schedules.

- 75 Q. I understand your statement that TransÉnergie has the obligation to provide the transmission service if the energy is provided, TransÉnergie has the obligation to transport it from point to point, but what I asked previously is, is that obligation not made possible only because the two ancillary services that you mentioned both on reserve and frequency control are already met.

My question is, is that obligation not only made possible because the local loads, the security of the local load, is assured by the existence of these three ancillary services?

A. No. If there were no spinning reserve and no supplementary reserve on the system, but there was just enough generation to match the local load obligation and there were none of these reserves available and I had a point to point reservation across the system and I scheduled my energy and I delivered it, as long as the local load and the generation is balanced, even if there is no reserve, the energy would flow.

Reserves, spinning reserve and supplemental reserve are there to provide for reliability of supply to the load on the system. They have no bearing on point to point service.

76 Q. I would like to go to page 38...

LE PRÉSIDENT :

J'imagine, Maître Neuman, que toutes vos questions sont en rapport avec le développement durable?

Me DOMINIQUE NEUMAN :

Absolument. Et ce sera très bien illustré dans l'argumentation qui sera déposée prochainement.

77 Q. I would like to go to page 38. You mention, and I am not sure about the exact English translation: "lignes radiales de charge", that is radial load - - could you provide me with the exact translation?

A. An English translation? Those would be radial lines

to supply local load. And they may in fact be the through radial lines from a node to the load, they may in actual fact be network radial lines, but are operated in a normally open manner as I demonstrated on my twenty-five (25) kV example for reliability purposes, they are open and they supply load radially, but they have the ability to be closed in in times of contingency to improve supply to local load. But because they are normally, operated normally open, they do not provide for any bulk transmission support for access.

78 Q. I would just like to understand exactly, could you give me an example of such a line in the Québec transmission system?

A. I think I can.

Me ANDRÉ DUROCHER :

Pendant que monsieur Marshall cherche, je crois qu'il y a une erreur dans la colonne 38. C'est écrit * transformation abaisseurs +, ça aurait dû être * transformateurs abaisseurs +.

A. I think, I am not quite sure, but I know when I answered the question for RNCREQ in the "demande de renseignements", I remember looking at the system and I talked about a couple of large industrial customers that served a transmission voltage and I have Praxair and Stelco, just across the river and up river from Montreal, that I believe there is a radial line

running from the system into those plants. That would be an example of a radial load line...

Me DOMINIQUE NEUMAN :

- 79 Q. Okay, I understand, okay. So, you answered the questions I wanted to ask on that. On page 46 of your today presentation, you mentioned the steps that NB Power has attempted with TransÉnergie concerning the development of an RTO that would include Québec, New Brunswick and possibly other jurisdictions. Had this attempt to create an RTO succeeded or if it were to succeed, do I understand correctly that, in such a case, all New Brunswick consumers would share the GRTAs within the transmission costs, as well as the step-up and step-down transformers as you have mentioned and also the three ancillary services that you mentioned, because the network would then be integrated. These costs would be shared.

The difference would be, however, that for export purposes, New Brunswick would not have to pay the transmission cost from New Brunswick to other markets, it would be included, it would not be a pancaking of rates by which NB rates and Québec rates would be added one upon another?

Me ANDRÉ DUROCHER :

The question is very long, but I think it is easy to

say that it is very hypothetical. So, the evidence is that the attempt to form an RTO did not succeed. What would have been the characteristics of an RTO had it succeeded, we may speculate. But it is not really a proper question.

Me DOMINIQUE NEUMAN :

I submit it is pertinent since NB has opened it up by expressing its wish to have an RTO implemented and if it were that such objective that NB has would result in the inclusion of certain costs that NB, on the other hand, states, says should not be included in the transportation tariff, it is pertinent to understand what NB's position, NB Power's position is on that. You cannot say on the one hand I would not want these costs to be included and then, I would want to create a system by which these costs would be included.

Me ANDRÉ DUROCHER :

The fact is that there was no RTO. There was an attempt, a very early process and it did not succeed. Maybe a relevant question would be, what would be New Brunswick Power's objectives in looking for the creation of an RTO, but right now, I think it is way out of line.

LE PRÉSIDENT :

Maître Neuman, je vous avoue que, comme on est au niveau de négociations et d'entente et d'intention, je me demande si c'est dans l'intérêt de tout le monde d'aller au niveau des intentions. Je me demande si on ne devrait pas tout simplement laisser les parties continuer à faire leurs négociations si possible, et il y a négociations, et laisser... c'est une autre partie qui ne nous concerne pas ici.

Me DOMINIQUE NEUMAN :

Il ne s'agit pas comme telles des négociations, mais comme la possibilité de créer des RTO a été mentionnée à la fois par ce témoin-ci et par plusieurs autres. La formule des RTO a certaines caractéristiques. Ces caractéristiques ont été approuvées par la FERC dans son Ordonnance 2000. Donc, si un témoin dit, telles caractéristiques du système actuel prétendument ne sont pas conformes à la FERC, mais je voudrais quelque chose d'autre, puis ce quelque chose d'autre est approuvé par la FERC et inclurait ces mêmes éléments que je dis que je ne voudrais pas voir dans le tarif de transport, c'est pertinent.

Une personne ne peut pas dire, je ne veux pas ces éléments-là dans le tarif de transport parce que, soi-disant, ce n'est pas conforme à la FERC, mais en même temps dire, je veux un autre système qui est

approuvé par la FERC, puis qui inclurait ces éléments.

LE PRÉSIDENT :

Oui, mais est-ce que... j'ai peut-être mal compris votre question, mais j'étais sous l'impression que vous vouliez questionner les ententes ou les projets d'ententes. C'est tout à fait...

Me DOMINIQUE NEUMAN :

Je demande des caractéristiques neutres qui ne sont pas liées aux négociations spécifiques entre une partie et une autre, mais les caractéristiques de la formule RTO.

LE PRÉSIDENT :

Si le témoin est au courant...

Mr. WILLIAM K. MARSHALL:

- A. I could help a little bit in this argument. The Maritime New Brunswick, Nova Scotia, PEI, filed an information filing with FERC on the RTO discussions that they had had and they laid down the principles by which they were prepared to go forward and the principles that TransÉnergie were discussing with us through the summer.

Those have been filed with FERC and are publicly

available. They were filed on October the fifteenth (15th) last fall. In addition, New Brunswick Power continued with the other parties, filed a further information filing on December or on January the sixteenth (16th) which is also filed with the FERC and, in that filing, laid an obligation that we would file again on June twenty-ninth (29th).

And we are continuing our work with parties from Maine, New Brunswick, Nova Scotia, Prince Edward Island, but we unfortunately do not have TransÉnergie participating in the process. The principles by which we were prepared to go forward are all laid down in those filings.

80 Q. My question was not about specific negotiations, my question was precisely about the RTO principles that would apply if such an RTO is created. And my question earlier was whether or not -- if you agree that an RTO, if it was created, would mean that NB's customers would be paying for those elements that you have precisely asked not to be included in the tariff transport which are ancillary services, GRTAs, step-up and step-down transformers?

Me ANDRÉ DUROCHER :

Again, we are asking a witness to speculate on what would be the characteristics of an eventual RTO. No such RTO has yet been created in the Maritimes with

the State of Maine. So, I fail to see how it is -- how a witness could credibly answer questions about what would be the characteristics of an RTO that does not yet exist. And also, I fail to see how it is in any way relevant to the issue and concern of a sustainable development.

(10 h 50)

Me DOMINIQUE NEUMAN:

That is the question I had asked before the objection, I did not ask another question, I repeated the question I had asked before the objection, before the earlier objection and I simply repeated because the witness talked about negotiations, which was not my concern, it was not my question, so I repeated the first question because I did not want to talk about these negotiations, that was not my question. My question was the same one as I have asked before the objection and which the Régie permitted.

LE PRÉSIDENT :

Maître Durocher, il me semble que votre témoin fait passablement allusion aux principes de la FERC dans son témoignage et il me semble que si on veut questionner les positions de la FERC sur les RTOs quant à un objet bien précis, même si effectivement il n'y a pas eu d'entente dans les provinces de l'Est, ça n'empêche pas... mais ça ne m'apparaît pas illégal de questionner ses connaissances.

Me ANDRÉ DUROCHER :

Ça ne m'apparaît pas pertinent mais ça va.

LE PRÉSIDENT :

Oui, mais...

Me DOMINIQUE NEUMAN:

81 Q. Do you understand my question? My question is whether or not...

A. I think so.

82 Q. ... these elements, ancillary services, GRTAs, step-up and step-down transformers, is it not true that they would be included in the transportation - the transmission tariff, if such, if an RTO is created?

A. Okay, again, it's speculative to answer. The allocation of the GRTAs and the allocation of substation step-down transformers and generator step-up transformers was one of the key issues that was being discussed and is currently continuing to be discussed.

There is no satisfactory rate proposal yet arrived at in the Maritime discussions and there was not a satisfactory proposal arrived at last summer in discussions with TransÉnergie.

But to say that the tariff that we are seeking will be a tariff that would be compliant and consistent

with FERC cost allocation principles, the answer would be yes.

Now, is it necessary that the tariff be subject totally to FERC jurisdiction and regulation? The answer is no. We recognize that in Canada we have to recognize the provincial jurisdiction of regulation of the electricity industry and what we would try to do would be to come up with a tariff that would be then subject to regulatory approval in Québec, in New Brunswick, in Nova Scotia and all of the different jurisdictions in Canada.

And FERC has acknowledged that in their Order 2000 that it would be a... even an international RTO, when we're discussing with Maine, that there would be a dotted line at the border and you have to recognize the regulatory jurisdictions of the areas. I don't know what else I can say.

83 Q. I have your answer. On page 33 of today's presentation, you illustrate on the map the absence of...

A. Excuse me, which page?

84 Q. Page 43, did I say 43? I'm sorry, it was 43, not 48.

LE PRÉSIDENT :

Là, je ne vous suis plus, quelle page?

Me DOMINIQUE NEUMAN:

C'est page 43.

85 Q. I'm sorry.

A. Yes, I have it.

86 Q. Okay. On the map you illustrate the absence of a bilateral access to Maine and which is such that the insufficiency of that interconnection from your statement places New Brunswick at the mercy of the transmission with Québec, the interconnection with Québec.

A. I don't know if "mercy" is the right word but we are dependant on it.

87 Q. Yes, for the supply of energy in cases of emergency. You mentioned in your statement, at the very end of your statement today, you mention that TransÉnergie had asked you -- had offered you, for cases of emergency, energy at a price which was one hundred and fifty percent (150%) the largest price available from the, from neighbouring jurisdictions, was your statement that TransÉnergie may do that offer, was that -- was that statement incorrect, shouldn't you have said that it was Hydro-Québec Production that made you such an offer, that the transmission cost is the one set by the tariff, the regulated tariff?

A. Yes, let me explain. But TransÉnergie is the operator of the Hydro-Québec transmission system. TransÉnergie still has the obligation to do the final dispatching

control on Hydro-Québec Generation for the reliability of the system, they are the reliability coordinator of the Hydro-Québec system. When there is an emergency situation in a joining jurisdiction, it's the transmission operator to the transmission operator that instantly react in order to provide for reliability supply across the areas.

So, TransÉnergie wrote the letter to NB Power Transmission and I'm sure they wrote one to Ontario One networks and wrote one to New York and New England as well to say that for emergency requirements, Hydro-Québec Production has told us that if you want any generation resources from Québec, Hydro-Québec Production are pricing it at one hundred and fifty percent (150%) of the highest of these market areas.

88 Q. Hydro-Québec meaning Hydro-Québec Production?

A. Yes, it's written in the letter that way.

89 Q. Okay.

A. I mean, the resources come from Hydro-Québec Production, it's the obligation of TransÉnergie to provide the reliability support. Now, all other jurisdictions, reliability supply comes at the market price of the energy in the other areas or whatever adjustment has to be made in the market, there is not an adder of fifty percent (50%) nor is the selection of the highest possible price market within your

reach.

Now, I just made that point because it's an issue of where we are today relative to this, I don't know where the regulatory requirement of that is but that's a service that TransÉnergie have to provide and as TransÉnergie is the regulated entity and in their tariff it seems to me that that issue may not be written in the law or may not be required but it is a service that they required and I would think that the Régie should consider it in some way to look at whether that service should be a regulated service.

90 Q. The main aspect of that situation that you described, the way I look at it, is that there is an insufficiency of interconnections, an insufficiency of transmission assets which would permit New Brunswick to have a largest scope of choices if such emergencies were to happen. You stated... is NB satisfied with the fact that there is no bilateral transmission access between Maine and New Brunswick right now?

A. Are we satisfied that we don't have access from Maine back into New Brunswick?

91 Q. Yes.

A. No. As I said, we are pursuing building an additional interconnection into Maine to remedy that situation and we filed that application with the National

Energy Board for an international transmission line.

92 Q. Okay. Has anything... well, what prevented such interconnection from being built yet, like the situation is not new?

A. No, and as I said, the changing market conditions in the whole Northeast market, as in the past, the value of the interconnection for access to the market wasn't sufficient to justify the economics of the line. So, if you just build it and you don't have power to flow across it or people willing to buy the power, then the costs have to be rolled in and increases ratepayers costs, so that's not a thing that utilities do. So, there has to be economic justification.

Now, with the change in the Northeast market, there clearly is economic justification for the line, plus the change in Hydro-Québec behaviour in terms of how they participate in that market even drives it further in terms of that there is now a reliability need even for the line.

93 Q. I would like to show you a statement by NERC's General Counsel, which I'll distribute to you, and I will ask you to indicate to me if you agree with that statement. I have copies for the Régie, which is related to... okay. If it's possible to give one copy to the witness also.

The question I will ask you concerns... on page 9 of that document, the paragraph which starts by the word "A second major impediment to expanding the transmission grid has to do with economics..."

Further in that paragraph, it is stated:

Yet, the regulated rates that we allow transmission owners to charge may not compensate for the risk they take on.

And later in that paragraph, it says:

We need a rate paradigm that recognizes the value that transmission plays in our economy. As well we need a rate paradigm that allows those who build new transmission to recover their investment.

And that statement was made on May fifteenth (15th) to the United States Senate Committee by NERC's General Counsel, Mr. David Cook.

Me DOMINIQUE NEUMAN:

Before, it seems that my confrere wants to intervene before I ask the questions, so if my confrere wants to say something before I ask a question, I will not

ask that question.

Me ANDRÉ DUROCHER :

En quoi c'est pertinent, je ne vois pas en quoi on peut arriver ici et déposer un document préparé par le conseiller juridique interne du North American Electric Liability Council et demander au témoin de commenter un passage, là. Je ne vois pas en quoi c'est pertinent.

Me DOMINIQUE NEUMAN:

I have not asked the question yet.

Me ANDRÉ DUROCHER :

Ca ne fait rien. On lui demande de lire un extrait, on va lui demander de poser des questions là-dessus.

LE PRÉSIDENT :

Mais, est-ce que vous vous objectez à ce qu'on pose des questions sur ce document-là.

Me ANDRÉ DUROCHER :

C'est ça, sur ce document-là.

LE PRÉSIDENT :

Qu'est-ce que vous avez à...

Me DOMINIQUE NEUMAN:

I have not asked a question yet, so maybe it would be better for me to phrase the question.

LE PRÉSIDENT :

Bien non, mais la première...

Me ANDRÉ DUROCHER :

Je m'oppose à la...

LE PRÉSIDENT :

... le préliminaire à la question, c'est est-ce que vous avez le droit de poser une question à partir de ce document-là.

Me ANDRÉ DUROCHER :

Exactement, le témoin ici a déposé l'interrogatoire, pas l'interrogatoire, son témoignage il y a plusieurs semaines. L'occasion était là pour les personnes de faire des demandes de renseignements écrits. Ce matin, on a fait une présentation PowerPoint qui résumait le sens de son témoignage et là on arrive avec ce document-là qui contient plusieurs pages, on demande de commenter un paragraphe précis, je ne vois pas en quoi c'est admissible comme façon de faire les choses.

Me DOMINIQUE NEUMAN:

First, I think I should have the privilege to phrase the question before there is an objection to it. It has happened on several occasions since the beginning of this hearing, that, on occasions, one party, even the Régie at some point has deposited the various documents and -- as reference, and from that reference asked certain questions to the witness.

The question is not to comment on NERC's position, it's to know what NB Power's position is. We... it's we're not... we have a statement and we -- I'd like to finish, confrere.

We wish to ask some questions regarding the testimony of Mr. Marshall just a few minutes ago, concerning the situation that NB Power is in, which is illustrated on the map on page 33, and I want to expand on that line of questioning by referring to certain realities expressed in that document and I want to expand on that.

I will also refer to Mr. Marshall's written testimony, I'm not sure which it is, it was his testimony deposited on the seventh (7th) of February, two thousand one (2001) which may be related to that also.

Me ANDRÉ DUROCHER :

Je cède la parole à mon confrère ici mais je voudrais répondre par la suite.

Me GUY SARAULT :

Monsieur le Président, nous reconnaissons d'emblée le droit de maître Neuman de contre-interroger les témoins et d'explorer toutes sortes de choses mais je voudrais faire remarquer à tout le monde qu'il est onze heures et dix (11 h 10). On doit, en principe, terminer vers treize heures (13 h) et j'ai un témoin expert ici, moi, qui vient de Vancouver, qui doit être entendu aujourd'hui.

Et je commence à m'interroger sérieusement sur l'efficacité de la progression des audiences et je ne comprends pas, à prime abord, je ne veux pas en faire une objection mais je m'interroge sérieusement sur la pertinence des questions et des documents qui sont déposés sur la cause tarifaire ou les enjeux de développement durable. Il y en a peut-être un lien mais il ne m'apparaît pas évident.

Et là, je me demande jusqu'à quel point on n'est pas en train de compromettre le droit de d'autres parties d'être entendues pour couvrir ce genre de sujet-là. Simplement une remarque. Parce que là ça devient, pour nous, là, on est sur le bord d'en subir un

préjudice, je veux simplement alerter l'attention du Tribunal là-dessus.

(11 h 10)

LE PRÉSIDENT :

Juste un instant. Oui, Maître Fraser?

Me ÉRIC FRASER :

Simplement pour appuyer mon confrère, maître Sarault, et d'autre part, il y aurait peut-être lieu de demander à maître Neuman qu'il nous établisse vers où il se dirige avec sa ligne de questions et la pertinence de cette ligne de questions liées aux intérêts de son client. Ce qui pourrait nous aider, à savoir pour combien de temps on en a, parce qu'effectivement, il y a un problème d'efficacité, je pense qu'il y a plusieurs intervenants qui ont fait des efforts pour faire des contre-interrogatoires qui soient limités à leur domaine, à l'intérêt direct de leurs clients, essayer qu'il n'y ait pas trop de * overlapping +, si vous me permettez l'expression anglaise, et il y a une question de gestion de temps aussi. Alors, je vous remercie.

Me ANDRÉ DUROCHER :

Un point technique, ce document-là date du quinze (15) mai deux mille un (2001), monsieur Marshall ne fait pas partie du North American Electric Reliability Council, il fait partie de New Brunswick

Power Corporation, il ne peut pas être interrogé sur un document qui provient de quelqu'un d'autre.

LE PRÉSIDENT :

Bon, alors...

Me DOMINIQUE NEUMAN :

À plusieurs reprises, il est arrivé que des témoins soient interrogés en rapport avec des documents de la FERC, ces témoins ne faisaient pas partie de la FERC, la FERC exprimait certaines positions qui étaient en rapport avec le témoignage du témoin et il a été demandé certaines questions en rapport avec certaines politiques, certaines orientations exprimées par la FERC.

Le témoin fait référence au NERC dans son propre document, à la page 41, je crois qu'il y fait référence, je n'ai pas les pages, à son témoignage écrit également. Peut-être que monsieur Bishop aussi y fait référence, il faudrait que je vérifie dans son témoignage. Il n'y a rien d'anormal à ce que, et ça s'est fait à plusieurs reprises dans cette audience, que certains documents soient soumis, et en l'espèce, en plus, en tout cas, le document fait un lien direct avec la page 43 du témoignage de monsieur Marshall.

LE PRÉSIDENT :

Mais, Maître Neuman, il reste que je vous ai posé la question tantôt, si ça avait trait vraiment avec l'environnement durable parce que... le développement durable, excusez, parce qu'on se pose de sérieuses questions sur le lien entre le développement durable et la ligne de questions que vous avez adoptée.

Je voudrais savoir si vous avez plusieurs questions dans cette ligne-là, où vous en allez au juste puis est-ce que vous avez encore besoin de beaucoup de temps pour vos questions?

