

**Demandes de renseignements d'Option Consommateurs
à Hydro-Québec TransÉnergie**

Dossier R-3605-2006

**Demande du Transporteur afin de modifier ses tarifs et conditions de transport
d'électricité**

Question #1

**Reference: HQT-1, Document 1, page 6, lines 9-13
HQT-4, Document 2**

Question:

- a) Please identify specifically (with reference to the relevant sections in HQT-4, Document 2) what is HQT proposing to defer to the next rate application as a result of the changes in accounting principles. Is it just the impact on the cost of regulatory long term debt as discussed on pages 20-21 of HQT-4, Document 2?

Question #2

Reference: HQT-1, Document 1, page 7, lines 5-8 (Table)

Question:

- a) What was HQT's actual return on equity (ROE) for the historic year 2005?
- b) What is HQT's projected ROE for the base year 2006?

Question #3

Reference: HQT-3, Document 1, page 7, lines 17-21

Question:

- a) Please indicate where in the 2005 Annual Report the results for the Régie's performance indicators were presented.

Question #4

Reference: HQT-3, Document 1, page 10, Table 1

Question:

- a) Please provide the results for the same 23 performance indicators for 2003 and 2004.
- b) Based on current load forecasts and projected investments & financial results for 2006 and 2007, please provide the projected 2006 and 2007 results for:
 - The three performance indicators related to net O&M costs,
 - The two performance indicators related to cost of capital assets, and
 - The two performance indicators related to the cost of service.

Question #5

Reference: HQT-3, Document 1, page 12, Table 3 and page 13, lines 2-15

Question:

- a) With respect to the Continuity Index for Transmission Service, please provide the comparable results for the years 1990 to 2004 inclusive.
- b) With respect to the Continuity Index for Transmission Service, please identify the 5 events referred to on line 8.
- c) With respect to the Continuity Index for Transmission Service, please also indicate how many events of a similar magnitude occurred in each of the years 1990 to 2004 and what the effect of these events was in each year on the Continuity Index for Transmission Service.
- d) Does energy receipt imbalance service apply to parties who are importing (i.e., where the point of receipt is one of HQT's interconnection points)? If not, why not?

Question #6

Reference: HQT-3, Document 1, page 12, Table 3 and page 13, lines 17-19

Question:

- a) With respect to the Reduction Rate for Point to Point Transactions, please explain more fully what this performance measure is based on and how it is calculated.

Question #7

Reference: HQT-3, Document 1, page 12, Table 3 and page 13, line 21- page 14, line 6

Question:

- a) With respect to the indicator of Quality of Partnership with the Distributor, does the determination of the performance measure involve soliciting input from HQD staff? If yes, please describe how this input is obtained and specifically address what measures, if any, are taken to ensure the confidentiality of the responses by individual HQD staff.

Question #8

Reference: HQT-3, Document 1, page 12, Table 3 and page 14, lines 15-22

Question:

- b) With respect to the indicator of Employee Satisfaction, please describe what measures, if any, are taken to ensure the confidentiality of the responses by individual HQT staff.

Question #9

Reference: HQT-3, Document 1, page 12, Table 3

Question:

- a) With reference to the footnote in the Table, what were the Corporate objectives originally approved by the administration council for 2005?
- b) What was the total payout to employees based on the profit sharing and variable remuneration regimes and the 2005 actual results.

Question #10

Reference: HQT-3, Document 1, page 16, Table 4 and page 17, Table 5

Question:

- a) Why were the threshold and target values for the Continuity Index increased for 2006?
- b) Please describe more fully the three priority actions associated with the Quality of Partnership with the Distributor index.
- c) Why was the index related to Reduction Rate for Point to Point service transactions dropped for 2006?
- d) Based on the projected financial result for 2006, please provide a schedule that calculates the projected value for the Benefit Index for 2006. Please indicate, with reference to the Application, the source of the various inputs used in the calculation.
- e) When will the Corporate Performance Objectives for 2007 be established?
- f) If the Corporate Performance Objectives for 2007 are established in time will they be filed as part of the current proceeding?
- g) The 2005 and 2006 Corporate Objectives both had unique Category A – Customer objectives. What “customer objectives” are being considered for 2007?