Me DOMINIQUE NEUMAN :

Le lien qui apparaît à la fois à la preuve que nous avons déposée, et il y a l'argumentation qui sera déposée à la fin du dossier, est à l'effet que le témoignage que nous avons produit, le témoignage d'expertise que nous avons produit, favorise les exportations à une échelle nord-américaine et favorise à cet effet le développement des infrastructures nécessaires pour que ces échanges puissent avoir lieu.

S'il y a des contraintes structurelles à développer des actifs, développer les actifs de transmission de manière à favoriser ces exportations, ça fait partie des préoccupations que nous avons, nous avons exprimé

certaines choses sur les GRTA's dans notre preuve, nous avons exprimé certaines choses sur d'autres aspects de la structure tarifaire de manière, c'est-à-dire qui ont pour effet d'alléger ces contraintes qui pourraient exister quant au développement des infrastructures.

Le témoignage du témoin dans cette cause fait valoir que certaines caractéristiques du tarif actuel et proposé seraient contraires à certaines normes de la FERC, mais il fait référence également à la NERC et NERC incidemment dont NB Power, faisant partie du NPCC, fait partie, donc le conseil de fiabilité NPCC fait partie de la NERC donc, tout comme Hydro-Québec Transmission fait partie du NPCC.

Donc il est pertinent de pouvoir contre-interroger le témoin, qui affirme que certaines caractéristiques du tarif sont contraires à ces normes-là, il est pertinent de pouvoir le contre-interroger pour souligner qu'au contraire, les institutions telles que le NERC s'interrogent sur l'efficacité des normes actuelles pour favoriser l'expansion adéquate du réseau de transmission.

Et il y a, la FERC et la NERC encouragent une plus grande flexibilité, les principes, c'est une question suivante, les principes de la directive de mil neuf

cent quatre-vingt-quatorze (1994) également favori-sent une flexibilité de manière à ce qu'il y ait un développement adéquat du réseau de transmission. On rentre exactement dans, à la fois, il y a une pertinence quant aux propos des intervenants que je représente et il y a un lien avec cet intervenant qui, de façon plus élaborée que d'autres interve-nants, met en question les règles, certaines règles qui sont actuellement proposées par Hydro-Québec dans les tarifs.

Donc il y a un lien des deux côtés. Pour répondre à votre question sur le temps, j'ai environ, ce sera peut-être un peu moins mais environ quinze (15), dix (10), quinze (15) minutes de questions à compléter. Je ne peux pas prédire la durée des réponses, c'est à peu près le temps qui reste, et je vous fais remarquer qu'il y a eu plusieurs intervenants qui ont été très substantiellement plus longs que moi dans cette présente cause, certains ont pris à l'occasion deux heures, ou trois heures pour faire des contre-interrogatoires. Je ne pense pas que, la Régie n'est pas intervenue pour les empêcher de faire leur inter-rogatoire à ce moment-là.

LE PRÉSIDENT :

Non, mais on intervient pour que ça procède plus rapidement.

Me DOMINIQUE NEUMAN :

Quant à nous, depuis la durée des objections, peut-être qu'on aurait déjà fini si... Je désire ajouter, en rapport avec mon confrère, maître Sarault, que s'il passe aujourd'hui, c'est à l'occasion d'un échange auquel je suis très content d'avoir offert le service à maître Sarault d'échanger notre temps de parole pour passer, pour échanger...

LE PRÉSIDENT :

Dans un premier temps, je veux vous rassurer, Maître Sarault, que vous allez passer aujourd'hui avec votre témoin. On va ajourner pour le repas de midi (12 h) à une heure (1 h) et vous aurez, jusqu'à ce que ça soit terminé avec votre client, on va siéger.

Je vous avoue que vous nous convainquez très partiellement du lien entre le développement durable et vos questions, mais comme il vous reste assez peu de questions à poser, on vous demande de continuer vos questions mais de vous limiter le plus possible.

Me DOMINIQUE NEUMAN :

Je vous remercie.

94 Q. So my question regarding the excerpt I read, on Page 9 of this document, would you not agree that...

Mr WILLIAM K. MARSHALL :

A. Which is the excerpt again? It has been a while.

95 Q. Okay, the excerpt, it is the paragraph that starts with the words, "A second major impediment...", do you have that?

A. Yes.

96 Q. *A second major impediment to expanding the transmission grid has to do with economics.*

And further down, it says,

We need a rate paradigm that recognizes the value that transmission plays in our economy. As well we need a rate paradigm that allows those who build new transmission to recover their investment.

And the paragraph also talks about the risks involved.

A. Yes.

97 Q. My question is, would you not agree that one of the reasons for which New Brunswick has not, had not yet built the line that it needs to interconnect with Maine is that the current, its current tariff structure does not permit to adequate, does not provide enough incentives for such new investments in the sense that the risk that may involve, the market risk that may be involve with such transmission is

not adequately compensated by the, or dealt with
with the current rate structure?

A. The current...

Me ANDRÉ DUROCHER :

Maintenant que la question est posée, je vous
soumets que ce n'est absolument pas pertinent au
débat qui est devant nous.

Me DOMINIQUE NEUMAN :

C'est pertinent puisque des mécanismes qui sont
dans la présente cause tarifaire, tels que
l'inclusion des GRTA's, l'inclusion des services
ancillaires au tarif de transport peuvent
justement permettre de réduire le risque de tels
investissements et peuvent justement permettre,
favorisent la construction de tels
investissements.

Me ANDRÉ DUROCHER :

Écoutez, les raisons pour lesquelles New Brunswick
Power a ou n'a pas fait telle chose par rapport à
l'État du Maine sur le plan d'une ligne
internatio-nale de transport ne m'apparaît pas
pertinent.

LE PRÉSIDENT :

Alors nous allons autoriser la question mais,
parce qu'il y a un certain lien avec la demande et
la position de, la demande de TransÉnergie et la

position de NB Power face à ça, mais sauf que,
allez-y puis restez...

Me DOMINIQUE NEUMAN :

Moi, j'essaie d'y aller, il y a d'autres qui...

Mr WILLIAM K. MARSHALL :

A. Would you repeat the question, please?

Me DOMINIQUE NEUMAN :

Okay.

98 Q. Would you agree with me that one of the reasons that such new transmission line that NB would need, as you stated, with Maine has not been built yet is that the existing rate structure does not contain sufficient incentives for such assets to be built in view of the risk they involve?

A. As I said earlier, the reason the line was not built in the last ten years is because the economics of the project didn't warrant it. The project was studied over ten years ago and received New England Power Pool approval in Order 18.4 approval to be constructed. And Bangor Hydro on the U.S. side got U.S. presidential permit to build the line. And all of that regulatory work was done.

But market conditions changed, oil prices shrank to ten dollars (\$10) a barrel, the whole market changed

significantly in the early nineteen nineties (1990's) and the economics of the project didn't make sense. And so it was put on a shelf. It currently now does make economic sense, and we are proceeding with the project. I don't know what that has to do with transmission rate structure, it has to do with the economics of transmission interconnections between market areas.

99 Q. Would you agree that if GRTA lines, ancillary services and step-up and step-down transformers are included in the tariff, it increases the economic flexibility for a transporter to build such lines, even despite the risk which is involved, when you talk about the economics, you are referring to the risk involved with such constructions?

A. If I understand your question correctly, if you include the long transmission lines in the tariff and that makes the tariff a high number, then you look at building a new line, then you have a high number you can roll the new line cost into, there is an increase probability of building it, is that your question?

100 Q. Could you rephrase that, could you repeat that?

A. Well, I am trying to understand...

101 Q. Yes.

A. ... is it because you include the generation-related transmission assets that result in a high tariff...

102 Q. That the combination...

A. The combination of that means that...

103 Q. ... the combination of these various additions...

A. ... when you are building a new line and you roll the cost of the new line into that high tariff, you can afford to spend more money and not increase the tariff. That is conditional on whether or not you have somebody willing to contract for service and pay for the transmission service across that line and be willing to pay that amount of money.

If the market differentials from one area to the other don't warrant that, then nobody will contract for it, and the line won't get built. So the way you get lines built is, you should build them based on the cost of service, not an artificially high cost but they should be based on the cost of building the lines and what is required.

And what NERC is saying in this document is that, maybe what you need is regulated lines, you need a higher rate of return for interconnection lines between areas in order to get them built, because they have some reliability value and regulators may need approve higher rates of return. It doesn't mean they need to be artificially priced at some higher number, they should be based on the cost.

(11 h 30)

104 Q. On that aspect, you are referring to FERC's Pricing Policy Statement and Order 888 that

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followed, which

you summarized on page 16 of your presentation. I understand that this is a summary presentation of FERC's Pricing Policy Statement which you further described in your written report which was filed on February, February two thousand one (2001).

A. Yes.

105 Q. That is correct. Is it a correct statement that besides those elements that you illustrated on page 16, FERC also stated that there should be a balance to ensure that the transporter has adequate flexibility for proper expansion of its transmission system, that the guidelines must be balanced with that other principle also? That the transporter must be able to properly develop its own system and that the golden rule must be balanced with that principle also?

A. If transmission is required for local load to maintain reliability of the network and that should be rolled into the tariff, then, that should be balanced against comparability. But the issue is that means that that transmission line should be rolled into the rate base and that the revenue requirement in the rate base still should be allocated based on cost of service. So if it contributes to the system, it may marginally change the point to point tariff there is a value there, yes.

106 Q. And since you mentioned in a sequence that nineteen ninety-four (1994) policy and Order 888, is it a

correct statement that Order 888 has increased the flexibility of transport?

A. No, Order 888 tightened the requirements.

107 Q. Did it further expand on the possibility that transporters could look at alternate options to meet their own specific needs?

A. No; actually, the FERC Pricing Principles in nineteen ninety-four (1994) gave flexibility for alternative pricing proposals. And they classed them as two types. You could have a conforming proposal that met the objective number one, to collect the revenue requirement based on a cost allocation, allocation of cost, and requirement number two, to be comparable and provide service under the same terms, conditions and prices as you provide your own service. That is a conforming proposal.

They said they would accept alternative proposals as long as they still had to meet the comparability requirement. The comparability requirement is, was necessary for any proposal. In Order 888, what FERC did is they said all utilities, you have to file a tariff and you have to file a tariff based as a conforming proposal to meet these two requirements, number one and number two, cost of service or comparability.

108 Q. When you say number one and number two, there were five principles?

- A. Yes. And the first two are the two that are, for a conforming proposal, are required to be met. The other three written in the pricing principles are goals or greater goals to consider the balance. The first two have to be met. The other three are to be objectives and goals to be pursued.
- 109 Q. And these goals, do they include the fact that the transporter should have the sufficient means to properly expand its system, son réseau?
- A. They are not addressed in the five pricing principles. There is a supplementary section later on talking about expansion of the network and how it should be done and how expansion cost should be collected. I do not know if it is in the pricing principles or not, but the FERC rule for expansion, essentially the ore rule is similar to what Hydro-Québec have in their tariff for a new expansion, that a customer, if he causes the cost to be incurred, would pay the higher of the tariff or the cost of the new facilities. And they could be rolled in. So, I do not have a problem with that. I think what Hydro-Québec have done in that part of their tariff is reasonably in line.
- 110 Q. Thanks a lot. Ça termine. Oui, j'ai la pièce que j'ai déposée tout à l'heure, j'avais indiqué sa cote sur le document lui-même, SÉ-STOP-23, document 2.

STOP-SÉ-23 : Remarques de David N. Cook

LE PRÉSIDENT :

Maintenant, est-ce que GRAME-UDD, vous avez des questions?

Me JEAN-FRANÇOIS GAUTHIER :

Monsieur le président, Messieurs les régisseurs, j'aurai une seule question de fond sur le développement durable.

CROSS-EXAMINED BY Me JEAN-FRANÇOIS GAUTHIER:

111 Q. Mr. Marshall, I will ask my question in French.

Donc, Jean-François Gauthier pour GRAME-UDD. Donc, à la page 39 de votre présentation...

A. Yes, I have it.

112 Q. On peut voir que le tarif de NB Power est plus que la moitié de celui du Québec, plus bas de la moitié de celui de TransÉnergie. Selon nous, si c'est plus cher pour TransÉnergie au Québec, c'est parce que le réseau de transport québécois va chercher les sources lointaines d'énergie renouvelable. Au Québec, le parc de production d'électricité est environ à quatre-vingt-seize (96), quatre-vingt-dix-sept pour cent (97 %) renouvelable. Pouvez-vous me dire quel est le pourcentage énergie renouvelable dans le parc de production du Nouveau-Brunswick? Do you understand my question?

A. Yes.

113 Q. Okay.

A. I am thinking.

114 Q. No problem, take your time.

A. It would be about twenty percent (20%) if we count hydro and wood generation. And if you count nuclear as a non-emission source of energy, then, it would go up to about fifty percent (50%).

115 Q. Okay, thank you.

LE PRÉSIDENT :

Merci. Coalition, est-ce que vous avez des questions? AIEQ, ils ne sont pas là. ACEF de Québec non plus. ARC-FACEF-CERQ, avez-vous des questions? Non. Alors, la Régie, est-ce que vous avez des questions?

Me PIERRE R. FORTIN:

Nous n'avons pas de questions, Monsieur le président.

LE PRÉSIDENT :

Monsieur Tanguay?

M. FRANÇOIS TANGUAY :

Non.

LE PRÉSIDENT :

Monsieur Frayne?

QUESTIONS BY Mr. ANTHONY FRAYNE :

116 Q. On arrive très vite à moi. We got here very

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quickly.

Mr. Marshall, I will address my questions in English. I sometimes think I should ask my lawyer if I should speak in French or not, but I do not dare to ask him. Several questions. First of all, if I could refer you to page 7 of your testimony, your written testimony, not today's presentation.

A. Yes, I have it.

117 Q. Just a couple of questions about the table. This is question 20, the discounts. In the example you give, you talk of annual discounts. What would you propose be done in the case of the short-term tariffs, monthly or daily, what have you?

A. We did not file any evidence on that, but our view of Hydro-Québec's proposal for discounting non-firm, short-term transmission services, first of all, we accept the position to change the rule from -- today, it is one -- they cannot discount at one point, they have to discount the entire system at every delivery point. And I agree that they...

118 Q. I am sorry, can I stop you because I did not express myself well. We have a bit of ambiguity about the word "discounts". What I meant here was the voltage discounts, not the -- in your question 20, you give a list of discounts which are for voltage supply?

A. Yes.

119 Q. And you phrase all of that in annual terms. If we are now looking at the short-term tariff but the full tariff, I am not assuming any of the Hydro-

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discounts, but rather should the voltage discounts be applied on the short-term tariffs. I guess that would be a different way of posing my question.

- A. Basically, yes. What it is is that the voltage discounts we are talking about here really relate to the cost of service of providing for point-to-point service. And the cost of providing short-term or long-term service really comes down to the revenue requirement allocation to point-to-point service.

So then inherent in that, the voltage discount would come out in the annual service, and our position is, is that monthly service should be a function of the annual, we would disagree with Hydro-Québec's position to use a separate 12 CP number for monthly and short-term as annual, everything should be based off the one annual service and appropriate it proportionately from there.

- 120 Q. Okay. So perhaps, if I am reading correctly into your thoughts, we should say the monthly service, for example, should be a twelfth (1/12) of the annual service...

- A. Should be a twelfth (1/12) of the annual service and include the discount based on cost allocation.

- 121 Q. Which would be a twelfth (1/12) also, I guess?

- A. Whatever.

- 122 Q. Yes, okay, or whatever that ratio is.

- A. Yes.

123 Q. Okay, thank you. Secondly, I don't think you have given a figure in your memoir, but if you were to, if these discounts were to be put in place, have you made any estimate what, by how much this would bring down the point-to-point tariff, in percentage terms or in dollar terms, what have you?

A. Well, the calculation I have done here at a hundred and seventy (170) kV or higher would bring the tariff down to forty-nine sixty-two (49.62), that would be, I guess, about a thirty-three percent (33%), one third (1/3) reduction in the cost of the tariff, from seventy-five dollars (\$75) down to fifty (\$50).

As another alternative, if it wasn't this schedule of discounts, if you would use the schedule of discounts that Hydro-Québec provide themselves for people who have their own step-up transformers or step-down transformers that they are going to build in the future, at the higher voltage, that would end up being about thirteen (\$13) or fourteen dollars (\$14) a kilowattyear. So if it was at each end, it would come down to around the same numbers, so roughly about a one-third (1/3) reduction in the tariff, if it was strictly based on voltage-type discounts.

124 Q. Okay, I guess my question should have been, any idea on the revenues, total revenues coming from that part of the tariff. Well, in the Hydro-Québec

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presentation, if I understood it correctly, they
said

applying that proposal would bring down the revenues collected from point-to-point service, it would come down from two hundred and eighty-nine (\$289 M) to a hundred and ninety-one million dollars (\$191 M) per year, so ninety-eight million dollars (\$98 M) that would be lower revenues from point-to-point, you can't confirm or give me your own calculation for that?

A. Well, considering that all of the point-to-point service today, long-term point-to-point service is Hydro-Québec service, any reduction in service, those costs, if it is one third (1/3), one third (1/3) of the three hundred million dollars (\$300 M) would be about a hundred million dollars (\$100 M).

125 Q. Okay, yes, right.

A. And it would move from the TransÉnergie pocket of Hydro-Québec to the Hydro-Québec Production pocket and still show up on the bottom line of Hydro-Québec.

126 Q. Yes, okay. Thank you. Moving now to cost allocation, in your presentation this morning, you spoke eloquently about the need for cost allocation between services, and on Page 30, coming back to GRTA's and all of that.

(11 h 45)

So you say that these should be handled separately in cost allocation and you referred to BC and to Manitoba. In the light of the situation of those provinces, how would you define GRTAs in the

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context, in physical terms?

A. In physical terms?

127 Q. Yes.

A. I think the DC line from James Bay, from Radisson down to the US border was built to move James Bay Power to the marketplace under phase 2 contracts, that should all be allocated to Hydro-Québec Production. All of the transmission lines from James Bay and the other projects up there that are radial to the system essentially, they're connected at the North but that's only for reliability purposes in order to be able to get that power down one line or the other, all of the lines were built to move that power to the South.

So, you'd need to do a detailed study looking at the system but basically is, probably about half of the seven thirty-five kV (735 kV) system in Québec, is truly a GRTA and should be allocated to Hydro-Québec Production.

128 Q. Thank you. Still on cost allocation, page 24 of your presentation this morning. You say here, your second comment :

The party or class of parties that cause the costs to be incurred should bear the costs through rates based on those costs

And you apply that principle to the transformers, step-up, step-down and what-have-you. When you were speaking of the New Brunswick rates, you mentioned that there was a difference between yourselves and Hydro-Québec on the wheel-through charges or the wheel-out charges and you mentioned the interconnections.

And I wondered if you could just give your thoughts on how one should handle interconnections. Well, first of all, do you think it's a separate function that should be disaggregated from the rest or would you roll it in to an aggregate?

- A. Well, I can tell you we, we took the view that they should be separate and separated out and because it ended up that you go through two interconnections to go through the system, that was one of the issues that TransÉnergie raised and said it was discriminatory because it increased the price that they had to pay.

It was also an issue with Northern Maine and when we were... because if you look at the diagram that I gave, those two little pockets of Maine are isolated from the rest of Maine, they're only connected to New Brunswick.

So when they opened their market in Maine, we

negotiated a contract with those utilities to guarantee we would fix a price guaranteeing ancillary services so that they could meet the law requirements in Maine, to open their system and provide retail access.

So, it was also an issue with them. So, we agreed to discount the tariff, the through tariff down to the out and we've done that and it's now there for anybody on the system, it's not discriminatory just for TransÉnergie, it's for everybody.

So, I guess our experience going down that road is that to unbundle interconnections separately and charge them out would be a problematic way to go and that they probably should be... because they do reliability support for the local load, for power in and out and provide access, they should probably be rolled into the network tariff and done that way. That would be our position.

129 Q. When before you were rolling them out, how were you allocating costs? What sort of principles you were using, I presume the separation was based on some sort of allocation principles?

A. Yes. What we did is we unbundled the revenue requirement of the system, we identified all the lines that were running to interconnections, the Eel River interconnection, the lines running to Madawaska

and we took the terminal stations from which those lines ran to the interconnection points and we counted the breakers in the terminal stations and did a ratio of the breaker positions to support that line and allocated a share of the terminal costs along with that line and did a detailed cost calculation on that basis to allocate the costs.

And then the costs were then in interconnections and then we looked out what are the other issues supported with interconnections in terms of some reliability related costs and they were added in as well. And I think that's also a contentious issue in terms of those costs added into the interconnections pot, so. But that's... we did go through an exercise to do that allocation with some rigour.

130 Q. Okay. Was there ever an issue as to where the capacity or energy should be a basis for allocating those costs?

A. We did it on capacity, we allocated the cost into the interconnection pot of money and then charged a separate postage-stamp rate for the interconnections based on the capacity usage of the interconnections on a 12 CP basis, that's what was done.

131 Q. Did you make any exercise to allocate the cost of the interconnections by direction. Let's say the interconnection with Hydro-Québec.

A. No, we...

132 Q. The energies going East or West.

A. No, we took total exports and total imports to get a usage of the total interconnection and do that division, so that whether you were coming in or going out it was... you'd get one rate. You calculate a rate to cross an interconnection, whether it was going in either direction.

133 Q. Right. Okay. Thank you. Thank you. Finally, I'd now like to switch to rate design aspects. I wonder if you could tell me what is... now, there may be comments on this in your memoir and if so forgive me, there's just been so much information going into my head but it's coming out of my ears...

A. I can understand.

134 Q. That's what your final recommendations might be on a sort of rate design for the transmission, for TransÉnergie, you're obviously aware of elements of the law, you've spoken about the GRTA situation. I think you've raised the possibility or I see implicitly the possibilities would be that we go to... here, my French is better than my English, tarification par fonction, a function-based rate or a voltage-based rate, or I guess you mentioned specifically the idea of credits for a voltage rate, one could imagine, I suppose, credits for different functions; would you have any comments as to what you think might be the... what in your opinion would be the best sort of rate design for TransÉnergie?

- A. I guess, for the long term, I think that the proper thing to do is to do a function allocation of costs on the level of the bulk power system in terms of where... what its use is, and determine the generation-related transmission assets and charge them to Hydro-Québec Production.

Because it's discriminatory and not economically efficient for the development of private producers in the South with gas generation or cogeneration in industries or other opportunities really in the South.

So, I don't think it's economically efficient for Québec society to do it other than that. So, I think that that's what really should be done but there's not enough information on the docket before this case to be able to say "definitively, this is what the rate should be".

So, it's an issue then that to go forward to the future of how to do it. So the issue though is it would be unacceptable to us to simply say "well, you're going to order that be done but leave the rates as they are at seventy-five dollars (\$75.00) and continue the discrimination that's going on today", at seventy-five dollars (\$75.00).

So, our view is that you should do some interim measure, be it based on Hydro-Québec's discount rates that they put at page 43 of their testimony on their document Hydro-Québec-10 and allocate those types of discounts to point to point on a voltage basis, or as Zak El-Ramly said in his evidence, do an arbitrary twenty-five (25) or thirty (30%) reduction in the rate to get it down and just say there, that's it, let's interim-do at that but do the proper studies on the go-forward basis. I would think that that would be a reasonable position for the Board to take.

135 Q. So what I'm understanding is my original question you feel, with the amount of evidence we got so far, you can't really...

A. Well, yes, other than -- I have looked at, I think it's HQT-10, document 2, which unbundles some of the costs of the revenue requirement in the different areas. So, looking at that, you can do some very rough estimates and having looked at that, and if you allocate the cost out of those to the different areas, you get a tariff that's somewhere down in the fifty percent (50%) of the current tariff. But that's assuming that the GRTAs are about half of the high voltage and that's just a guess; you need to do studies to determine what they really are, okay.

Mr. ANTHONY FRAYNE:

Thank you very much, that completes my questions,

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thank you.

LE PRÉSIDENT :

Merci, Monsieur Frayne. Moi je voulais juste poser une question à maître Durocher. Dans la présentation -- est-ce que vous avez votre loi avec vous? La loi sur la Régie, est-ce que quelqu'un peut...

Et prenez la présentation de monsieur Marshall, de ce matin, à la page 36.

Me ANDRÉ DUROCHER :

Oui.

LE PRÉSIDENT :

Si vous voulez lire l'article 6.

Me ANDRÉ DUROCHER :

O.K., là, manifestement, il y a une erreur là.

LE PRÉSIDENT :

Je pense que monsieur Marshall voulait plutôt référer à l'article 2.

Me ANDRÉ DUROCHER :

Oui, c'est ça, l'article 2, exact.

LE PRÉSIDENT :

Alors, vous faites la correction.

Me ANDRÉ DUROCHER :

Oui. Il y avait aussi une autre erreur à un moment donné, que j'ai notée où le français ne dit pas la même chose que l'anglais où c'est "Point of delivery", puisque nous y sommes... Je vais regarder pendant le *lunch* puis je vous le dirai tout à l'heure, j'avais vu une autre erreur dans la présentation.

LE PRÉSIDENT :

D'accord. Alors, nous allons ajourner jusqu'à une heure (1 h) pour le lunch du midi et je crois comprendre que nous allons commencer avec... sauf la petite correction que vous allez apporter, avec la preuve de la Coalition. Toutefois, nous ne libérerons pas le témoin pour l'instant.

SUSPENSION DE L'AUDIENCE

(13 h 00)

REPRISE DE L'AUDIENCE

Me ANDRÉ DUROCHER :

Si vous permettez, l'erreur d'écriture dont je vous ai parlé tout à l'heure, à la pièce NB Power-9, qui

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est à la page 39, quand on parle de l'Ontario, qu'on fait la comparaison des tarifs, c'est écrit sept point quatre-vingt-six (7.86) alors que ça devrait être huit point soixante-seize (8.76), il y a eu une intervention.

Me GUY SARAULT :

Donc, ça change tout.

LE PRÉSIDENT :

C'est bien pour dire, juste l'heure du dîner puis il y a de l'inflation. Maître Sarault, c'est à votre tour.

Me GUY SARAULT :

Merci, Monsieur le Président. Alors, j'ai eu une discussion avec le docteur Zak El-Ramly pendant le lunch et il m'informe que...

LE PRÉSIDENT :

Qu'il n'a plus de commentaires à faire.

Me GUY SARAULT :

Non. Que si jamais la Régie ou certains intervenants voulaient prolonger le supplice, qu'il serait disponible lundi pour revenir s'il le faut parce qu'il va passer le week-end à Montréal finalement.

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LE PRÉSIDENT :

Ah! O.K.

Me GUY SARAULT :

Alors, mais on ne veut pas dire ça pour encourager les gens à le faire mais simplement à dire qu'on n'a pas besoin de se bousculer. Mais il y a monsieur Vézina qui va avoir le plaisir de faire la route 20 deux fois.

LE PRÉSIDENT :

Ah! bon.

M. ANTHONY FRAYNE :

On veut encourager le tourisme au Québec, c'est pour ça qu'on prolonge.

LE PRÉSIDENT :

J'imagine que vous n'avez pas trop de nouvelles matières dans vos diapos?

Me GUY SARAULT :

Ça ne devrait pas.

LE PRÉSIDENT :

Parce que sinon...

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Me GUY SARAULT :

Alors, avant de commencer la présentation de ce panel, je voudrais donner suite à une suggestion de mon confrère maître Fortin. Il a porté à mon attention que peut-être il pouvait y avoir une erreur dans le numéro d'une pièce de la Coalition.

LE PRÉSIDENT :

Oui, c'est vrai, oui.

Me GUY SARAULT :

Et effectivement, après vérification, il y a bel et bien une erreur que je voudrais corriger aujourd'hui. Alors, il s'agit de l'article du journal La Presse du Mardi, premier (1er) mai deux mille un (2001), intitulé * Moody's pourrait hausser la cote du Québec +. Alors, nous avons produit cette pièce comme Coalition-3, document 5 alors que la cote appropriée devrait être plutôt Coalition-2, document 5 parce que c'est un complément de la preuve des docteurs Booth et Berkovitz qui est dans la section Coalition-2.

LE PRÉSIDENT :

Parce que vous aviez déjà aussi un document...

Me GUY SARAULT :

Oui, exactement.

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LE PRÉSIDENT :

... Coalition-3, document 5.

Me GUY SARAULT :

Ça va?

LE PRÉSIDENT :

Oui.

Me GUY SARAULT :

Alors, pour ce qui est du panel d'aujourd'hui, composé de monsieur Paul Jutras de l'AQPER, du docteur Zak El-Ramly au centre et de monsieur Pierre Vézina de l'Association des industries forestières du Québec. Au-delà de la preuve écrite qui a déjà été versée au dossier, nous avons deux documents de présentation qui vont être présentés cet après-midi. Il y en a un qui est déjà à l'écran, il s'agit de la pièce Coalition-1, document 4 et nous les avons déjà fait distribuer, alors, c'est par la greffière.

Alors, il s'agit de la présentation de monsieur Paul Jutras et la Pièce Coalition-5, document 4, constitue la présentation PowerPoint du docteur Zak El-Ramly. Alors, je pense que les témoins qui sont présents ont déjà été assermentés tous et chacun d'entre eux et puis qu'on peut continuer sous le même serment.

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L'AN DEUX MILLE UN, le vingt-cinquième jour de mai
ONT COMPARU :

ZAK EL-RAMLY

PAUL JUTRAS

PIERRE VÉZINA

LESQUELS témoignent sous la même affirmation
solennelle :

INTERROGÉS PAR Me GUY SARAULLT :

Alors, je voudrais d'abord, dans le cas de
monsieur Vézina et Jutras, leur faire adopter la
preuve écrite qui est pertinente à ce thème. Il
s'agit finalement des derniers bouts du mémoire,
pièce Coalition-1, document 1, tel que complété
par les réponses produites comme pièce Coalition-
1, document 2. Alors, qui porte sur le thème des
conditions du service de transport, et cetera.

136 Q. Alors, je commence avec vous, Monsieur Jutras.
Est-ce que ces pièces que je viens de décrire ont
été préparées sous votre supervision et votre
contrôle?

M. PAUL JUTRAS :

R. Oui.

137 Q. Et vous les adaptez comme votre preuve dans le
présent dossier?

R. Oui.

138 Q. Et même question pour vous, Monsieur Vézina?

M. PIERRE VEZINA :

R. Même réponse.

139 Q. Et même réponse. Alors, merci. Doctor Zak El-Ramly, we have filed on your behalf certain exhibits pertaining to your rate design analysis. These are exhibits Coalition-5, document 1, document 2, document 2.1 and document 3, which are your answers to certain information requests which were addressed to you in writing. So, these exhibits have been prepared under your supervision and control.

Mr. ZAK EL-RAMLY:

A. Yes.

140 Q. And you adopt them as your evidence in this case?

A. Yes, I do.

141 Q. Okay. Alors, maintenant, je pense que ça laisse place aux présentations en commençant par celle de monsieur Jutras.

LE PRÉSIDENT :

Si ma mémoire est bonne, je pense que Hydro-Québec avait admis la compétence du témoin Zak El-Ramly sur...

Me GUY SARAULT :

Oui, je vous remercie de le rappeler, effectivement.

LE PRÉSIDENT :

Cette partie-là, hein?

Me GUY SARAULT :

Mais le docteur Zak El-Ramly comparait comme expert en rate design mais je pense que c'est déjà reconnu par Hydro-Québec.

Me F. JEAN MOREL :

Si ce n'était fait, c'était annoncé par mon confrère Sarault et je le confirme.

LE PRÉSIDENT :

Vous le confirmez.

Me F. JEAN MOREL :

Oui.

LE PRÉSIDENT :

Il n'y a pas d'autres personnes dans la salle qui a des questions à poser concernant la compétence de monsieur Zak El-Ramly? D'accord. Alors, vous êtes reconnu comme expert en * rate design +.

M. PAUL JUTRAS :

Alors, je vais y aller avec ma présentation. Bonjour, messieurs. Alors, j'espère ne pas faire * freaker + mon ami Jean Morel cet après-midi avec peut-être un

petit exemple ou deux sur la façon dont les tarifs sont faits à Hydro-Québec et comment on les opère dans le marché. Et je ferai une courte présentation, peut-être d'une dizaine de minutes, qui va se limiter aux principaux éléments de notre preuve.

LE PRÉSIDENT :

Monsieur Jutras, on n'a pas de contrôle là-dessus.

M. PAUL JUTRAS :

Je vais tenter de garder le contrôle.

Me F. JEAN MOREL :

Malheureusement.

LE PRÉSIDENT :

C'est au fur et à mesure que ça survient.

M. PAUL JUTRAS :

Alors, je vais y aller au tout début avec quelques admissions d'Hydro-Québec au cours des deux dernières semaines qui ont précédé. D'abord, que le réseau de transport a été ouvert par Hydro-Québec en mil neuf cent quatre-vingt-dix-sept (1997), seulement pour satisfaire en fait les exigences de FERC sur la réciprocité du service de transport.

Ensuite, que le tarif de point à point est le plus

élevé, en fait on l'a démontré à quelques reprises, c'était le plus élevé en Amérique du Nord. Que le tarif de transport est très élevé majoritairement parce qu'il inclut le transport à haute tension acheminant la production des centrales éloignées, ce qu'on appelle en bon français les GRTAs. Et, quatrièmement, que TransÉnergie a adopté les mêmes règles de fonctionnement que les... par contre, les réseaux américains. Mais, par ailleurs, n'utilisent pas nécessairement les mêmes principes de tarification que les réseaux américains.

Au nom de l'AQPER, je peux vous affirmer que... et comme utilisateur du réseau de transport, je suis aussi consultant chez Énergie MacLaren et on a été les premiers à utiliser les réseaux de transport à Hydro-Québec et je peux vous affirmer qu'en aucune occasion on a eu des raisons de se plaindre du comportement de TransÉnergie ou du personnel de TransÉnergie lorsqu'il s'agit de la... du code de conduite.

TransÉnergie donne accès à tous les demandeurs accrédités, on en a eu la preuve à plusieurs reprises, répond promptement et sans discrimination apparente aux demandes de transport. Je dis * apparente +, bien sûr, parce qu'on n'est pas quand même dans leur cerveau et dans leur cerveau il y a

aussi le fait que les employés de TransÉnergie sont quand même des employés d'Hydro-Québec et l'employé d'Hydro-Québec a une allégeance à Hydro-Québec et on ne peut absolument rien... je veux dire, absolument rien prétendre de ce côté-là, on a un excellent service.

La seule raison pour laquelle on aurait à se plaindre, enfin pas se plaindre, c'est qu'on a une frustration importante sur le niveau de tarif de TransÉnergie qu'il utilise au Québec pour le transport de point à point.

Donc, la frustration est vraiment à cause du tarif élevé, du tarif trop élevé. Maintenant, comme disait monsieur Régis, personne n'a déposé de plainte, bien sûr, sur le tarif trop élevé on n'avait aucun endroit pour déposer une plainte, on l'aurait déposée à qui? Au gouvernement du Québec qui, lui, a approuvé le tarif en mil neuf cent quatre-vingt-dix-sept (1997) puis qui maintenant n'a plus juridiction sur l'application ou la composition du tarif.

L'autre option, ça aurait été de se plaindre à FERC mais on a choisi de ne pas aller mener nos batailles ni laver notre linge aux États-Unis plutôt que chez nous, entre nous. Alors, le seul endroit qu'il nous reste, et c'est aujourd'hui, à la Régie de l'énergie

qui a devant elle les tarifs proposés par Hydro-Québec et TransÉnergie. Et donc, c'est aujourd'hui que pour nous est l'occasion, la seule occasion qui nous permet de présenter ce que nous croyons être un tarif, en tout cas une façon juste et raisonnable de faire des tarifs sur le point à point.

Bien sûr, quand on parle de plaintes aussi, il y a la plainte de Enron présentement auprès du FERC contestant le degré de réciprocité offert par Hydro-Québec sur son réseau de transport et demande qu'Hydro-Québec se joigne à un RTO pour ce qu'on appelle en bon français mitigé, le pouvoir de marché qu'a présentement TransÉnergie sur le marché du Nord-Est du Canada et des États-Unis.

Alors, rapidement, je vais passer en revue les frustrations des producteurs privés au Québec au cours des dernières années, que ce soit les petites centrales hydrauliques ou que ce soit les industriels en co-génération, les frustrations sont venues, bien sûr, surtout en mil neuf cent quatre-vingt-quinze (1995) avec le moratoire du Gouvernement du Québec sur les droits hydrauliques et la construction de nouvelles centrales.

En quatre-vingt-dix-sept (97), à l'AQPER, on a eu un très bon espoir, avec l'ouverture du réseau de

transport de TransÉnergie de pouvoir construire et vendre sur le réseau, sur le marché américain ou des autres provinces canadiennes, mais on s'est vite rendu compte que le tarif de transport de point à point est tellement élevé que ces tarifs-là ne permettraient pas le financement des projets puis vu que le tarif de transport était quasiment un tiers du coût global de construction d'une centrale ou coût globale de la production d'électricité.

De quatre-vingt-dix-sept (97) à deux mille (2000) on a vu la stagnation du marché long terme dans le marché américain et ce n'est maintenant qu'en deux mille un (2001) que le marché vraiment à court terme reprend de la force et on voit qu'Hydro-Québec a fait vraiment de bonnes affaires en deux mille (2000) et en fait de très bonnes aussi en deux mille un (2001).

Et on se rend compte en deux mille un (2001) que même si on voulait construire et transporter sur le réseau américain, Hydro-Québec détient les lois sur près de cent pour cent (100 %) du transport disponible vers les marchés lucratifs et les détient depuis l'ouverture du réseau en quatre-vingt-dix-sept (97) et va les conserver tout et aussi longtemps, tant et aussi longtemps que les prix du marché va le justifier sur le marché lucratif.

Et, à ce moment-là, c'est bien sûr, TransÉnergie n'a aucun risque dans ce sens de conserver sa réservation de transport sur le marché puisque, de toute manière, elle prend l'argent de la poche droite pour la mettre dans la poche gauche. Alors, un producteur privé, lui, prendra le risque de réserver, mettons, dans les prochains vingt (20) ans dépendant des valeurs du marché, prendrait le risque du prix de transport parce qu'il le paye directement hors de sa poche alors que TransÉnergie ou Hydro-Québec n'ont qu'à transférer l'argent d'une poche à l'autre.

Alors, on voit que, bien sûr, si on était à leur place on ferait la même chose là, on garderait le transport qu'on a en main pour optimiser, en tout cas, rentabiliser et maximiser les revenus de l'entreprise sur le marché américain.

On a parlé en cours d'audience aussi du transport intérieur au Québec, ce qu'on appelle le * wheel within +. Le service est offert par TransÉnergie mais bien sûr personne ne s'en est prévalu de ce service-là, d'une part parce que le producteur qui voudrait vendre, produire au Québec et vendre à un autre consommateur au Québec, que ce soit une municipalité par exemple, doit payer ses coûts de production, il doit payer ses coûts de transport puis il doit aussi payer les coûts de transport d'Hydro-Québec de Baie

James à Montréal, même s'il est installé à côté du consommateur, doit payer le réseau de répartition d'Hydro-Québec, on l'a vu ce matin avec ce que nous a présenté Énergie Nouveau-Brunswick, les * step-down transformers + et les lignes de quarante-quatre kV (44 kV), et cetera, font partie du coût de transport et puis en plus payer une bonne partie du réseau de répartition.

Ce qui fait en sorte que la municipalité distributrice, elle, qui achèterait l'électricité, doit aussi payer son coût de distribution et le fournisseur devrait payer tous les coûts de transport de point à point qui sont trop élevés, donc qui ne permettent pas à un autre fournisseur d'alimenter une municipalité ou d'alimenter quelqu'un au Québec.

On voit aussi dans le transport à l'intérieur du Québec une forme de discrimination qui, à notre avis, est quand même importante. Un producteur hors Québec peut présentement alimenter une municipalité au Québec mais un producteur québécois qui produit ici au Québec ne peut pas alimenter une municipalité sans demander au gouvernement un décret pour se faire. Alors, pour nous c'est une discrimination qui existe depuis mil neuf cent quatre-vingt-dix-sept (1997), qui est toujours là et bien sûr ne dépend pas ni de la Régie, ni d'Hydro-Québec. Hydro-Québec a déjà dit

qu'elle ne s'opposerait pas à ce genre de demande de la part d'une municipalité mais c'est quand même un exercice quand même onéreux et difficile à faire pour une municipalité alors que présentement le tarif de transport est tellement élevé que la concurrence, finalement, n'est pas là pour le faire.

Alors, on voit aussi que dans le * wheel within +, bien sûr, quand le gouvernement a fixé qu'une compagnie américaine ou ontarienne pouvait alimenter une municipalité au Québec mais pas une compagnie québécoise, c'est tout simplement que Hydro-Québec voulait aller chercher son permis FERC puis là, bien, permettait à une compagnie américaine d'alimenter en wholesale ou en marché de gros une municipalité et non pas une compagnie du Québec. Ça fait partie des frustrations et non pas des plaintes ça aussi parce que, au fond, on n'avait pas d'endroit où faire la plainte et d'autre part on n'avait pas envie de le faire à ce niveau-là.