Question #11

Reference: HQT-4, Document 2, page 12, lines 3-26 and page 21, line 26 – page 22, line 3

Hydro Québec’s 2005 Annual Report
(http://www.hydroquebec.com/publications/en/annual_report/2005/index.html)

Question:

- a) Please confirm that the removing the hedging effect (per lines 17-20) does not impact on Hydro Québec’s overall corporate financial results in terms of reported net income. If it does, please explain why.
- b) The Application states that the hedging effect is reclassified to the Products line-item in the Financial Statements. Hydro Québec’s 2005 Financial Statements do not appear to include a specific line item entitled “Products”. Please indicate, with reference to the 2005 Financial Statements, which specific line items in the Financial Statements will be impacted by the reclassification of the effect of hedging sales in American dollars with debts and swaps.

- c) Does removing the hedging effect from the financial costs impact on the cost of debt for HQT in 2006 and 2007, as presented in the Application? If no, please explain why not. If yes, please indicate what the anticipated impact is for 2006 and 2007.
- d) Is the offsetting impact of reclassifying the impact of the hedging effect also captured in the HQT costs presented in the Application? If so, please explain how and where the offset occurs.
- e) Does this change in cost classification impact at all on the overall revenue requirement requested by HQT for 2007. If no, please explain why. If yes, please indicate the magnitude of the impact and explain how the impact was calculated.

Question #12

Reference: HQT-4, Document 2, page 13

Question:

- a) Please confirm that the change in what falls under the Scope of Chapter 3065 of the CICA Manual has no effect on HQT's overall revenue requirement for 2007.
- b) If this is not the case, please explain why and provide a schedule that sets out the calculation of the impact.

Question #13

Reference: HQT-4, Document 2, pages 15-21

Question:

- a) Do the changes in accounting norms for financial instruments (as discussed in section (a), pages 15-21) have any impact on HQT's overall revenue requirement requested for 2007? If yes, please explain why and provide a schedule that sets out the calculation of the impact.

Question #14

Reference: HQT-6, Document 2, page 6, lines 9-15

Question:

- a) The identified causes account for \$16.3 M of the \$19.8 M increase in base salaries. Please explain what the reasons were for the remaining \$2.5 M increase.

Question #15

Reference: HQT-6, Document 2, page 6, Table 2 and page 7, lines 5-8
HQT-3, Document 1, page 12, Table 3

Question:

- a) Are the two variable remuneration schemes referred to HQT-6, Document 2 (i.e., régime de gestion de la performance and régime d'intéressement) the same schemes as those referred to in Table 3 of HQT-3, Document 1 (i.e., régime d'intéressement et de remuneration variable)? If not please explain the differences and provide the 2005 and 2006 costs for the schemes referenced in Table 3.
- b) Please provide an explanation as to what is included in the "Other" category under Bonuses and Other Revenues in Table 2, HQT-6, Document 2 (i.e., the \$12.1 M in 2007).

Question #16

Reference: HQT-6, Document 2, page 7, lines 21-26

Question:

- a) Please provide further details regarding the requirement for HQT to temporarily pay part of the group insurance costs (e.g., why is HQT required to pay, how much is the payment for 2007, how long will HQT be required to pay)?

Question #17

Reference: HQT-6, Document 2, page 8, Table 3
HQT-2, Document 1, First Chart

Question:

- a) Please provide a schedule that, for the years 2005 and 2007, breaks down HQT's workforce (i.e., FTEs) by organizational unit. For purposes of the response please provide the breakdown according to the 15 organizational units shown for HQT in the first chart of HQT-2, Document 1.
- b) For each of the 15 organizational units please indicate the reasons for the change in workforce levels between 2005 and 2007. In doing so, please distinguish between changes that were due to transfer of responsibilities and staff from one business unit to another versus increases in total staff levels.

Question #18

Reference: HQT-6, Document 2, page 9, line 13 to page 10, line 17

Question:

- a) With respect to the Performance Management scheme, for each of the years 2005 to 2007 how much of the total payment shown in Table 6 is contingent upon achievement of the "financial trigger"?
- b) With respect to the Performance Management scheme, for each of the years 2005 to 2007, how much of the payment which was contingent on achieving the financial trigger (per response to part (a)) is directly related to attaining the objectives of the shareholder?