Maintenant, quelques adresses au sujet du tarif de transport de point à point. On l'a vu tantôt puis on le voit toujours, le tarif est élevé pour protéger le monopole. Ce qui est curieux pour... puis j'entends souvent parler par les américains, les ontariens, et cetera, ce qui est curieux c'est qu'au Québec le tarif de fourniture est le moins élevé dans le Nord

Est du Canada puis des États-Unis mais, curieusement, puis c'est le thème qu'emploient les américains là-dessus, c'est * it's suspicious + que le tarif de transport, lui, est le plus élevé en Amérique. Comment se fait-il? Il y a quelque chose qui ne va pas quelque part.

Ensuite, ce qu'on peut affirmer c'est que les exigences de réciprocité de FERC présupposent que les tarifs de transport à Hydro-Québec sont approuvés par un tribunal neutre et indépendant, qui est la Régie devant nous, et que les tarifs et conditions qui en résulteront procureront un accès ouvert et non discriminatoire à tous les clients du service de transport.

Je voudrais passer ici un petit exemple d'une transaction qui se ressemble énormément entre deux réseaux québécois. Je vais présenter l'exemple de MacLaren et de Hydro-Québec, c'est ce que je disais tantôt, Maître Morel, j'espère que ce n'est pas... c'est un exemple qui est nouveau là mais qui va apporter certainement une lumière sur la façon dont les choses se passent et quels sont les coûts dans le marché.

Si on prend par exemple que Hydro-Québec, à la colonne de gauche, Hydro-Québec vend cent mégawatts

(100 MW) via MacLaren à l'Ontario. MacLaren a des lignes de transport entre le Québec et l'Ontario, au-dessus de la rivière Outaouais, pour deux cent cinquante mégawatts (250 MW). Dans l'autre cas, ça serait MacLaren qui vent cent mégawatts (100 MW) via Hydro-Québec à New York, ça pourrait être New York ou l'Ontario, c'est la même chose là.

Dans le premier cas, Hydro-Québec livre le cent mégawatts (100 MW) à MacLaren, à Masson-Angers, au poste d'interconnexion entre les deux réseaux. Dans le cas inverse où c'est MacLaren qui vendrait aux États-Unis, MacLaren livre l'énergie à Hydro-Québec, à Masson-Angers, au même poste.

L'étape suivante c'est que dans le cas où Hydro-Québec passe par MacLaren pour vendre en Ontario, MacLaren utilise cette énergie pour alimenter ces propres charges dans son réseau à Masson-Angers. Dans l'autre cas où MacLaren exporte et voudrait passer par Hydro-Québec et exporter, ce qu'elle fait d'ailleurs présentement, Hydro-Québec utilise cette énergie qui est livrée au même poste de Masson-Angers pour alimenter ses propres charges dans la zone de Masson-Angers. Donc, l'électricité là, dans les deux cas, reste toujours là.

Troisièmement, l'étape suivante c'est que dans le cas

où Hydro-Québec passe par MacLaren, MacLaren synchronise ses groupes de Masson sur l'Ontario et livrer le cent mégawatts (100 MW). Dans l'autre cas, Hydro-Québec synchronise ses groupes de Beauharnois sur... j'ai dit ici sur l'Ontario mais en fait c'est sur New York là, et livre cent mégawatts (100 MW). Mais ça pourrait être soit Ontario ou New York, c'est la même situation.

Dans le cas où Hydro-Québec passe par MacLaren pour vendre en Ontario, le prix est de quatre-vingt cents (80¢) du kilowatt/mois. Dans le cas où MacLaren passe par Hydro-Québec pour vendre à New York ou l'Ontario, le prix est de huit dollars (8,00 \$) du kilowatt/mois pour exactement le même service. Puis là, il n'y a pas d'électricité qui s'est transportée, qui s'est promenée sur les lignes d'Hydro-Québec autrement que synchroniser une centrale par rapport à synchroniser l'autre centrale, le transfert est totalement virtuel.

Ensuite... Le transit lui-même est virtuel, l'électricité reste sur place. En fait, sur les réseaux de transport, l'électricien ne se promène pas toujours d'un bout à l'autre là, on * redispatch + tout simplement pour alimenter la charge locale ou alimenter le plus près possible de la charge pour ne pas transporter sur de longues distances inutilement.

Et on voit en dernier lieu que MacLaren charge un taux de perte de point quatre-vingt-six pour cent (.86 %) qui est basé sur son taux de perte là, mesuré dans son réseau comme Hydro-Québec mesure son taux de perte dans son réseau. Et dans l'autre cas, TransÉnergie charge un taux de perte de sept pour cent (7 %) ou le cinq point deux pour cent (5.2 %) dans la cause qui est proposée présentement.

Alors, pour le même service, on voit une différence énorme dans les coûts, c'est exactement le même service qui est rendu, l'électricité demeure à la même place et on se retrouve dans une situation qui pour nous est quand même discriminatoire par rapport à ce qu'on pourrait avoir comme tarif de transport de point à point. Et on va le voir un peu plus loin dans la présentation de cet après-midi, ce que nous allons proposer dans ce domaine.

Alors, pour résumer, ce qu'on demande c'est une tarification juste et raisonnable qui est basée sur les coûts mais des coûts différenciés et équitables pour chaque type de service. On dit que les différents services ne font pas appel aux mêmes parties du réseau, et ça je pense qu'on l'a affirmé, ou Hydro-Québec, ou plusieurs personnes l'ont affirmé tout au cours de l'audience. Puis que les tarifs devraient être déterminés selon les mêmes principes

et méthodes que ceux employés dans les juridictions à qui Hydro-Québec doit offrir la réciprocité.

Et c'est ce qui termine, Maître Sarault et Messieurs, ma présentation pour cet après-midi. Je suis ouvert, plus tard, à toutes les questions.

(13 h 15)

Dr. ZAK EL-RAMLY :

- A. I guess, after five weeks of hearing, most of what I am going to say will be a repeat. I have already sent down my presentation, I worked on it twice, however, I still want to keep the key issues that I am raising, for three reasons, one of them is that, to tell you what my views are, the second one, hopefully I give a big picture, link some of the issues together, and the third one is to reduce the number of questions that come back.

There are three issues really in this hearing, from a rate-design point of view -- the transmission rates are too high, there is a non-standard application of the rate setting principles, and there are complaints of discrimination and unfair access.

I allude to the third point in my presentation but having heard from some of the TransÉnergie customers, I don't think I will focus on this point at all, and I am going to focus on number 1 and number 2.

What is at stake in this hearing is the impact on the non-Hydro-Québec users of the system (third parties). The second one is the allocation of cost between Hydro-Québec's export activities and domestic activities, the distribution versus export.

And I think the most important one is the long-run evolution of a dynamic healthy and competitive electricity market for the benefit of all Québec.

This is the first hearing in this particular issue, and whatever precedent you are going to set is going to really impact on how the industry evolves, open access is a basic ingredient of a competitive industry.

The transmission system is, over ninety-nine percent (99%) of the TransÉnergie system revenue comes from Hydro-Québec. There is about eighty-eight point eight percent (88.8%) from the network distribution, according to the current proposal, and ten point eight (10.8%) from the long-term point-to-point. There is a small contribution by MacLaren that amounts about point three percent (0.3%). And the point four percent (0.4%) from short-term point-to-point revenue comes from third parties but also comes from Hydro-Québec. So really there is less than half a percent (0.5%) that comes from non-Hydro-Québec

activities.

In effect, the impact on the third parties is the focus of the rate design of this application. The size of the third party, as Mr. Bill Marshall was saying this morning, will depend on the outcome of this hearing. Right now, there is a very small amount coming from third parties; if the rate design was different and more advantageous, more preferential, more reasonable, you would probably have more third parties using the system.

FERC's interest in the hearing is really on the effect on the third parties, especially when it comes to those in the United States. I think another indirect issue is the difference between the interests of the ratepayers and the shareholders, which are in effect, or indirectly represent the taxpayers. So there is shareholder/taxpayer issue versus ratepayer's issue.

I don't think that we really need to debate any more that the rates are unreasonable, they are a hundred and fifty percent (150%) to two hundred and fifty percent (250%) higher than comparable BC Hydro rates.

I remember, in the BC Hydro rate application, BC Hydro rates were considered extremely high, so they

are twice as high as extremely high rates. They are two to three times higher than that of Manitoba Hydro's corresponding point-to-point rates, and they are over two hundred percent (200%) of New Brunswick Power.

The high rate is primarily the result of the classification and functionalization of transmission assets, and of course, after refunctionalizing them and reclassifying them, then comes the allocation issue.

This is just a diagram to try to explain what I am trying to say, the transmission system and the revenue requirement as designed right now and allocated right now includes everything -- generation step-up, all the high voltage transmission, all the low voltage transmission, all going down to twenty-five (25) kV, and even the step down. So it includes everything but the kitchen sink, as they would say.

Moreover, the nature of the Hydro-Québec system and that of BC Hydro is that there is a lot of transmission lines that would really have not existed had it not been for the remote generation, that would have not existed had it not been for the remote generation.

The Act is claimed to be one of the reasons for the non-standard allocation of the cost. However, when we look in the Act, we really need to differentiate between assignment, functionalization, and allocation. Those assets are assigned to transmission, are assigned to TransÉnergie, there is no doubt about that. But they could be functionalized different ways, and after they are functionalized different ways, they could be allocated different ways.

So the Act clearly defines transmission assets, and everybody respects that. The Act does not describe the allocation process, rather the general rate-setting principles.

I have not myself found any prohibition of the functionalization found in the Act, there is nothing in the Act that prohibits functionalization. Subsection 6 of Section 49 says that rates can be different for different classes of users.

What is a class of users? That is actually the grey area, we can define larger industrial customers, we can define small industrial customers; we can define large commercial customers, we can define small commercial customers; we can define residential customers, we can define casual residential

customers. There are a lot of ways of defining different classes.

Subsection 7 of Section 49 requires that the Régie ensure reasonableness of the rates. So ensuring reasonableness is one of the drivers, according to the Act, and according to any standard rate-setting principles. And the final sentence of Section 49 allows the Régie to use any other method it considers appropriate. So in effect, the Régie has a lot of leeway in interpreting how to apply the Act in setting rates.

When you look at the rate design, the rate of return defines the revenue requirements, and that is what we discussed before, but once the rate of return is defined and the revenue requirement is defined, then the rate classes are defined by FERC.

If you want to produce a FERC pro forma tariff, and Hydro-Québec tried to produce a pro forma tariff, then the notion of a point to point and network short-term and long-term are now industry standards.

The network integration concept collects all uncollected revenue from the other rates, so the fact that the revenue requirement will always be met... will always be met, this is how a pro forma
888 and

889 tariff would do, or would behave.

So the rate design is required to define the point-to-point rates. And the short-term rates are typically extracted from the long-term rates.

So what we really need to be careful with is how to define the point to point rate, that is the key variable that defines everything else. Once you define that, you define how much is going to be collected from it, you define how you are going to set the short-term, and you subtract it from the total revenue requirement, you produce the network rate. So this is the key variable in the whole discussion.

TransÉnergie proposed allocation based on a 1-CP, I think their argument is quite fine, it is justifiable, there is no doubt about that, or no dispute about that. However, they also recommended the combined use of 1-CP and 12-CP, and we talked about, it is not really 12-CP, it is a different name, the effect is the same. They propose different treatments for short-term and long-term. That is an exception, I would say "violation" of industry practices.

The calculation of short-term rates that are

different from long-term rates is not even based on a cost justification. There are reasons provided, but they truly contradict business logic. The reasons provided are -- inflated to discourage use, FERC gives preference to long-term rates, and rate is only a ceiling subject to rebates.

The short-term service is mostly used by third parties, so that is where the cards are stacked against them. When you look at all the possible variance, you find that the variance have been taken so that the short-term rates will be as high as practical, or as possible, or as possible to justify.

I am going to use each one of these arguments and try to, not dispute them but counter them. Rates are designed to discourage short-term use so that we can have long-term use so that planners can plan. The reason that Hydro-Québec chose 1-CP is that because it has a high difference between the peak and the non-peak; there is a high peak in December, there is a low peak in July.

So in effect, the system has a valley -- short-term rates are designed to fill those valleys, okay? If you inject a long-term rate, if you substitute short-term by long-term, all what you do is that you raise the level but you keep the valleys. So you haven't

done what the short-term rates are supposed to do, which is fill the valleys.

The other thing is that customers may only need short-term access, or access during certain months. If I was New Brunswick Power, I may just have surplus energy during June, July, August, that is the only time I have them, so I only want transmission during June, July, August, okay? Or if I want to import, I may want to import only during some times but not other times. So in effect, forcing long-term use is inefficient, because you remove one of the variables that is designed to make the system efficient.

The second argument that FERC gives preference for long-term rates even in its face should not entail the discouragement or elimination of the short-term option. There is one that is more preferred than the other one.

Even that preference that is given by FERC is a preference to reservation, if the system has capacity available, and somebody wants two months and somebody wants two years, those who want two years go first; they go first because the system has two years available, and if you take two months out of the two years, all of a sudden you have lost the other twenty-two (22) months. That is the only reason the

preference is given to long-term rates reservation over short-term rates.

Going to the next level, certainly, if preference is given to the long-term and not the short-term, then the long-term should be more expensive than the short-term.

If I am on stand-by on an airline for business class, I don't expect to pay more than business class, I expect to pay less. This is exactly what is happening here, the short-term, even though it is less preferential and can be displaced by long-term, costs more.

Another argument is that rates are only ceilings. Rates provide the price signal. Improper cost causation principles are imbedded in those rates, meaning it is going to provide the wrong signal, almost provide the signal that, "We don't want you to use the short-term", and I think that was by design, but actually short-term are to fill valleys.

It is illogical to increase rates and then discount them again. So you are saying they are the ceilings, and you are going to discount them, then why increase then to discount them? This is almost similar to The Bay before Christmas making things more expensive so

it looks like you have a very high discount.

The other business, the problem is that it appears to be anti-competitive. If I look at it from a market perspective for my U.S. user perspective, and I see that they are being higher and this is the rate I want to use, it looks like Hydro-Québec is trying to deny me access to the system or is trying to make the barrier to entry much higher.

Another thing is that the Régie is really regulating the level that is being announced, so in effect, the higher the rate the more the discount, the less oversight by the Régie, the more of the decision-making process moving from the Régie to Hydro-Québec or TransÉnergie.

So how can we overcome some of these problems? I am making three proposals for redesign options for the point-to-point rates that could be used to alleviate some of these problems. The first proposal is to set up an unbundled multi-tiered rate structure, and this is our preferred option. And I can surmise that Mr. Bill Marshall was almost saying that this is his preferred option too.

You can restructure the point-to-point rates to reflect the cost of service, so you look at each

point-to-point, the point of delivery and the point of receipt make a different rate. Or you could do a voltage-based rates, so you look at the network and depending on the level of voltage utilized, you have different rates.

What it takes to do the first one is to functionalize the high voltage transmission lines connecting remote generation stations as equivalent to gathering facilities in the gas. That is what they call GRTA's in the power.

The rate could have three components, or two -- remote system (gathering) charge, that is mandatory; common network component, that is mandatory; and potentially an export or intertie component. That looks at the cost of building the system and having enough surplus capacity to be able to export.

And if you look at the Hydro-Québec system, it is not hard to visualize which lines would be the subject of a study, or a cost-of-service study, in order to do that.

In the BC Hydro hearing last, three years ago, or four years ago, there was tons of information about how we would go about functionalization. And actually, BC Hydro gave the Commission almost like

five options -- "If you want things this way, here is the number you get", "If you want things this way, here is the number you get." And they came up with different options and different logic, and then the Commission, it chose the option that it saw fit the most.

By the way, none of the options presented by BC Hydro included an option of not including any GRTAs. So they didn't even say that, "We are not going to include them."

To do the second one, the point-to-point rates, restructure the point-to-point rates to reflect utilization. So if one point is up north and one point is in the U.S., that is the maximum transitional system. If one point is Montreal and the other point is the island, that would be a different rate. If one point is MacLaren and the other point is Ontario, that could be a different rate.

So the rates would be based on the point of receipt and the point of delivery. And it reflects the impact on the system of a particular transaction. If the transaction adds a lot of stress to the system, it will be high; if the transaction adds, or maybe even mixes, gives a benefit to the system, then it could be much lower.

It does not mean distance sensitive, by the way, it is rather differentiated by utilization and impact. You can argue that a wheel-in is a class, a wheel-out is a class, a wheel-within is a class, a wheel-through is a class, as I mentioned before, defining a class is a grey area. So the rates could still be defined by class.

BC Hydro differentiates its wholesale point-to-point rates by the location of the point of receipt and the point of delivery. That was in response to a Commission order, and it was for efficiency reasons.

Back in nineteen ninety-one (1991), we came up with a wheeling policy that defines the impact of location on the overall planning of the system, and we came up with a reason to have marginal cost based rates when it comes to wheeling.

And BC Hydro, when it recommended the rates in nineteen ninety-six/ninety-seven (1996/97), they were afraid that FERC would not accept a variance, and that is why they went to the FERC pro forma 888-like tariff, and then the Commission ordered BC Hydro to go back and rework it and make it differentiated by point of receipt and point of delivery and ordered BC Hydro, before doing that, to check that FERC would not object. And FERC confirmed that they would not

object to a more superior rate design than the average rate design proposed by the pro forma tariff.

By the way, BC Hydro offered domestic users uniform postage stamp rates. In B.C., you cannot not talk about postage stamp, it is just how far do you go in applying postage stamp, do you think of postage stamps as inducers or do you think of postage stamps as even wholesale users when they have a completely different impact on the system, depending on the location.

The third option of voltage-based rates is structure the point-to-point rate to be a function of the delivery voltage, and possibly the supply voltage. Like most other things, it will require a cost-of-service study, I think this one may require a more detailed cost-of-service study because you are going have to do it for every voltage level.

Rates could be uniform for each voltage category, voltage class. And West Kootenay Power wholesale transmission rates are actually structured that way.

I am just going to look at the impact of the of the three options I am proposing on the three classes of rate payers, the third parties, the Hydro-Québec domestic and Hydro-Québec exports.

According to the proposal by Hydro-Québec right now, about ninety percent (90%) of the revenue comes from network, or domestic, about ten percent (10%) roughly comes from exports, and the third party, Excel refused, even blotted, so it just gave me a line, okay?

If you unbundle the system, and if you look at the document of Hydro-Québec, 10.2 if I remember correctly, there is a table that shows the investments in the different transmission classes, you could roughly gather from that that interconnection or network charges are about, or export-related activities is about ten percent (10%), forty-five percent (45%) roughly for gathering, forty-five percent (45%) roughly for interties, for network. These are not exact numbers, I am just trying to give a visual feel for what it is like.

So in effect, once you unbundle...

Me GUY SARAULT :

Je m'excuse, la pièce, the exhibit to which Dr. El-Ramly is referring is Exhibit HQT-10, document 2, providing the figures allocation by function.

Dr. ZAK EL-RAMLY :

A. Thank you. So in effect, once we start changing the

rate structure, the contribution by the three different players will change the white, blue, and red sections, okay?

However, for all practical purposes, one can ignore the impact of the third party on the distribution. The impact of the third party may be very high, like the ten million dollars (\$10 M) may be eight (\$8 M), or nine (\$9 M), or seven (\$7 M), but the impact of the ten million (\$10 M) over two billion (\$2 G) is almost negligible. So the discussion becomes, what is the shift in cost between the export and the domestic by imposing the three different rates?

If you go to the multi-tiered unbundled structure, the one I personally prefer, it seems to me it is the fairest from a cost perspective -- you look at the cost, you functionalize according to the utilization, and you do the rate accordingly. It resembles or is similar to industry standards while complying with the Act. Because each user of a certain segment of the unbundled rate will pay the same.

It will increase in cost for the export from remote generation, because they have to pay the remote generation, they have to pay their share of the network, but they also have to pay their share of the export-related facilities.

It would reduce the cost for the distribution, because any time the export revenue is higher, or the wheeling charge to export is higher, wheeling charge to distribution is lower.

And it will reduce the cost for non-users of the remote assets, but this will be partially offset by increased cost if they use the transmission system for export. And there will be a reduced cost for wheeling within the province.

So anybody who wheels within the province will probably end up just paying for the network charges, so it will actually be very beneficial for things like cogeneration or distributed generation.

The point-to-point rates, they allow for rate design flexibility and efficiency. You look at point of receipt, point of delivery, you look at the impact on the system and do a rate accordingly.

It will likely lower the cost for the distribution. It will more than likely give a higher cost for exports, simply because the export activities use almost all of the system. It will give lower cost for third parties with limited use of the system, or those who are not far away. And it could be used to allow for locational credits.

You could do it so that if somebody has as a point of receipt in Montreal, then they probably could get a lower rate, and as a result, it could direct or encourage location of credit for future IPP development and for future distributed generation.

The third option, which is delivery voltage, it is a fairer and more rigorous implementation of the current practice where Hydro-Québec gives the rebates if the voltage delivery is lower than... It reduces cost for third party users, IPP's and utilities who deliver and/or receive at high voltage. So if I am delivering at high voltage, I will have a lower rate.

It will give lower cost for exports, because exports deliver at a high voltage. And it will likely, as a result, give a higher cost for distributors who use the full system, so the costs shift from export to the distributors, or the domestic ratepayers.

I am going to switch now to the current discount policy. Hydro-Québec, on the average, does not suffer from congestion. At least, the evidence indicates that. The marginal system usage represents a minimal proportion of operational costs, so if you increase the use of the system, it does not add to the cost. Mr. Chéhadé said that a couple of times.

Deep discounting has been required in the past to attract short-term point-to-point use. That is maybe a reflection of the unreasonableness of the rates.

The system does not result in increased efficiencies, because it does not reflect system conditions or loading. It reflects market pricing, but it doesn't reflect how far or how deep the system is being used.

It is unpredictable because it is only posted a few days before the month. And it is subject only to TransÉnergie's judgement, and the user ability to have confidence in that judgement.

I believe that you should have a discount policy, it should be clear how the policy is being applied. The main driver for the discount policy should be increased system utilization. I believe it should apply to both long-term and short-term rates, whenever surplus capacity is available, it is not applied blindly, there has to be surplus capacity that you want to sell. It is like you want to have a sale, that is what discount is, "I want to have a sale."

It must be based on system utilization rather than market conditions. This is a transporter who is trying to maximize the use of the transportation, not

capitalize on the marketplace, this is a cost-based regulation.

And it should recognize that discounted transmission rate is superior to idle transmission capacity. It is fairer to attract some use and some moneys than to insist on a higher price.

It should induce TransÉnergie to optimize its revenue, the discounting is not just giving, to give people a discount, it is to optimize the revenue. However, it should be designed to optimize the revenue of TransÉnergie, not the revenue of Hydro-Québec.

If you want to think of the two entities as independent and separate and being seen that way, then it has to be designed to optimize revenue to TransÉnergie.

And it should leave no perception of conflict of interest. So it should be as clear as possible and applied as clear as possible so that conflict of interest does not appear.

What are the principles? It should always offer, be offered if the system has ample capacity. You have a surplus capacity, you should offer a discount. You

should progressively decrease the discount as the system fills.

A lot of airlines have revenue optimization programs where, when you start first, you have no discounts, all the business long-term people reserve, then they apply a discount. And as you get close to the end, you find that if the plane is empty, there is a lot of discount, if the plane is full, I had to pay forty-five hundred dollars (\$4,500) to come to Montreal because I didn't know when to reserve. So the discount, it will be the same, it will be visibly decreased as the system fills.

It is removed if the system is congested. Actually, if the system is congested, you start applying negative discount, it should be applied to the longest possible term. If I know I have three hundred megawatts (300 MW) of firm capacity for the next ten years and nobody is taking them, maybe I should try to discount them.

It also should be posted as far in advance as possible. You don't expect to discount on the twenty-eighth (28th) of February and have somebody buy it for March first (1st). These are all business relations, these are all people with hydroelectric facilities, these are all people that have to write

long-term contracts, so the sooner I know the discount is available, the easier for me to factor into my business practice, more likely I will use it. If I want to travel, I want a discounted airfare, I want to know today so I can ask my boss to give a holiday.

It should be available on a non-discriminatory basis. The next statement is actual an added statement, it is not in my evidence -- holders of discounted long-term capacity forego the first right of renewal.

The reason I added this is that Mr. Chéhadé, when he was looking at the discount I was proposing for long-term, assumed that it will apply to all the capacity that has been already sold. I am saying, no, no, it does not apply to all the capacity that has been sold, it is going to apply to future available capacity, and it could come with a condition, to make sure that whoever gets a discount doesn't also get all the preference that is attached to a long-term contract.

TransÉnergie should monitor the discounting, when it was applied, how it was taken. They need to do this to help themselves optimize the discount policy, but I think they should also report to the Régie to show them they are following the discount policy.

The discount could be applied to a specific amount of capacity, try a hundred (100), see what happens, try three months, see what happens, try certain routes that are not really full and see what happens, or you could do a variation of the above, but at least consistent and systematic ways for offering this discount to be able to judge from a business perspective if you have optimized the system or not.

Looking at what the price in New England is and adjusting the discount does not help you optimize that. It is like Air Canada trying to find out why am I trying to come to Montreal, to charge me accordingly. They should charge me according to how many seats they have available, not how much money I am going to make when I come to Montreal.

It is a totally wrong mind set from a business optimization perspective for a transmission operator, maybe not for Hydro-Québec as a whole, but not for a transmission operator.

The level of discount could also vary by the length of the reservation, the longer it is, maybe the less discount you should have; the shorter it is, it is going to disappear, it doesn't leave a precedent, the deeper the discount.

Overall, what are my recommendations to the Régie?

I think the Régie should accept Hydro-Québec's 1-CP proposal, they provide reasonable logic for choosing that for this particular system. It may not be good for everybody but basically the information provided I think is reasonable for Hydro-Québec.

The short-term point-to-point rates must be done on the same basis as the long-term point-to-point rates, indirectly on the same 1-CP basis, however prorated to long-term values. So if you have a one year, and you want one week, you divide by fifty-two (52). You have one year, you want one month, you divide by twelve (12). You have one week, you want one day, you divide by five or seven working days and with the right conditions.

I think once you go down to hourly, it may not be as reasonable, you may need to go to energy-rated charge rather than capacity-rated charge.

They should direct TransÉnergie, from my point of view, to redevelop the point-to-point long-term rates based on the three options I mentioned, that will take care or that will address the unbundling issue, unbundled multi-tiered rates, specific point-to-point rates, or rates based on voltage level.

I think they should be required to develop a clear transparent guideline for a discounting policy. They should require a system for monitoring and reporting on the discounting process and its results.

As an interim measure, because all of these, all of this may require some time to develop the cost-of-service study and do the analysis, I am proposing a twenty-five percent (25%) discount of the rates, for two reasons: it makes it reasonable, it gives the community at large the indication that the Régie is intending on doing a proper cost allocation.

And I think that it is very important to realize that Hydro-Québec must appear to the outside world to be regulated as an independent system operator. So whatever decisions the Régie would make, I think there needs to be a focus on, "Here is how we regulate the transmission part of the business, irrespective to the impacts on the production system."

Thank you.

Me GUY SARAULT :

142 Q. Just one question, Dr. El-Ramly, to clarify the record. Could you expand as to how you arrived at the figure of twenty-five percent (25%) for your interim

discount, please?

- A. I looked at the ratio of generation rate of transmission, just visually, and through to the table that we refer to, and I figured that a proper rate design may result in a fraction of the fifty-percent (50%) being allocated to network and a fraction of that being done at the GRTA's.

So I know that the number, the discount number will be something between zero and fifty percent (0 - 50%), it is definitely not going to be zero, it may likely not be fifty percent (50%), so I did the twenty-five percent (25%) number to not pretend to be accurate, it is a quarter, it is a round figure, it is a good starting point.

As Mr. Bill Marshall indicated, if you look at the number in more detail, you probably come to a figure like thirty-three percent (33%), thirty-six percent (36%), so I figured twenty-five percent (25%) would not be objectionable.

Me GUY SARAULT :

The witnesses are available for cross-examination.

Thank you.

(14 h 10)

LE PRÉSIDENT :

Est-ce que vous voulez avoir une petite pause,

Maître

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Morel.

Me F. JEAN MOREL :

C'est ce que j'allais vous demander, Monsieur le
Président, comme ce matin.

LE PRÉSIDENT :

C'est avec plaisir.

Me F. JEAN MOREL :

Merci bien. Est-ce que... c'est jamais néfaste
parce que je pense que je reviens avec moins de
questions.

LE PRÉSIDENT :

C'est ce que nous présumons à chaque fois, parce
que sans ça on ne vous l'accorderait pas. Est-ce
qu'il y a plusieurs intervenants qui ont des
questions à poser?

Me HÉLENE SICARD :

Non, on n'aura pas de questions pour ce qui est du
RNCREQ. Alors, on vous demande de nous excuser,
nous allons quitter.

LE PRÉSIDENT :

Alors, on vous excuse. Bonne fin de semaine.
Maître Fraser?

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Me ERIC FRASER :

Non.

LE PRÉSIDENT :

Pas de question. Maître Tourigny, pas de question.

Maître Neuman?

Me DOMINIQUE NEUMAN :

Peut-être quelques questions.

LE PRÉSIDENT :

Maître Durocher?

Me ANDRÉ DUROCHER :

Pas de question.

LE PRÉSIDENT :

Pas de question. Monsieur Bastien? Pas de question. Maître Gauthier, excusez?

Me JEAN-FRANÇOIS GAUTHIER:

Pas de question.

LE PRÉSIDENT :

Pas de question.

M. FRANÇOIS TANGUAY :

Tourigny, monsieur Tourigny?

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LE PRÉSIDENT :

Non, je lui ai demandé tantôt.

M. FRANÇOIS TANGUAY :

O.K. Ça laisserait la Régie et peut-être Hydro-Québec et peut-être monsieur Neuman.

Me PIERRE R. FORTIN :

Je vais profiter de la pause pour revérifier si on va encore avoir des questions à la lumière de ce qui vient d'être déposé.

LE PRÉSIDENT :

D'accord. Alors, quinze (15) minutes.

Me F. JEAN MOREL:

Ça serait parfait, oui, merci.

PAUSE

LE PRÉSIDENT :

Maître Morel, j'imagine que vous n'avez plus de questions à poser.

Me F. JEAN MOREL:

Rebonjour, mais si vous m'aviez peut-être laissé un autre quinze (15) minutes, je ne serais pas revenu.

Me DOMINIQUE NEUMAN:

En réponse à la question de la Régie tout à l'heure, nous avons une question.

LE PRÉSIDENT :

De combien de questions?

Me DOMINIQUE NEUMAN:

Il y a une seule question, je ne pense pas qu'il y ait des sous-questions, donc ça sera très rapide.

LE PRÉSIDENT :

Alors, est-ce que ça peut se poser en dedans d'une heure?

Me DOMINIQUE NEUMAN:

Un peu moins là.

LE PRÉSIDENT :

Allez-y, Maître Morel.

Me F. JEAN MOREL:

Merci bien, Monsieur le Président, je vais essayer d'être aussi rapide que d'habitude, je pense que je n'ai pas encore cette mauvaise réputation-là, j'en ai bien d'autres mais pas celle-là. Je vais commencer une mauvaise réputation...

LE PRÉSIDENT :

Voulez-vous dire succinct ou rapide?

CONTRE-INTERROGÉS PAR Me F. JEAN MOREL:

Succinct ou rapide, ou vous préférez les deux.

- 143 Q. Une réputation que j'ai c'est sûrement monsieur Jutras, il a fait allusion en commençant là :
- * j'espère que maître Morel ne s'excitera pas ou ne s'objectera pas +. Puis il en a fait référence surtout avec l'exemple de transport de point à point auquel je reviendrai tantôt mais en fait ce qui me fait plus m'exciter, Monsieur Jutras, c'est votre première page ou première diapositive là, la page 2, numérotée 2, ce que vous appelez les admissions d'Hydro-Québec; j'aimerais peut-être pour simplifier ça peut-être vous faire admettre que c'est des conclusions que la Coalition a tirée de certains éléments de la preuve.

M. PAUL JUTRAS :

- R. J'admets aisément, Maître Morel, que c'est ma propre ou notre propre interprétation de ce que nous croyons être les admissions que Hydro-Québec a fait en cours d'audience.
- 144 Q. O.K.
- R. Et dans son dossier.
- 145 Q. Mais, en fait, moi je l'avais qualifié plutôt comme les conclusions de la...

- R. C'est la même chose.
- 146 Q. Parfait, bon, bien, c'est loin d'être des admissions.
- R. Ce ne sont pas vos admissions, ce sont les miennes alors.
- 147 Q. Alors, bien, à ce moment-là allons-y comme ça, comme la page 3 d'ailleurs puis je ne vous en tiens pas rigueur.
- R. Que je n'ai pas de plainte, oui, c'est mon...
- 148 Q. Que ce sont des admissions de la Coalition... c'est ça, je ne vous en tiens pas rigueur.
- R. Puis je ne cherche pas à flatter qui que ce soit là-dedans, on n'a vraiment pas de plainte à déposer à ce sujet-là.
- 149 Q. Merci bien. Quant aux frustrations...
- R. Ça, vous ne pouvez pas m'en empêcher.
- 150 Q. ... c'est dommage, non, c'est ça puis c'est presque dommage puis moi aussi, quelques fois, j'en ai des frustrations, donc on peut les partager, c'est ça, partager vos sentiments à cet égard-là.
- R. Ça peut se soigner par un bon Scotch.
- 151 Q. Où, quand puis à quelle heure?
- R. Ça va dépendre de maître Neuman tantôt.

LE PRÉSIDENT :

Dans une semaine.

Me F. JEAN MOREL :

Ça ne fait pas trop sérieux là mais je suis sérieux

dans le fond là, vous le savez, tout le temps là.

152 Q. Je reviens à la page, où je suis rendu à la page 6.

R. Oui.

153 Q. Et vous décrivez le transport à l'intérieur du Québec ou le * wheel within +, service offert mais vous le voyez là de l'oeil du concurrent.

R. Hum, hum.

154 Q. Le concurrent d'Hydro-Québec Production, j'imagine.

R. Bien, le concurrent à Hydro-Québec.

155 Q. A Hydro-Québec, c'est ça.

R. Qui alimente, en fait, les municipalités.

156 Q. C'est ça, le producteur privé à toute fin pratique.

R. Oui.

157 Q. Le premier point c'est ses coûts de production.

R. Oui.

158 Q. On le comprend. Ses coûts de transport, ce n'était pas clair. Est-ce que vous aviez en tête par exemple MacLaren?

R. Bien, si on prend un exemple de n'importe quel producteur qui a lui-même un réseau de transport, que ce soit l'Alcan ou Manic Power, ou bien MacLaren.

159 Q. O.K.

R. Les trois ont leurs propres coûts de transport.

160 Q. Parfait. Et, donc, le prochain point, les coûts de transport de Hydro-Québec, de Baie James à Montréal; les réseaux de répartition, il y a une bonne partie du réseau de distribution, là je ne

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comprends pas la bonne partie du réseau
distribution.

- R. Bon, j'avouerais avec vous qu'une bonne partie, je dirais plutôt une partie du réseau de distribution, vu qu'on l'a vu avec monsieur Marshall ce matin que les * step-down + là, * step-up +, * step-down transformers + et une partie des lignes radiales sont incluses au tarif de transport.
- 161 Q. O.K. C'est ce à quoi vous faites allusion.
- R. Alors, je suis d'accord avec vous, d'éliminer le terme * bonne + pour en laisser des mauvaises, une mauvaise partie du réseau de distribution.
- 162 Q. O.K. On pourrait peut-être changer. Mais on s'entend que ce n'est pas une bonne partie, on s'entend que vous faisiez référence à ce moment-là à certains actifs que vous venez de décrire, les * step-down +, * step-down transformers +...
- R. C'est ça.
- 163 Q. ... et certaines lignes radiales de charge.
- R. Je pense que ça clarifie la situation.
- 164 Q. Ou de charge, bon, merci. C'est, en fait, le tarif timbre-poste de TransÉnergie qu'il doit assumer là.
- R. Qui inclut des coûts qu'on estime, lesquels ne devaient pas être inclus.
- 165 Q. Oui. O.K.
- R. Je vois que vous l'avez lu avec attention, c'est intéressant, page par page.
- 166 Q. Toujours oui, oui, oui. J'ai lu le restant aussi mais je l'avais eu d'avance. Le * wheel within +, à la page 7 je pense qu'on va sauter un peu, je pense que

vous avez reconnu effectivement là que c'est peut-être la reformulation d'une autre frustration et que c'était plutôt... que ni Hydro-Québec, ni la Régie qui assumaient la plus grande part...

R. Tout à fait d'accord, oui.

167 Q. La plus grande part là-dedans.

R. Oui.

168 Q. Maintenant, à la page 8, lorsque vous dites, lorsque vous avez, en relation avec vos deux points, les deux * bullets + là, vous dites :

Le tarif de fourniture est le plus bas dans le Nord-Est du Canada et des États-Unis.

Ensuite :

Le tarif de transport est le plus élevé en Amérique du Nord.

Et vos commentaires éditoriaux, lors de votre présentation, étaient à l'effet qu'il y a quelque chose qui ne va pas. Vous avez suivi, je pense, assez assidûment les présentes audiences.

R. Oui.

169 Q. Et vous êtes, je pense, aussi, comme vous arrivez de chez MacLaren, bien, à titre de consultant à tout le moins vous l'avez, pour MacLaren, vous êtes, je pense d'accord avec moi qu'une caractéristique de la production hydroélectrique et son bas coût de

production.

R. Quand je parle ici du tarif de fourniture, c'est l'ensemble du tarif d'Hydro-Québec et Hydro-Québec le dit elle-même, c'est le tarif le plus bas dans le Nord-Est du Canada et des États-Unis.

170 Q. Le tarif aux consommateurs.

R. Le tarif aux consommateurs.

171 Q. O.K. Celui qui fait plaisir à l'autre côté de la coalition.

R. Exactement.

172 Q. O.K.

R. Tant qu'à se faire plaisir.

173 Q. Hum.

R. Tant qu'à se faire plaisir entre nous.

174 Q. N'est-ce pas, Monsieur Vézina? Bien, en fait, si...

R. Disons qu'il a quelques frustrations lui aussi, pas nécessairement des plaintes.

175 Q. Non, non, mais passez-les pas toutes sur moi là vos frustrations. Mais n'est-ce pas que lorsqu'on dit * le tarif de fourniture +, je comprends là que monsieur, dans cette acétate monsieur Jutras fait une affirmation ici là comme quoi le tarif aux consommateurs est le plus bas dans le Nord-Est du Canada et des États-Unis.

M. PIERRE VÉZINA :

R. Est parmi les plus bas.

176 Q. Parmi les plus bas, bon, O.K.

- R. Hydro-Québec nous a démontré ça il n'y a pas tellement longtemps.
- 177 Q. Parfait. Maintenant, et que le tarif de transport est le plus élevé en Amérique, je pense aussi là qu'à travers les six, je pense, dernières semaines, il a été mis en preuve que certaines particularités du réseau, sa grandeur, ses particularités techniques aussi, son âge à certains égards, sa technologie de ligne à haute tension, et j'en saute, expliquent les coûts totaux d'un tel réseau de transport. Je pense que vous êtes d'accord avec ça aussi?

M. PAUL JUTRAS :

- R. Bien, je suis d'accord avec maître Morel que justement tous ces coûts expliquent que le coût soit élevé et on ne questionne pas les coûts justement, on questionne l'allocation des coûts. Ce qu'on dit c'est que les coûts n'étant pas alloués à la bonne place, ce qui fait en sorte que le tarif de transport de point à point est le plus élevé en Amérique du Nord.
- 178 Q. O.K.
- R. Alors, c'est une question d'allocation de coût et non pas seulement une question d'existence de coût. Les coûts existent, on les reconnaît. Maintenant, on le dit aussi à la page 2 que le tarif est très élevé justement parce qu'il inclut tout le transport haute tension acheminant la production des centrales éloignées.

- 179 Q. O.K.
- R. Et ces lignes-là n'auraient pas été construites si les centrales éloignées n'existaient pas. Donc, elles sont associées directement aux centrales, à la production, ce qu'on appelle les GRTAs.
- 180 Q. Je vais aller maintenant à votre exemple de la page 9.
- R. Oui.
- 181 Q. Je pense qu'au départ c'est un tableau comparatif qui, je dois l'admettre, est assez complet là mais qui soulève des questions. Premièrement, quant à MacLaren, est-ce qu'il y a moyen de connaître la charge totale de MacLaren?
- R. Cent soixante-cinq mégawatts (165 MW).
- 182 Q. O.K.
- R. La charge moyenne est de cent soixante-cinq mégawatts (165 MW).
- 183 Q. O.K. La charge moyenne.
- R. La charge moyenne du réseau de transport est de deux cent cinquante-cinq mégawatts (255 MW) puisque MacLaren transporte aussi quatre-vingt-dix mégawatts (90 MW) pour TransÉnergie à l'usine de Sterling, Produits Chimiques Sterling.
- 184 Q. O.K.
- R. La charge globale du réseau de transport est de deux cent cinquante-cinq mégawatts (25 MW).
- 185 Q. Parfait.
- R. Et le tarif de transport est calculé en conséquence

sur un total de deux cent cinquante-cinq mégawatts (255 MW).

186 Q. O.K. puis c'est comme ça que vous arrivez là, à quatre-vingt sous (804) dans votre exemple là, vous citez quatre-vingt sous (804) du kilowatt par mois.