Question #19

Reference: HQT-6, Document 2, page 10, line 19 to page 11, line 12

Question:

- a) The Application states that as of January 1, 2007, the amount that can be paid to specialists is dependent upon the business results of the employee's division. Please indicate whether the reference to business results is just the financial results of the employee's division or whether the business results would include other performance measures as well.
- b) With respect to the Profit Sharing scheme, for each of the years 2005 to 2007 please indicate how much of the total payment was due to the payment of an additional bonus of 1.5% related to the attainment of the net profit targeted by Hydro-Québec.
- c) With respect to the additional 1.5% bonus, please confirm that the financial trigger is based on the profit of Hydro-Québec overall and not linked to HQT's profit levels.

Question #20

Reference: HQT-6, Document 2, page 19, lines 5-7

Question:

- a) Does HQT use any external information sources or consultants to assess the competitiveness/reasonableness of its employees' salaries on an annual basis? If not why not? If yes, please provide the most recent results of any such comparisons or analyses.

Question #21

Reference: HQT-6, Document 3, page 7, lines 15-16

Question:

- a) Please provide more details regarding the \$7 M expenditures planned for 2007 for applications to the transmission networks automation equipment (e.g., what is the work involved, why is it required, etc.).

Question #22

Reference: HQT-6, Document 3, page 9, Table 2

Question:

- a) The actual costs of the shared services provided by the Technology Group increased by 5.5% from 2005 to 2007. However, the “return” component of the total charges increased by 68%. Please explain the significant increase in the “return” component of the charges from the Technology Group.

Question #23

Reference: HQT-6, Document 3, page 11, Table 3

Question:

- a) The actual costs of the services provided by the Shared Services Centre increased by 7.5% from 2005 to 2007. However, the “return” component of the total charges increased by 52%. Please explain the significant increase in the “return” component of the charges from the Shared Services Centre.

Question #24

Reference: HQT-6, Document 6, page 4, Table 1 and page 4, lines 7-12 and 13-17

Question:

- a) How much was the 2006 insurance premium refund referred to in lines 11 to 13 of HQT-6, Document 6?
- b) Is this insurance refund reflected in the 2006 costs reported in Table 1 for 2006?
- c) The Application suggests that most of the increase for 2006 was due to higher payroll costs as a result of pension cost increases. Year 2006 total salary increases for HQT attributable to pension costs were roughly 6.4% of 2005 total salary costs (per HQT6, Document 2, Table 2). Similarly, the increase in total Corporate costs in 2006 due to pension costs is 6.1% (i.e., 6.6/108.9). Please explain more fully the 140% increase in total corporate Human Resource costs between 2005 and 2006 (i.e., \$2 M to 4.8 M).

Question #25

Reference: HQT-7, Document 1, page 23, lines 4-5 and page 25, lines 6-11

Question:

- a) Please explain more fully the reason for the increase between the approved and the actual inventory levels for 2005 (e.g., how were the returned materials from suspended projects and from surpluses at the end of projects treated prior to 2004?).

Question #26

Reference: HQT-9, Document 1, page 9, lines 4-17

Question:

- a) When are the standards being developed by the new ERO likely to come into play?
- b) Is there any indication as to whether the standards that the ERO will develop will be stricter than those currently established by NERC and the NPCC? If yes, please discuss what the impact will be on HQT.
- c) Could new (stricter) standards by the ERO impact at all on HQT's revenue requirement?
- d) If the response to (c) is yes, has any allowance for such impacts been included in HQT's proposed 2007 revenue requirement? If yes, please indicate the dollar value, where it has been included and the assumptions on which the value was based.

Question #27

Reference: HQT-9, Document 1, page 14, Tables 2 & 3
HQT-9, Document 1, page 15, Table 5

Question:

- a) Please explain the basis for the significant increase in long term point-to-point service requirements starting in 2008 (per Table 5).
- b) Does the significant increase in long term point to point service requirements in 2008 trigger the need for any of the investments reported in Table 2? If yes, please identify the projects and the associated expenditures by year.
- c) If the response to (b) is yes, are any of these expenditures being paid for by the "new" long-term point to point customers? If so, how much is being contributed by these customers? If not, why not?