R. C'est ça, oui.

187 Q. La tarification de MacLaren, est-ce qu'elle est au coût moyen?

R. Elle est au coût du transport, au coût moyen du transport.

188 Q. Oui.

R. Bien, au revenu, au revenu annuel requis.

189 Q. O.K.

R. Les revenus annuels requis divisé par le nombre de mégawatts transportés et la charge est à peu près égale toute l'année puisque c'est une charge industrielle.

190 Q. O.K. Quelle est la valeur des actifs de transport de MacLaren?

R. Il faudrait que je sorte les chiffres là, je peux vous les donner, de toute manière, TransÉnergie a déjà présentement toutes ces données-là puisqu'on a une entente avec TransÉnergie. Le personnel de TransÉnergie a tout les données en main. Vous l'avez aussi au contentieux puisque vous avez fait des commentaires, vos confrères ou vos consoeurs ont fait des commentaires à notre contrat il y a quelques semaines. Et le contrat est mis en application

présentement entre TransÉnergie et MacLaren. Vous avez toutes les données.

191 Q. O.K. Et...

R. Je n'ai pas en mémoire les chiffres là.

192 Q. Évidemment, je n'en ai pas pris connaissance, j'aurais peut-être eu avantage à le faire mais pouvez-vous me dire si effectivement la valeur des actifs de transport, de MacLaren apparaîtraient au contrat?

R. Elle n'apparaît pas au contrat, ce qui apparaît au contrat c'est le revenu annuel requis.

193 Q. Oui.

R. Les actifs ont été déposés aussi en demande de TransÉnergie en support du tarif, du calcul du tarif.

194 Q. J'imagine qu'on a indiqué le taux de rendement également.

R. Oui.

195 Q. Qui est fixé par sûrement pas la Régie.

R. Qui est fixé par un niveau qui est celui que MacLaren détermine pour l'ensemble de ses opérations, qui est de onze et demie pour cent (11.5 %).

196 Q. MacLaren a-t-elle l'obligation de desservir ou de servir?

R. MacLaren n'a pas l'obligation mais le privilège de servir.

197 Q. O.K. MacLaren ne se prévaut pas de ce privilège pour la charge de Sterling en tout cas, ou ne s'en prévaut plus.

R. Ne s'en prévaut plus puisque du fait, ce qui s'est produit c'est que l'usine de papier journal a augmenté sa charge de cinquante mégawatts (50 MW) et MacLaren n'avait plus la possibilité ou les capacités nécessaires pour alimenter l'usine de Sterling et Hydro-Québec n'a pas accepté d'alimenter une partie de la charge de Sterling, elle a demandé d'alimenter toute la charge de Sterling. Alors, on a dû le laisser à Hydro-Québec.

198 Q. L'usine de papier journal fait allusion à Papier Masson, à Masson.

R. Papier Masson, oui, exactement.

199 Q. O.K.

(16 h 20)

Me F. JEAN MOREL:

200 Q. Dr. El-Ramly, it is your turn. And these are only going to be questions of clarification on mainly your presentation. The presentation itself to some extent complemented or added to your written evidence and, in this regard, it answered some of our questions. In other regards, it raised more questions; so, we are about even. It should not take any longer -- c'est ça que je voulais dire, là.

LE PRÉSIDENT :

Quinze (15) minutes.

Me F. JEAN MOREL :

- 201 Q. Slide 7, just again as a matter of clarification only, you indicate that the -- I know it is a conceptual presentation of a transmission system, you are indicating the step-down equipment or facilities from two thirty (230) kVs, one thirty (130) kVs, sixty-nine (69) kVs and twenty-five (25) kVs. This is really a process, but not necessarily the type of assets that you would describe as a step-down generator?
- A. That is a process, that is right.
- 202 Q. The next slide, which is the map, it is not numbered 8 but it is slide 8, I gather the circles or the sort of circles at both ends of the map are meant or intended to identify what you view as the GRTAs; is that correct?
- A. It identifies, the first lines that you start looking at to examine, so, when you start examining, you start from the dams down and start looking at them and say, okay, is it serving loads or is it just moving part to the interconnection. So, it starts at the beginning, it is a beginning point, not necessarily a total definition of what GRTAs are.
- 203 Q. Let's call it a focus point or...
- A. That is a good word.
- 204 Q. And maybe you would want, when you mean the starting point, you would start there and find even more GRTAs somewhere else or could it be that, after a review of

these installations, if we realize that, yes, there were loads in the Abitibi region or there were loads in the Chibougamau regions or there were in fact loads further up North, that would tend to make us conclude that they are not really GRTAs, right?

- A. Actually not, it is the other way around, that is the other way around. What happened in the BC Hydro case is that there was a theory saying anytime you serve a load, that does not make it a GRTA, and the Commissioners refused that, it is the degree to which you serve a load. You could have served that area with a diesel generator, for example, that does not necessarily constitute a load.

There are criteria that the BC Commission used, what are these assets mostly doing. And they used the test "mostly doing". And that is why they end up putting all the GRTAs in GRTAs because BC Hydro argued like Hydro-Québec that they use them for ancillary services, they used them for some loads, and the Commission looked at different studies and concluded, based on the majority of the functions of the assets, because everything, as it will perform some function at one point or another. So, the Commission used the "mostly" argument rather the "sometimes" argument.

And by the way, the results, they include the sixty-nine (69) and a hundred and thirty-eight

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distribution lines in transmission, because they were used more than fifty percent (50%) of the time, sometimes, to perform a transmission function. So, it's "mostly" used rather than "sometimes" used.

205 Q. So, let me understand, try to understand what these circles are then. They are basically your focus point as to what you would start off by arguing should be GRTAs and then, you would attempt to build on this and include more?

A. I would say, given the Hydro-Québec system, it is almost clear where is the beginning and where is the end. The integrated network is clear, it looks like a circle, it is an integrated network. And the radial lines look like radial lines. It is one of the clearest pictures that you can look at from a planning perspective and say...

206 Q. But if I understand... sorry, go ahead?

A. And say which ones are likely to be in.

207 Q. But if I understand your last or next to last comment, it is not because it looks like a GRTA or walks like a GRTA or even smells like a GRTA, it is necessarily a GRTA, we will have to look at what function it serves mostly or generally or principally or... do we agree on that, that basically the exercise, if it were to take place, would be based on the use of the equipment rather than...

A. It is the use of the equipment and the functionality of the equipment, that is correct.

Me GUY SARAULT :

Si je peux rassurer maître Morel, la Coalition n'a pas la prétention que les deux ronds dans l'acétate 8 de la présentation du docteur Zak El-Ramly constituent une étude d'allocation de coût de service permettant d'identifier tous les GRTAS du réseau de TransÉnergie.

Me F. JEAN MOREL :

Non, j'avais compris moi-même que c'était un peu plus difficile ça qu'une étude d'allocation du coût de service.

- 208 Q. Now, at page 12, again just as a matter of clarification, when you say that the combined use of the 1 CP and 12 CP, and I think in your oral presentation, you agreed that it was the billing determinant as explained by our witness, but it had the effect of a 12 CP -- you called the 12 CP effect -- is an exception to industry practices, and then, you even write in there "violation". Based on what exactly do you conclude that it is a violation? Is it just an exception perhaps at the most?
- A. Let me put it this way. I was a Rates Manager or responsible for rates for over eight years, I was extremely surprised to see Hydro-Québec had done that. So when I looked at that first, it looked like a violation. Then, I toned it down to call it

exception. And then, last night, I realized it really is a violation; people do not do that. There is no reason for it to be done other than to discourage something. You do not design a rate to discourage something, you discourage the rate to encourage something.

You say it is a marginal cost, that is why I am basing it on it or if you say it is imbedded cost, if you have any good business principle that will prompt you to do that, that will be fine; but this is a violation of principles, rate setting principles.

209 Q. But if by discouraging short-term rates, you encourage long-term contracting, I mean, there is an encouragement there. You say you do not design rates to discourage something, you design rates to encourage something. If you design the short-term rates to encourage long-term contracting, have you not done something positive with your rate design?

A. No, you need the two of them. You do not need one or the other, you need both of them. You need the long-term rate for those who use the long-term rate, and you need the short-term rate for those who only need short-term rates. And to optimize the system, you actually need the complement to the long-term rate which is a short-term rate.

Your system, your whole reason for convincing, let's

say myself, that 1 CP is reasonable in the case of Hydro-Québec is the degree to which your load is picky. The fact that your load so picky and you are justifying to use 1 CP indicates that you need a lot of short-term transactions to make it more even, to fill the valleys.

So, maybe it is a reason, but from my perspective, it is a very logical business reason. It is almost an executor than a reason. I would not be convinced that it is a good reason.

M. PAUL JUTRAS :

R. Est-ce que je peux compléter? Est-ce que vous connaissez un magasin de vêtements qui ne vendrait pas de pantalons pour encourager les gens de ne s'acheter que des complets?

Me F. JEAN MOREL :

Probablement, mais excusez, je suis encore en train de magasiner l'auto de maître Sarault, là. Je n'entrerais pas là-dedans, là, mais je sais qu'on n'achète pas... non, laissez faire.

M. PAUL JUTRAS :

R. C'est ça.

Me F. JEAN MOREL :

C'est vendredi, puis il est tard, Monsieur Jutras.

Mr. ZAK EL-RAMLY:

A. How about if I meet you in the middle. It is an exception to industry practice, it is a violation of good rate setting principles.

210 Q. You would -- I think you indicated that you would take the 1 -- or the 1 CP is justifiable, the 1 CP approach is justifiable. Your monthly rate would be divided, would be the annual rate divided by twelve (12), I think you gave that as an example?

A. That is industry practice, yes.

211 Q. Okay. And then, your weekly rate would be divided by?

A. Fifty-two (52).

212 Q. The annual divided by fifty-two (52)?

A. Right.

213 Q. Your daily would be your weekly rate divided by five, you have indicated, seven or five?

A. Seven or five. Or if you use five, you have to say "but not to exceed one week" if you use it more than five.

214 Q. And what is your justification for using five?

A. Because those are the business days, those are the heavy load hour days. So, the industry has accepted that.

215 Q. So you're... Okay.

A. By the way, the continuation of what you are saying

and after they do this, so you get a good base for the short term, you need to discount them according to the degree to which you have surpluses in January, February, March, April, June, July and so on. And that is why I am saying you need a clearly defined discounting policy to define how you go to the next level of trying to optimize the system by having more sales when you are having more capacity.

216 Q. I am not into the discounting policy right now, I am in the short-term rates. We will get to the discounts shortly.

A. I am just making sure you get the big picture or the full picture.

217 Q. We will get there, one step at a time. The next page, page 13, I guess is an illustration of the, I guess, the loads or the winter peakings and the summer valleys. Would you agree that the valleys in the Québec load or system, as you seem to have indicated here, are not necessarily the same in the neighbouring systems? And that the systems do not peak, the systems that are intertied do not necessarily peak at the same time or have the valleys at the same time?

A. But you are setting your own transmission surplus, you are not setting somebody else's transmission surplus, you are setting your own surplus. It is your surplus as a transporter that you want to fill, okay. And if the other jurisdictions have a higher cost and

if you had a higher cost, let me discourage somebody like MacLaren from using it, so you hurt yourself.

If the other system, because they have a peak, have a higher cost and you are trying to fill your valleys, and then cutting your own price there to fill it, it may induce MacLaren to buy a system. So, it is your system that you should be focused on.

That is my problem with the proposal. It is that you look at other systems and you look at the marketplace. I do not think you should be looking at the marketplace. I think you should be looking at your system utilization and available capacity.

Just like an airline, if you have two hundred (200) seats, you have two hundred (200) seats. I do not care if the connection from Toronto out is busy, I have two hundred (200) seats, that is what I should sell.

218 Q. But would not MacLaren be using it if there was a demand at the other end though, rather than just space on the system?

A. MacLaren would be looking at the profit they would gain by selling them, which is different from the market and their incremental cost and the cost of transmission.

So, the more you attract out of this cost of transmission, the lower the likelihood of them taking the transaction. There is twenty dollars (\$20.00) between the two systems and then, if you are going to take sixteen (16) of that, you are saying, no, I cannot afford the risk because there may be a congestion, I may get something, so I am not going to go ahead.

But if you have discounted your transmission and you left ten (10) on the table, then, MacLaren will have a lot more driver to take this transmission and use your system and then, you did not get ten (10) with a probability of zero, you got two with a probability of fifty percent (50%) or eighty percent (80%).

219 Q. This much I gathered, whether it is suits or pants, I would rather buy them on sale. This, I understand. The cheaper it is, the better it is...

A. No no no...

220 Q. No -- okay, go ahead?

A. Whether it is suits or pants, if you have a lot of it, you better discount it, otherwise, they stay on the rack.

221 Q. Yes, but if I have people beating down the door to buy the suits, I am not going to bend over backward and discount a lot of things.

A. If you have people beating down, you would not have them on the rack. You cannot have them on the rack

and have people beating down. It is one or the other.

- 222 Q. That is really a rare item if you do not even put them up on the rack, but you know what I mean. We do not want to argue as how to run a men's store. What I am saying is that...

LE PRÉSIDENT :

Est-ce qu'on pourrait se limiter à l'électricité?

Me F. JEAN MOREL :

That is why I do not want to argue about how to run a men's store.

- 223 Q. What I am saying is that you have -- I was just picking up on what you are saying. You are saying no no, if the price is discounted, you are more likely to have MacLaren pick it up?

A. Right.

- 224 Q. Okay. If MacLaren or somebody else really wants it, I do not have to discount it. That is the only thing I said, or meant to say?

A. And I am trying to say to you is whether you sell one unit or twenty (20) units, whether you sell one unit and get ten dollars (\$10.00) or twenty (20) units and get two dollars (\$2.00) times twenty (20) which is forty dollars (\$40.00).

That is exactly what I am saying, you have to have a

clear discount policy to drive those who make business decisions to go through the logic and force themselves to think about it from a business logic perspective rather than be misguided by how high the price in the market is. That is not your driver. As a transmission seller, that is not your driver. It is how many people knock on your door to get this transmission filled is your driver.

M. PAUL JUTRAS :

R. Si je peux me permettre d'ajouter, Monsieur le Président, et je vais rester dans le domaine de l'électricité, je vais vous donner un exemple qui... on vient de nommer MacLaren, alors, je vais devoir en parler.

L'été dernier, en l'an deux mille (2000), MacLaren et New Brunswick Power tentaient de faire des transactions à partir de l'Alcan vers le Nouveau-Brunswick. Heureusement, TransÉnergie, à notre demande, a fait le raccordement de l'Alcan, etc., et je les en félicite, ça a été très bien.

Ensuite, on a essayé de faire des transactions vers le Nouveau-Brunswick, mais le tarif de transport était trop élevé pour le différentiel de prix entre ce que le Nouveau-Brunswick pouvait se permettre d'acheter, puis ce que l'Alcan pouvait se permettre

de vendre à son coût de production.

Donc, les transactions n'ont pas eu lieu et TransÉnergie a perdu des revenus sur à peu près deux cent (200 000), trois cent mille (300 000) mégawattheure, de l'ordre d'à peu près six dollars (6 \$) du mégawattheure qu'on offrait à l'époque parce que c'était ce qu'on pouvait se permettre.

On ne pouvait pas en payer douze (12), la transaction n'en permettait que six. Alors, c'est un exemple où on perd à ce moment-là des transactions du fait qu'il n'y a pas d'escompte qui est calculée sur la valeur du transport lui-même. Et les lignes étaient vides à ce moment-là.

Me F. JEAN MOREL :

225 Q. Just a few more questions. I may be overspending my time, but it should not be long. The discount policy now, the discount policy application, again for clarification, I am at slide 28, and I was just wondering the next to last bullet on that slide reads:

Holders of discounted long-term capacity forego first right of renewal.

What exactly is meant by that?

A. Right now, if you hold a firm right to long term point to point, you have the right to renew it before anybody else. I am saying that if you offer a discount, then, whoever gets that should forego the right to automatic renewal. That way, it protects your future revenue.

And also, how to say that, the grades, the value of long-term firm, so those who really want long-term firm, then, then to sell they have to opt for discount, and as a result, you get the premium you deserve.

Let's say, for example, if I am Hydro-Québec exports, I want to make sure I get it for twenty (20) years. And you offer me a discount for two years and I know that if I take that, I will not get the twenty (20) years. Then, I will ask you to not discount for me and pay me the twenty (20) years. This way, you protect your long-term interest.

226 Q. And on the next page, a "Discount could apply to" -- slide 29 and the first bullet reads: "Specific amounts of capacity (MW)". What exactly is dependent on the specific amounts of capacity? Does it mean that the discounts would be different depending on the amount of capacity?

A. What I am trying to say is that if there is a policy and we want to ensure that, say, TransÉnergie is

applying it, then, you want to say that those have to provide a hundred (100) megawatts of capacity if there is more than three hundred (300) or four hundred (400) available. If that hundred (100) megawatts gets sold, then, the discount on the next hundred (100) will be cheaper. And if that gets sold, then, you do not discount any more. Trying to formalize the procedure by which you go around determining discounts.

Again, it is like an airline, you have a revenue optimization routine. You could develop something like this by saying I am going to try to see if I discounted by twenty dollars (\$20.00) what is going to happen, and either increase the discount or decrease the discount, depending on the response of the marketplace.

I am not trying to be exhaustive, I am trying to make it look like it can be done. So, I am not claiming that it is an exhaustive list of what you should do.

227 Q. Then, slide 31, your recommendations to the Régie, then, the first bullet reads: "Require a clear transparent guideline for a discounting policy". I was under the impression that that is what is applied to BC Hydro, that it did in fact obtain or it was decided by the BC UC that there should be a clear, transparent guideline for discounting policy and that

at the end it did not really work?

- A. That is not quite the way to phrase it. BC Hydro came up with a policy. The policy was deficient, it had elements but it was not complete. We argued, actually I argued, in favour of a more clear definition. The Commission ordered BC Hydro to do that and come back in nine months and to do consulting within industrial customers. Somehow, the industrial customers did not go behind BC Hydro asking for it because, at that time, access was the issue, not discounting.

So, BC Hydro came back to the Commission and said, "I did not find enough interest, would you please exempt me from having to come with a different policy?", and the Commission agreed.

228 Q. And how is discounting then applied by BC Hydro at this time?

- A. It is applied to the short term only, but the lines are so busy that I do not think that if I was there, I would recommend the discount, because the problem right now is getting access, any access, not getting rid of the surplus.

The system is so loaded that there is no discounting, and that is what I am saying here in a discount policy is that as you fill your system and you get closer to congestion, you should not discount, but only as you get that.

And in the BC Hydro system, they were discounting, discounting deeply, and they actually managed to fill the system to a very large degree. So, they have achieved their objective.

229 Q. So, it is really discounts as needed or discounts if necessary and not necessarily discounts? That is what you are saying?

A. Could you repeat that again?

230 Q. You are saying discounts if necessary, but not necessarily discounts?

A. Discounts if necessary when you have surplus capacity. If you do not have surplus capacity, if you do not have any more on the rack, you do not need to discount it. All the people are lined up to taking it, which is the same as not having anything on the rack.

231 Q. Then, your final point, where you say "TransÉnergie must appear to be regulated as an Independent System Operator", an ISO, I guess that was just illustrative. You would agree that TransÉnergie is not an ISO, but really a Transco, in the sense that they own their transmission assets?

A. I thank you for the question actually. What I am trying to say with this particular point is that the decision has to appear to focus about the business of the transporter, not the impact on the overall organization of Hydro-Québec.

I am sure that the back of the overall organization must be considered, but the decision must appear to be focusing on the act of managing the operation of the system as if it was independent, because it is not independent, it is even more important to show that it is being regulated as if it was independent. That is the whole idea why you are applying for FERC and that is why you are going through this particular application.

Me F. JEAN MOREL :

Indeed. That is it, gentlemen; c'est tout, Messieurs. Merci, Monsieur le président, Messieurs les régisseurs.

LE PRÉSIDENT :

Merci, Maître Morel. Maître Neuman, votre question. Il faut bien vous taquiner...

Me DOMINIQUE NEUMAN :

Absolument, absolument, je prends ça très bien.

CONTRE-INTERROGÉS PAR BY Me DOMINIQUE NEUMAN:

232 Q. Alors, bonjour, Messieurs. I will ask my questions in English for Mr. El-Ramly. On page 13 of your -- of today's presentation, which is Coalition-5, document 4, you express the need for the system to fill what you call the valleys of the curve, which is the

period not occupied by the winter peak. Would it be a good idea, in your opinion, to have monthly rates for point to point service that would be different depending on the season, basically a rate that would be lower at the bottom of the valley to encourage point to point short-term use during that period and vice versa?

- A. It is a yes with a qualification. It is a yes if the shape of the loading remained the way it is. I am expecting that if you do that and you reduce the loading in July that, after time, you may have a semi-peak in July. So that bottom there may reverse something like that. The danger is that you do not go to the Régie every now and then to adjust the rate.