- d) Are any of the new assets reported in in-service in 2006 or 2007 (per Table 5) the result of expenditures to accommodate the increase in long-term point to point sales in 2008? If so, please estimate the values and the impact on the 2007 Rate Base.

Question #28

Reference: HQT-10, Document 1, pages 12-16
HQT-12, Document 1, page 15, lines 23-26

Question:

- a) Please confirm that with the exception of System Control Service, the revenues collected by HQT for Ancillary Services are all remitted to 3rd party suppliers of the services (e.g. Hydro Quebec Production) and that HQT neither gains revenue nor is out of pocket due to offering these services. If this is not the case, please explain.

Question #29

Reference: HQT-10, Document 1, page 15, Table 1

Question:

- a) Please provide a table similar to Table 1, but setting out HQT's proposed application of Ancillary Services per its 2005 Rate Application (R-3549-2004, Phase 2).

Question #30

Reference: HQT-10, Document 2, page 5, Table 1; page 6, lines 19-20; and page 7, lines 5-12

Question:

- a) Please replicate Table 1 and include a column setting out the 2005 projected requirements for each service as presented in HQT's 2005 Rate Application.
- b) Please replicate Table 1 expressing all of the requirements in GWh so as to reconcile with the values reported on page 7.
- c) Please explain what is unique about the 2006 use of Monthly Point to Point service that HQT does not expect the service to be used at all in 2007.
- d) For the years 2005, 2006 and 2007 and for each of the Short Term Point to Point services, please breakdown the values in Table 1 into the following components:
- Service where the point of generation is in HQT's control area but the load destination is not,
 - Service where the load destination is in HQT's control area but the generation is not,

- Service where neither the generation nor the load destination are in HQT's control area, and
- Service where both the generation and the load destination are in HQT's control area.

In preparing the response please clarify whether generators such as Brascan that are located in Quebec are considered to be within HQT's system when they are either a point of delivery or a point of receipt.

Question #31

Reference: HQT-11, Document 1, page 6, Table 1 and page 7, lines 20-23

Question:

- a) Please provide a schedule similar to Table 1, but instead of calculating the cost of service allocation based on the 13 monthly balances use the average of opening (i.e., December 31st, 2006) and closing (i.e., December 31st, 2007) balances for the rate year.
- b) Please comment on the relative complexity and resources involved in performing the calculation based on the average of the opening and closing annual balances as opposed to the year end balance.

Question #32

Reference: HQT-11, Document 1, page 11, lines 6-10
HQT-11, Document 2, page 21, Table 7

Question:

- a) Please provide a schedule that sets out the data used and the calculation of HQT's 60% load factor.
- b) Please also provide a schedule that sets out for native load and point to point service the demand and energy values used to determine the allocation of demand and energy costs in Table 7.

Question #33

Reference: HQT-12, Document 1, pages 18 (Table 8), 22 (Table 12) and 23 (Table 13)
Régie Decision D-2006-66, page 30

Question:

- a) Please confirm that in its D-2006-66 the Régie did not approve a methodology for setting the rates for voltage control service, maintenance of spinning reserves and the maintenance of non-spinning reserves but, rather, simply maintained the existing rates.
- b) Please confirm that in the calculation of the proposed rates for voltage control, maintenance of spinning reserves and maintenance of non-spinning reserves:
 1. The costs used in the numerator of each calculation are the 2001 costs presented in HQT's first application (R-3401-1998)
 2. The loads used in the denominator are the forecast 2007 requirements.
- c) Please explain why the approach used by HQT for establishing the rates for these three ancillary services is considered appropriate and consistent with D-2006-66.
- d) Please explain why simply maintaining the rates for these services at their current levels would not be more consistent with D-2006-66.

Question #34

Reference: HQT-12, Document 1, pages 18-19

Question:

- a) Please confirm that in the calculation of the proposed rates for frequency controls and maintenance of non-spinning reserves:
 1. The costs used in the numerator are the 2005 costs presented in HQT's second application (R-3549-2004, Phase 2)
 2. The loads used in the denominator are forecast 2007 requirements.
- b) Please explain why the costs used in the calculation were not updated to 2007 values in order to be consistent with the basis for the load data.
- c) Please provide a schedule that recalculates the proposed frequency control rate based on updated 2007 costs as well as loads.