So, if you're imbedded in a monthly rate with the Régie, you lose one of the elements of flexibility which is to adjust the discount to reflect actual system loading because that loading will not be frozen, that load will change over time, and you need something to accommodate the change of the shape of the loading with time.

And actually, it may be a good idea to insist that it starts that way, but to allow for adjustments as the shape of the curve changes. And that may be one of the reporting requirements that if the shape changes and there is no further need for discount or the same

degree of discount, that would be the decision for Hydro-Québec or TransÉnergie, but that will be also the reporting to the Régie why they did what they did.

233 Q. So you are talking about flexibility but without having to go back to the Régie. It is...

LE PRÉSIDENT :

Merci, Maître Neuman...

Me DOMINIQUE NEUMAN :

234 Q. I am just trying to understand your answer. So, you wish to have flexibility but without having to go back to the Régie?

A. Yes, because that will be dynamic. If it works, it will be dynamic. That is the problem. You do not want to handcuff the system.

Me DOMINIQUE NEUMAN:

Thank you very much. Une question et demie.

LE PRÉSIDENT :

Merci, Maître Neuman.

Me F. JEAN MOREL :

Avec votre permission, Monsieur le président, maître Neuman a pris si peu de temps.

LE PRÉSIDENT :

Vous en avez une autre?

Me F. JEAN MOREL :

Me permettez-vous une ou deux autres, très courtes, merci.

LE PRÉSIDENT :

L'on fait exception à la règle, nos principes reconnus depuis le début, mais pour vous, on va le faire.

Me F. JEAN MOREL :

Je le sais... je suis malmené, là. Vous le savez, mais je vais poser mes questions quand même.

CROOS-EXAMINED BY Me F. JEAN MOREL:

235 Q. Dr. El-Ramly, I am back to you on the question of discounts and your sort of interim proposal or the interim discount that you recommend to the Régie, that you would view as being applied to both long-term and short-term rates; is that correct?

A. Could you say that again, please?

236 Q. Your interim discount proposal of twenty-five percent (25%) would be applicable to long-term rates as well as short-term rates, if I understand your proposal correctly?

A. I would apply the twenty-five percent (25%) to the

long term rates which, by sequence, will reflect in the short term rates. But the short term rates will be discounted over and above that to fill the valleys.

237 Q. Over and above that, okay...

A. To the degree it is required to fill the valleys. So we are going back to the first question you asked me. Is it...

238 Q. But it would result in lower revenues to a certain extent -- well, not to a certain extent, it would result in lower revenues?

A. Or higher revenues depending on how much additional business you attract.

239 Q. Can you tell me how much additional business we are sure to attract?

A. If you recall on page 28, when you asked me, the bullet to the last, what did I mean by "Holders of discounted long-term capacity forego first right of renewal"...

240 Q. Yes?

A. I am assuming that the producers and the exporters will actually need long-term access and, as a result, they were not going to opt for that. So, what is going to be discounted is the amount of free future capacity that is available and maybe some of the discretionary capacity that Hydro-Québec Export may be just reserving it in case they use it, that is the only part that may be discounted.

In return, you will attract New Brunswick Power, you will attract MacLaren, and you get an increase in capacity sales. So, in effect, for every twenty-five percent (25%) reduction, you only need one third of that, of new capacity sales, to make up for the loss of twenty-five percent (25%).

So, the two hundred ninety-eight million dollars (\$298,000,000) would not be subjected necessarily to the twenty-five percent (25%) discount unless Hydro-Québec was really willing to drop all its future rights to automatically renew the capacity, which I would not think they would that. I would not advise them to do that. That is a catch in that long-term discount. So, it forces the short-term discount to the two, three, four years time horizon during which you may have surplus capacity.

241 Q. And you did yourself qualify that as a catch; would that not be discriminatory treatment?

A. Not at all because everybody has the right to access that under the same terms and conditions. It is just like Air Canada coming up with a discount of five fifty (550) and they say if you take that, you cannot change your reservation. So, me, I cannot do that because I am not sure if I am going to finish on Friday or on Monday. I need that seat available to me on a more firm basis.

I would say for long-term capacity for a generator in Québec, you would not be able to stand the risk of having that capacity not available. So, you are not going to opt for the twenty-five percent (25%). But if I am like MacLaren, have a window, or like Hydro-Québec Export have a window of two to three years, that discount may make a business decision more viable than it was. I may change from a short term to a long term. It is now a completely different calculation of the risk reward ratio.

242 Q. But would there not be long-term service, the same long-term service at different prices? It is in that sense that I asked you if it would not be discriminatory, exactly the same one-year long-term service at different prices?

A. I do not consider that to be discriminatory. You have that now.

243 Q. Okay.

A. You have that now.

244 Q. In what sense?

A. When you discount your capacity sales, you will have two different capacities, sold at two different times at two different prices.

245 Q. Not the long-term one though at this time?

A. So, the long-term one may look as discriminatory as the short-term one now.

246 Q. But the long-term service would be exactly the same service at different prices though?

- A. If you assume that the terms...
- 247 Q. Two long-term firm contracts, two one-year long-term firm contracts, same service, same priority, exact same quality of service, two different prices?
- A. I just add to the list you made. You do not have the same renewal right. Two different seats on Air Canada from Vancouver to Toronto, eat the same meal, do everything, one of them has the right to change his reservation, the other does not. They do not pay the same price. That is not discriminatory. That is why I added this particular statement, "They forego the first right of renewal". As a result, they do not become the same.
- 248 Q. That is the distinction between the two?
- A. Yes. And that is a necessary distinction.
- 249 Q. And you expressed, I guess, your opinion or the view that the increase in demand, or service demand that would result from the proposed discounts would not result in a shortfall in revenues? You are of that view or do you have any studies or...
- A. I must admit you took me on the wrong track too, because that twenty-five percent (25%) is done until we determine what is fair, just and reasonable. Because that is a twenty-five percent (25%) until a proper cost-of-service study is done, until the Régie has enough time to determine what is just and reasonable. So, if you are saying to me it is a loss from a rate that is not

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necessarily yet fair, just

and reasonable, that is not a loss, that is an adjustment.

250 Q. And until that time, how can we be sure to get all the revenues if we discount twenty-five percent (25%)?

A. You never can be sure. You make the best business decision and you hope that the responses are what you expect, but you can never be sure.

251 Q. And do you agree that if there is a shortfall, then, the native load customers will pick it up?

A. A shortfall must refer to an earned rate of return from a particular -- or return from a particular class. The difference in the premise is I am assuming that if the Régie is unhappy with the allocation or accepts the argument that the allocation is improper, anything you have right now is not necessarily proper, is not necessarily legal -- I cannot find the right word -- and that is not a shortfall, that is not something you are entitled to. That is just a gap filler.

We do not know exactly how much we owe you. So, until we know how much we owe you, we are going to do it this way. It is just a gap filler. It is not a firm long-term -- not long-term, it is not a firm permanent rate. It is just a transitory rate until we define what the rate is supposed to be.

I am not recommending that you discount twenty-five percent (25%) point to point service forever. I am recommending that the discount applies until a proper allocation has been done and until a proper study has been done. In effect, if the Régie concludes that the allocation is improper, your rate is actually not necessarily legal, okay, if they determine that the allocation is improper, that rate becomes an improper rate. It may be declared temporary, but it is not a proper rate because it is not...

252 Q. I do not follow you on that one.

A. If the Régie concludes...

253 Q. When, in this case?

A. In this case.

254 Q. Yes.

A. That the allocation is not yet proper, that the GRTAs are supposed to be functionalized as GRTAs and, as a result, there should be a different rate setting. However, they do not want to delay the procedure and they want to give you an interim rate and apply the twenty-five percent (25%) discount I am talking about...

255 Q. An interim one, okay.

A. Yes, yes.

256 Q. Okay. It is not an interim -- I guess my understanding, you move from an interim discount policy to an interim rate case or rate decision?

A. Right.

Me F. JEAN MOREL :

C'est tout, là, pour vrai.

LE PRÉSIDENT :

Êtes-vous sûr? Alors, la Régie.

CONTRE-INTERROGÉS PAR Me PIERRE R. FORTIN :

257 Q. Mr. El-Ramly, I would like to obtain from you certain clarifications and I would first ask you to get to slide 28 of today's presentation.

A. I have that.

258 Q. You have it.

A. Yes.

259 Q. As discount policy principles that you set on this slide, you indicate, and I am quoting from the fifth item here that the discount be "posted as far in advance as possible to allow for planning/trading", and I understand your proposal is for long-term commitments as well as for short-term. Now, what would be in your opinion a reasonable advance notice of this? Do you have any recommendations to the Board in this respect, would it be a month, would it be a year, would it be six months...

A. A year is the time frame.

260 Q. For both long term and short term?

A. Whenever it is possible because for the short term, there may not be enough information available to post it a year in advance. So you post it for as far as

you have confidence that the information you have indicates that you have system capacity available.

261 Q. So you could do that for a year in advance as far as long term is concerned, but there would be a different time period considered as far as short term is concerned; is that it?

A. So, I would say one year for long term and six months for short term might be very reasonable. So, six months rolling for the short term.

262 Q. Well...

A. You need a season or two of trading to be able to...

263 Q. I am sorry, could you repeat?

A. You need to know about a season or two in advance to be able to manage your portfolio reasonably.

264 Q. I understand; but a season or two is either three months or six months; what would it be?

A. Six months for short term.

265 Q. So, it would be at least two seasons in advance?

A. Right.

266 Q. Right. On slide 31, page 31 of your presentation, and I am going back to a question that was earlier put to you by maître Morel, as far as your first recommendation, requiring a clear transparent guideline for a discounting policy, at page 51 of your written prepared testimony, item 7.1.6, with respect to that particular item, and do you have that?

A. I turned off my computer.

267 Q. Anyway, I could read it to you, I am sure you will remember...

A. Please, sure.

268 Q. You state and I quote, I am picking it up from page 51 of Coalition-5, document 1.

A. Yes.

269 Q. You have that -- so you state:

The Régie should require TransÉnergie to develop a clear transparent guideline for its discounting policy, which could be produced through industry consultation.

End of quotation. Now, you referred and answered to maître Morel's earlier question to the BC Hydro's experience in this regard, what would be your specific recommendation to the Régie here as to how such industry consultation should be implemented efficiently and where would you situate that kind of consultation within the scope of this hearing and the decision that the Board has to render eventually, with respect to this particular application of Hydro-Québec?

A. Between the time that BC Hydro attempted to do that and now, there is four years of industry experience. I think if you are going to go for consultation, you would not find as much problem any more. For this particular sitting, you had most of the

counterparties that were interested in dealing with Hydro-Québec present. You had OPG, you had PG&E.

So, you got a good base from which you can instruct a consultation process, and you can even define the stakeholders and, if you want, you can even go to the level of giving them voting power or whatever you require to get something done quickly.

270 Q. But that would be prior or after the Board's decision on this particular application?

A. The Board's decision would include an instruction for a consultation process, a definite deadline and a definite entity responsible for coming up with the answer to the Régie.

271 Q. So, there would be a time period, in your opinion, that should be set by the Board within which results from the consultation should be brought to the Board for approval?

A. I would do that and I would go one step further that I would very much encourage the Régie to instruct the staff to be involved in the process, to try to smooth things up and to report any problem should it not be clear that the process is not going ahead and for the Régie to ask for a change in the Order. Do not wait for six months to find other things did not work out. And I think the staff could play a very good role in holding the consultation process, move along. Sometimes, you need a flagholder and sometimes, that

is the only reason why consultation does not go ahead.

- 272 Q. Very well. Turning now to page 52 of your written testimony, item 7.1.7, you state, and this is also brought up as being your second recommendation on slide 31 of today's presentation:

The Régie should order TransÉnergie to implement a system for monitoring the use of the discounting process in order to facilitate optimized use of the system in the future.

First of all, do I understand that that kind of monitoring would follow the eventual consultation process that you recommend and the eventual decision from the Board on the subject, or should it be implemented in parallel with the consultation process?

- A. I would say it should be in parallel with the consultation process. And it should last after the consultation process has been finished and after the policy has been implemented. Because the problem is that to do it right, you need to have some flexibility, but you want to ensure that TransÉnergie will do it correctly with the interest of all the players in mind, not just being biased by the fact that they are brother and sister, whatever you want

to call it, to Hydro-Québec.

So you want to make sure that you have a rule that allows for changes to meet market conditions and system loading conditions, without leaving too much in the hands of TransÉnergie. So you need a monitoring system to show what date was the transmission made available, how much capacity was available, how much discount was made and how much of that discount was taken.

And if you actually record all this information, the optimization may even be clear to the person performing the function. So, this is a kind of a level of why, why not details that you need to ensure that it is done correctly.

273 Q. And how would that monitoring proceed over a certain period, say for a year? Would that be through monthly reports, how would you view that monitoring?.

A. I would say three to six months, one report every three or six months.

274 Q. Very well...

A. You see, the information that is required to verify that the report is, whatever you want to call it, correct, is available, because the loading of the system is measurable, their OASIS offerings are made and known to everybody. So, reporting should not be that difficult and confirmation of the report should

not be that difficult.

275 Q. And do you have any specific way in mind as to how this process would facilitate optimized use of the system? How would the information be used properly and efficiently, in your opinion, through the Régie, having these reports made? How do you implement the optimization that it is aiming at?

A. You actually have three levels of optimization when you do that. First of all, the fact that you have a process in place would make those who are responsible in Hydro-Québec more efficient in doing the job. That is number one.

Number two, the fact that they actually report to the Régie and they know that their information is going to be assisted and reviewed makes the process more non-biased, more -- how do you say that, I do not want to use the word "honest", but more honest, let's say. I do not mean in a negative way at all.

And the third level is that the Régie could elect to make the information available to third parties and they can make their comments in there. The reason I inserted on the third one is that you want the information made to the third parties, let's say, after the information becomes stale. So you are reporting on previous activities of the transmission system.

- 276 Q. Thank you. Now turning to your recommendation as to the interim measure, should the Régie decide that a revision of the Hydro-Québec submission is required, and I am quoting from item 7.1.8 on page 52 of your prepared testimony, and also from slide 31 of today's presentation, first of all, the twenty-five percent (25%) interim discount that you recommend in that case, did I understand correctly that that was brought from the BC Hydro's experience or BCUC's, a BCUS Order or -- where does that percentage come from?
- A. No, that is my judgment as to the minimum level that you would likely get should you do a proper cost-of-service study.
- 277 Q. You do not have any precedents anywhere that you could refer the Board to, as to this kind of measure having been applied somewhere?
- A. You mean where the long-term point to point rate was discounted or where an interim solution was reached?
- 278 Q. The interim solution that you recommend?
- A. That is very common, but you would not find the twenty-five percent (25%) to long-term discounting anywhere else.
- 279 Q. I was referring to the percentage itself, compared to any other one?
- A. No, that is my own judgment, looking at the figures that I have available from Hydro-Québec and I supervised cost-of-service studies several times

before, so that is just a judgment figure in there.

280 Q. Very well. Now, in paragraph 7.1.11, again on page 52, and again assuming that there would be an interim measure as you recommend, you state that a floor rate of two dollars (\$2.00) per megawatt-hour for firm services and one dollar (\$1.00) per megawatt-hour for non-firm services could be used as a guide. My question is, what if the Board decided that a revision is not required, would that kind of floor rate still be an option to be considered by the Board as a permanent measure?

A. That actually is a permanent measure. I think that there should be a floor for discounting. And I think one of the questions that should be asked, let's say when you say monitoring, is that anytime you did not get any taker for short term, you ask yourself and you ask the utility how come he did not reduce down to under two mils, one or two dollars (\$2.00).

So, that is a floor measure that will be there permanently. That actually is the measure that BC Hydro uses right now. It also sets expectations for the market of how low can things get.

281 Q. Very well, thank you. Finalement, j'ai une question pour monsieur Jutras, à la page 10 de votre présentation d'aujourd'hui qui a été produite sous la cote Coalition-1, document 4. Vous indiquez au dernier paragraphe que:

*Les tarifs doivent être déterminés
selon les mêmes principes et
méthodes que ceux employés dans les
juridictions à qui Hydro-Québec doit
offrir la réciprocité.*

Est-ce que je comprends que vous avez fait une analyse spécifique des principes et méthodes de chacune des juridictions avec lesquelles Hydro-Québec ou auxquelles Hydro-Québec doit offrir la réciprocité?

M. PAUL JUTRAS :

R. Disons que je n'ai pas fait une étude personnelle, personnellement une étude sur chacun des réseaux interconnectés avec Hydro-Québec. Cette conclusion provient du travail conjoint que nous avons fait avec Énergie Nouveau-Brunswick qui a fait une bonne étude des réseaux interconnectés.

Et on l'a vu ce matin par la présentation de monsieur William Marshall que, suite au Kentucky case, maintenant, les réseaux américains qui offrent la réciprocité à Hydro-Québec n'utilisent pas le même... et FERC les oblige graduellement à ne pas utiliser les mêmes principes, ou en tout cas les mêmes conditions que Hydro-Québec avaient utilisées en quatre-vingt-dix-sept (97) et que d'autres réseaux

avaient utilisé aussi en quatre-vingt-seize (96), quatre-vingt-dix-sept (97), mais qui ne sont plus maintenant des principes ou des méthodes de travail, ou des méthodes de calcul qui sont acceptées par les réseaux américains interconnectés, et même par l'Ontario qui est un réseau aussi interconnecté.

Si vous me permettez, cette conclusion de notre part vient du fait qu'on ne voudrait pas que le réseau de TransÉnergie, puis on en a parlé hier, se retrouve et que l'Ontario, New York ou Nouvelle-Angleterre mettent en cause la réciprocité d'Hydro-Québec dans ses réseaux et qu'on ne soit plus en mesure de faire des transactions sur les réseaux américains et que Hydro-Québec y perde ses revenus et que les autres aussi producteurs québécois y perdent leurs revenus.

Ce n'est pas à l'avantage du tout des producteurs et des consommateurs québécois. Donc, on essaie de protéger l'ensemble... peut-être des fois Hydro-Québec contre elle-même, mais il reste qu'on doit le faire de temps à autre. Et ça nous protège nous aussi puisque, si Hydro-Québec décidait de fermer son réseau demain matin parce qu'elle perd la réciprocité, bien, tout le monde y perdrait.

282 Q. Je comprends; en fait, je voulais vous faire expliciter davantage le commentaire qui est là, qui est quand même de façon très générale, et je

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voulais

simplement obtenir de votre part une confirmation selon le cas si les distinctions qui peuvent être faites selon les méthodes appliquées à l'une et à l'autre des juridictions étaient tenues en compte dans votre commentaire, parce que appliquer les mêmes principes et les mêmes méthodes, c'est très général, et il y a des particularités québécoises comme il peut y en avoir en Ontario, comme il peut y en avoir en Nouvelle-Angleterre.

Je voulais simplement comprendre la portée exacte. Je comprends que ça a été fait d'une façon conjointe, mais c'est dans le sens de ce qui a été présenté par NB Power...

Me GUY SARAULT :

Exactement. On s'en remet au balisage qui a déjà été mis en preuve par Énergie Nouveau-Brunswick.

Me PIERRE R. FORTIN :

Parfait.

M. PAUL JUTRAS :

R. Et de ce point de vue, nous avons essayé au cours des audiences de ne jamais faire de duplication entre nous, de manière à éviter les coûts additionnels.

LE PRÉSIDENT :

On vous félicite.

M. PAUL JUTRAS :

R. Merci.

Me PIERRE R. FORTIN :

On pourrait peut-être songer à lui fournir une équivalence, Monsieur le président, à lui aussi. C'est dommage, monsieur Bastien n'est pas ici cet après-midi, il aurait de la concurrence.

283 Q. Dernière question de précision. Vous avez référé à la décision relativement à l'affaire de Kentucky.

M. PAUL JUTRAS :

R. Oui.

284 Q. À votre connaissance, est-ce qu'il y a eu d'autres décisions par la suite où on a appliqué les principes émis par cette décision-là ailleurs, ou si c'est la seule cause qui puisse -- bien, je ne dis pas ça péjorativement, mais est-ce que c'est la seule cause qui existe spécifiquement sur ce dossier où on a appliqué ce principe?

R. Si je vous répondais oui ou non, je parlerais à travers mon chapeau.

285 Q. Bien; donc, votre procureur pourra peut-être éventuellement juger opportun ou non, ou celui du

Nouveau-Brunswick, de nous indiquer si ce principe a été effectivement appliqué ailleurs pour fins d'argumentation.

R. Je me ferai un plaisir de discuter avec mon confrère.

Me PIERRE R. FORTIN :

C'est une suggestion que je fais à mes confrères, évidemment. Alors, je n'ai pas d'autres questions pour ces témoins, Monsieur le président. Je vous remercie.

(14 h 10)

LE PRÉSIDENT :

Merci; Monsieur Tanguay.

EXAMINED BY Mr. FRANÇOIS TANGUAY:

I only have one choice, to be brief.

286 Q. On page twenty-nine (29), and you don't have to go to your evidence, on page twenty-nine (59) and fifty-six (56) on your main evidence, you state that TransÉnergie's rate design includes nothing that could practically be considered to promote economic efficiency. Do I have to link that with the comments that you've made before with regard to discounts on rate allocation and so on and so forth?

A. Yes.

287 Q. Okay, that's a quick answer.

A. Actually, maybe I should elaborate.

Mr. FRANÇOIS TANGUAY:

You don't have to stretch it... No. I'll take your answer for what it is. My friend Frayne has the bulk of questions coming from the Bench.

LE PRÉSIDENT :

Monsieur Frayne.

EXAMINED BY MR. ANTHONY FRAYNE:

288 Q. D'abord, bonjour, Messieurs, and good afternoon Doctor El Ramly. After Mr. Marshall's valiant effort to speak French this morning, I'm sure it would have been excellent, your French, but I'm going to follow his example and follow my lawyer's advice and speak to you in English, and I think all of my questions are addressed to you. If I could refer you to your slide seventeen (17) of the presentation this morning.

A. I have that.

289 Q. Here, your preferred option is this unbundled -- slide seventeen (17), and it is towards the bottom of the page. Your preferred option, I gathered, is the unbundled multi-tiered rates, and you say a three component unbundled rate design. So, part of this would be remote system (gathering) charge, I think -- well, I understand that you say, it would be premature to define exactly what that is, but it's those rough circles that you showed us, and I

understand you are also saying that 1 CP would be the best way to allocate that charge; am I correct so far for that part?

A. You are talking about the gathering charge or the whole system?

290 Q. This first component, the remote system charge.

A. Not necessarily, because the load on those particular parts of the system would be the combined load of the domestic load plus the load of the export system. So, they may be need to be revisited if one wants to be rigorous about it.

291 Q. I see; it's not automatically 1 CP, it would need more examination if we go that route with that?

A. Exactly.

292 Q. Okay; it's pretty well the same question for your second component, I don't know if it's the same answer, but for the common system or a networking component.

A. I would expect it to come out as being 1 CP, because the load shape we have is for the domestic load, so it's easier to make a conclusion there and the margin was enough to say it will come as 1 CP.

293 Q. Okay, how about the third component, the export intertie component?

A. That would be a much more difficult one, and it could be 1 CP, it could be 12 CP, it could be an energy component only. It could be by volume.

294 Q. Right, I see...

- A. And I think it may -- if I have to jump the gun, I would say it may end up being the volume is the best way in dealing with that. Because there would be a lot of traffic in both directions on that particular part because I am hoping that Hydro-Québec is buying and selling and buying and selling and buying and selling into the marketplace all the time and as a result, it's a different way of utilizing and optimizing this particular part of the system.
- 295 Q. Would you see the same rate for each direction, East-West, or North-South and South-North and all the rest?
- A. My preference is always to have cost causation and optimize the system, so the answer is no, I would -- yes, I would like to see a different rate for each direction.
- 296 Q. Okay; let's go now to slide thirteen (13) -- no, first of all, slide twenty-seven (27).
- A. I have that.
- 297 Q. You are saying at the top here, that the discount policy should increase system utilization and it should apply to both long and short-term rates whenever surplus capacity is available; I note that on slide thirteen (13), we have this famous graphic of the load shape, et cetera, I'm wondering, when you made that comment -- I'm sorry, I go back -- well, I'll let you just look at slide thirteen (13) so -- right, that one.

Considering this comment about discounting long and short-term rates, in the case of the long-term rates, is that a discount because there is long-term capa... surplus capacity on a general basis, I mean, let's suppose that the system could take forty thousand megawatts (40,000 MW) and current demand is of thirty thousand megawatts (30,000 MW), then I guess you could say it's under-utilization.

I can also see the case where there is, because of the seasonal pattern, there is under-utilization in certain seasons, so I am just wondering which of the two, or maybe there is a third that is there that leads you to recommend discounting long-term rates.

- A. That's why I qualified by saying "when it's available", I am not quite so sure what is available transmission capacity on the system for different degrees, so that's why I said whenever it's available.

Also, when you look at long term, it may be available for two years, but not for ten years. So, I don't want to make -- there is no reason to discount for the sake of discounting; that's not what it's all about, it's discounting to attract additional use. So, it's a function of how much is available. So, I'm not sure I've answered your question, but one has to do a system's study and find out what is available,

and it if is not utilized, you discount it to encourage more use.

- 298 Q. Okay, I guess a twelve-month long surplus, one would hope it would be temporary, however, I think it's a chronic situation in Québec that there is surplus capacity in certain seasons.

Well, this is the whole, it is the thesis of Hydro-Québec as we know that, the 1 CP, there is the winter peak, et cetera, and I don't think anybody is expecting that to go away. Do you think -- are you thinking of long-term discounts to try to attack that problem, and if so, how do you think it could work?

- A. I wasn't thinking that way, but that's a beautiful way of thinking; I would agree with you, except that the industry doesn't do it that way, but if Hydro-Québec was to offer, let's say, a discount for the three months of June, July, August, just argument sake, for the next twenty (20) years, and as a result you would fill up the block like that, that would be just ideal.

That would be going outside the box of what everybody is doing, to looking at your own particular system and coming up with an answer like this. That would be ideal. Something like this may actually make New Brunswick Power not build what they want to build, okay.

299 Q. I have a feeling that the FERC pro forma tariff is not particularly well designed for that sort of situation, I am not sure, as it is right now, how it could work for that, am I right or do you see a way it can be...

A. The pro forma tariff is a minimum requirement; there is no problem with exceeding the FERC requirement, as long as it is done in a non-discriminatory way. The pro forma is just an easy way; believe me, you order the diskette and search for the edit and change the name of XXX by the company name.

If you examine it, you find all the places where you can make an improvement and FERC is not against that. FERC means, "this is the minimum requirement, this is the minimum set of conditions that you have to avail to consider your system to be open, comparable" and so on. There is no problem with exceeding FERC requirements.

300 Q. Thank you. Switching topic a little bit, I would like now to go to your recommendation acetate -- slide, I'm getting tired and I'm mixing English and French -- slide thirty (30).

A. Yes, I have that.

301 Q. I think, when you address these recommendations, you were saying that for the short-term rates -- well, your second point was to say develop short-term rates on the same basis as long-term rates and then in your

presentation, you mentioned that it might be interesting to use an energy-direct tariff rather than a capacity-based tariff for the short term only, I think. Have I understood you rightly there?

A. That is correct, right.

Me GUY SARAULT :

Je pense que le témoin avait précisé * à l'heure +.

Mr. ANTHONY FRAYNE:

302 Q. Okay, that was part of my question. When I look at your -- well, let me now refer you to Coalition-5, document 2, which were the responses to the information requests, and it's specifically question 11.1 -- answer 11.1.

A. I think I have that.

303 Q. It's page eight of the responses.

A. Yes, I have that.

304 Q. In your answer you say, now I go to your second bullet:

for short-term firm transactions, less than a month, either capacity or energy charges would appropriate, the shorter the period, the more appropriate it is to charge based on energy. For all non-firm transactions and energy charges the most appropriate method

I guess two questions, just how, could you be a bit more precise as to what you mean by "short-term for energy charges", is it just the hourly or would it be other periods, and secondly, if you could give us an idea of rules that could be applied to get from the capacity charge, what, eight dollars (\$8.00) a month, two dollars (\$2.00) a week, or whatever it ends up, down to the energy charge. Does one divide by twenty-four (24) or what does one do?

- A. Okay, I'll start backwards with number three; for all non-firm energy, if all non-firm transactions, the whole concept of capacity has gone. If you can reserve it because it is non-firm, than capacity allocation is not intellectually compatible with what you are doing. So, you shouldn't do that; so, it should be energy.

Now, you come to the next question "how much?". I think two things should apply; one of them is the ceiling for what would have you paid if it was firm, using a reasonable load factor, and the minimum level which I say one mil.

So, right away, it becomes defined, the two, the floor and the ceiling, and if you have a policy that said if I have five thousand megawatts (5,000 MW), then I have to discount, if I have two hundred (200), I don't have to discount, then it becomes easy for

the operator to choose the level between the ceiling and the floor.

305 Q. Okay, but how would we calculate the ceiling?

A. How would you calculate the ceiling?

306 Q. For the energy charge?

A. I would accept the concept of dividing by all heavy load hour hours to convert from capacity energy.

307 Q. Okay, all heavy load hours, thank you.

A. Yes.

308 Q. Fine. My last question, I think, I'd just like to come back, I know we've already discussed it, but I am not -- well, anyway, in my own mind I just want to confirm things. This twenty-five percent (25%) discount you're speaking of, I'll tell you what I'd understood so far and you'll correct me if I am wrong.

This is a discount that is quite apart from the short-term discounts that Hydro-Québec is supplying right now, really what you are saying is as an interim measure to come out in our decision, we just cut the rate to twenty-five percent (25%) and it's pretty well across the board, it's short term, it's long term, okay -- am I okay so far?

A. If I replace the word "discount" by the word "adjustment", you have expressed it perfectly.

309 Q. Okay.

A. I think I should have used the word "adjustment",

temporary adjustment of twenty-five percent (25%) would have removed all this problem.

310 Q. Okay, there is a lot of discounts around, that's true. Now, thinking of Hydro-Québec's comments that, well, what will happen to revenues if we do this, if it is for all classes of customers, I guess, they are not going to meet their revenue requirement and we do have article 2 which says transport assets -- the transmission assets, all of this rate base that is being decided...

Could I interpret your remarks as meaning that the twenty-five percent (25%) cut is applied to the rates per se which apply to network, * réseau intégré +, integrated network and point to point rates, that they are at twenty-five percent (25%) adjustment and the lost revenues, let's suppose for the moment, because I accept your point that the market might well grow, the volumes would grow, but we don't know how much, we have no idea, there is a risk of revenue shortfall, I would presume, if we cut everybody by twenty-five percent (25%).

Am I right in thinking you are proposing to cut the published rates for point to point and integrated network and the slack would be picked up by the native load, or are we going to cut native load as well, and if so, how do we meet the revenue

requirement?

A. I think I would be more comfortable if I say it my way?

311 Q. Yes, sure.

A. I am not presuming that you are going to change the network rates, okay, I am assuming that you are going to change the point to point rates, and you not apply that retroactively, you only apply that forward-looking, and then once you calculate your expected revenue requirement from the point to point rate, then you subtract that from the revenue requirement and as a result you get the revenue allocation to the network class.

So, there is never no full revenue collection. That's a violation of the basic principle of revenue collection. So, there is no discount into not violate the revenue collection. I am just saying the discount, the point to point rate which, because of the lack of proper allocation, is inflated and to un-inflate it, you adjust it down twenty-five percent (25%) unless -- until a proper allocation is conducted.

So, in a nutshell, the rate, the domestic ratepayer may be sheltering that for a while, but if it is not fair to start with, it is not fair to start with. We have assumed that the proposal is fair, the proposal

isn't fair until you say so.

So, that proposal should not be a reference or a zero point because it has not been established as fair, just and reasonable, and as a result, it's just numbers in there. In all technicalities, it's just a number, just a proposal, it hasn't been given the stamp of law.

312 Q. As I understand your logic, it was either yourself or maître Sarault who brought this up to say the twenty-five percent (25%), the rationale for this is that roughly fifty percent (50%) of costs are GRTA-related, in your terms, and twenty-five percent (25%) is half of fifty percent (50%), as we don't know that's a good mid-point; am I interpreting you pretty well correctly?

A. More than correctly; there is the GRTAs, there is the step-up transformers, there are step-down transformers, there are so many of them...

313 Q. Alright...

A. ... that if I say we are going to do a proper cost-of-service study you'll definitely be a lot more than twenty-five percent (25%), and I was trying to find a number that in all honesty nobody can come and say that's too high, it's not going to be fair.

My looking at the numbers, not exact, not perfect, indicates it's more than twenty-five percent (25%).

The analysis that Mr. Bill Marshall did, and he talked to Hydro-Québec about it, indicates that thirty-three percent (33%) has a lot, even giving to other elements. So, that's the number I felt comfortable with, that would be probably much higher than that.

- 314 Q. Okay; I am wondering if it would be compatible with your proposal, in the point to point rate, we have two sorts of customer, one is Hydro-Québec Production, and one is everybody else. Hydro-Québec Production, they are using the point to point rates, effectively, in my understanding, to transport energy from Baie James or from -- well, from the remote generating sites to export, whereas the other users of the system are much closer to the export interconnections.

If that is the situation, does your twenty-five percent (25%) discount apply to all point to point rates or would you find some mechanism to differentiate, as to people who are using the other parts of the system, those you've just mentioned, the GRTAs, the transformers, and everything?

- A. I did not want to sound discriminatory, but if you accept on an interim basis a mix of number one, let's say for argument sake you're willing to believe me totally and you're willing to use number one, which is unbundling of the rate developing the network and

the export, but you are also willing to accept the second point where we can do it from point to point, you can viably do that during the interim period and apply the discount to non-Hydro-Québec users.

And it still would be fair, just and reasonable, from my perspective, because you know that once you do the cost-of-service study, and if you accepted that, then you know that the GRTAs are going to be removed, but not removed for Hydro-Québec, there is a viable premise from which the twenty-five percent (25%) should not be applied to the export market, because you can jump the gun and know, once I do my cost-of-service study, that rates will come down for the network, the point to point, but Hydro-Québec export will also pick up the two items that export are part, and the GRTAs, then I know I don't need to give the twenty-five percent (25%), that will be quite viable, quite right.

(15 h 45)

Dr. ZAK EL-RAMLY :

A. And that would be an excellent solution.

M. ANTHONY FRAYNE :

Thank you very much, that completes my questions.

Thank you very much, gentlemen.

Dr. ZAK EL-RAMLY :

A. Thank you.

M. FRANÇOIS TANGUAY :

Maître Morel, je vais prendre mauvais exemple sur vous et reprendre le micro. Vous n'avez pas besoin de faire de commentaires...

315 Q. Just to add on to what has been discussed, you talked about BC -- and I will be honest, I have only read the six or seven thousand (6,000-7,000) pages we have here, I haven't read the BC stuff -- how did do they do the rate case, you talked about back and forth and some sort of a decision being sent and coming back, and we have in front of us a major decision to write, and there may be issues we want to send to workshops, or work force, or something in that manner, and I am just trying to get a feel of what was done in other jurisdictions that would be similar to us.

Dr. ZAK EL-RAMLY :

A. In the case of BC, they had a first case, and BC Hydro came with a full cost-of-service study, and a full interim set of measures, which the Commission accepted. Then they came back and proposed a pro forma tariff, and in the pro forma tariff, they adjusted some of the allocation, and they started reducing the contribution, the GRTA's, which the

Commission did not accept and asked them to do studies.

So, BC Hydro did a study of the loading on the GRTA's, the loading of the distribution level, and how often does it carry transmission, and how often does it carry distribution, similar to that study that Mr. Bill Marshall showed this morning, and then came up with all the results to the Commission.

The Commission, in its judgement, decided that, "No, you are going to stick with the cost-of-service study that was presented by BC Hydro in detail", they are not going to accept the argument of shifting more of the GRTA's to transmission.

And on the distribution side, they accepted BC Hydro's argument that more than fifty percent (50%) of the sixty-nine (69) and one thirty-eight (138) kV lines, more than fifty percent (50%) of the time performed some transmission function, and as a result, they were doing transmission.

316 Q. Yes, but you are beyond my question at that point. So there was some, from what you said, there was not an outright tariff sent in the first case at the outset, you said they came back with a pro forma the second time?

A. No, they had a tariff and they adjusted it.

317 Q. Okay, so they adjusted the tariff at the outset, some work was done, they came back and then did that part later?

R. Right, right.

318 Q. Okay. Who was sitting at the table? We have a whole bunch of intervenors here from all sorts of sectors, who was represented at the, when they went away and talked, talked it away?

A. There was more or less the same kind of groups, the only difference is that on the Alberta side, there wasn't really a very strong voice from Alberta. I represented the City of Calgary, but they didn't want to intervene in any strong way.

Everybody was worried about how BC Hydro would treat them if they intervened, and the market has not evolved, Enron made ton of efforts there, they had a lawyer there all the time, and they made a lot of, they were only ones with the foresight to know the impact of the decision on Enron.

319 Q. Yes, so there was a wide variety of intervenors. Was it similar in Ontario, are you aware what happened in Ontario?

A. I can't be as precise as this one.

M. FRANÇOIS TANGUAY :

Okay. Thank you. J'ai vraiment fini cette fois-là.

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Me GUY SARAULT :

Alors, Monsieur Tanguay, vous anticipez peut-être sur mon argumentation finale mais il est définitivement de mon intention de formuler des recommandations quant au processus qui pourrait être mis en place pour donner effet concrètement au genre de recommandations qui sont faites par notre expert, notamment groupe de travail ou des choses comme ça.

LE PRÉSIDENT :

Merci. Ça complète votre preuve?

Me GUY SARAULT :

Oui, ça complète notre preuve. Merci.

LE PRÉSIDENT :

Alors, est-ce que... je comprends que vous n'avez pas de difficulté avec ce banc-là, vous n'avez pas besoin de consulter d'autres personnes?

Me F. JEAN MOREL :

Pas de difficulté dans ce sens-là, vous voulez dire?

LE PRÉSIDENT :

Oui...

Me F. JEAN MOREL :

Oui, effectivement -- excusez-moi. Effectivement,

Monsieur le Président, je n'ai pas de...

LE PRÉSIDENT :

Alors, on peut libérer les témoins, on vous libère. Maître Morel, est-ce que vous avez contacté vos gens pour monsieur Marshall?

Me F. JEAN MOREL :

Oui, je l'ai fait mais je n'ai pas eu de réaction.

LE PRÉSIDENT :

Oups!

Me F. JEAN MOREL :

Dès le début de la semaine prochaine, je pense que, j'espère que...

LE PRÉSIDENT :

C'est parce que monsieur Marshall, on ne peut pas le retenir ici indéfiniment.

Me ANDRÉ DUROCHER :

Monsieur Marshall est déjà dans une autre audition devant... au Nouveau-Brunswick, alors, il a plusieurs talents mais il ne jouit pas encore du don d'ubiquité et je n'ai pas réussi à le convaincre d'être cloné.

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LE PRÉSIDENT :

Écoutez, on va certainement excuser son absence.

Me F. JEAN MOREL :

Oui, oui. En fait, moi ma réaction première à ça, c'est que ce serait probablement quelque chose qui pourrait être fait en contre-preuve, s'il y a lieu.

LE PRÉSIDENT :

Oui...

Me F. JEAN MOREL :

À moins qu'on m'avise que c'est quelque chose qui, ou on doit compléter notre compréhension nécessairement par un contre-interrogatoire. Mais ce n'est pas comme ça que je l'anticipe, on pourra aviser le plus tôt possible et la Régie et mon confrère. Je m'excuse si je n'ai pas pu le faire cet après-midi.

LE PRÉSIDENT :

Non, non, mais je vous encourage fortement à...

Me F. JEAN MOREL :

Oui, oui.

LE PRÉSIDENT :

... communiquer entre vous.

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Me ANDRÉ DUROCHER :

Juste pour être bien clair, je comprends que monsieur Marshall est libéré aujourd'hui, il n'a pas à revenir la semaine prochaine?

LE PRÉSIDENT :

Non, ma compréhension, c'est qu'il n'est pas libéré.

Me ANDRÉ DUROCHER :

Oui.

LE PRÉSIDENT :

Mais on excuse son absence...

Me ANDRÉ DUROCHER :

Ah bon.

LE PRÉSIDENT :

... jusqu'à ce que vous ayez convenu de quelque chose et que vous nous en fassiez part.

Me ANDRÉ DUROCHER :

Très bien. Je vous remercie.

Me F. JEAN MOREL :

Merci.

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LE PRÉSIDENT :

O.K. Alors on va ajourner à lundi prochain, avec le RNCREQ et le Groupe STOP/S.É.

M. FRANÇOIS TANGUAY :

Huit heures trente (8 h 30). Bonne fin de semaine tout le monde!

LE PRÉSIDENT :

Huit heures trente (8 h 30).

Me F. JEAN MOREL :

Merci, pareillement.

AJOURNEMENT

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CERTIFICAT

Je, soussigné, certifie que les pages précédentes
représentent une transcription conforme et fidèle de
l'instance notée par moi à Montréal (Québec), le
vingt-cinquième (25e) jour du mois de l'an deux mille
un (2001).

Michel Daigneault,
Sténographe officiel bilingue