

CHANGES IN DEFERRED COSTS

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1 INTRODUCTION

The deferral accounts represent assets stemming from the deferral of costs incurred that will be recognized as costs in the course of subsequent fiscal years. These accounts may or may not be maintained within the rate base. Exhibit HQD-4, Document 5 lists all of the Distribution Provider's deferral accounts in order to specify their nature and handling. This exhibit presents the changes in the deferral accounts showing a balance for any of the years 2005, 2006 and 2007, with the exception of the account "Asset as accrued benefits" due to its particular nature.

Description	Decision	Deferred costs (in millions of dollars)		
		As at December 31		
		2005 Historical Year	2006 Base Year	2007 Test Year
Deferred costs included in the rate base				
Commercial programs	D-2003-93	7.8	5.0	4.2
Energy Efficiency Action Plan (PGEE)	D-2002-25	130.8	273.0	472.0
	D-2002-288			
	D-2006-56			
Deferral account, BT rate	D-2004-47		181.1	138.5
	D-2004-170			
	D-2006-34			
		138.6	459.1	614.7
Deferred costs, non-rate-base				
Deferral account, transmission costs	D-2003-93		355.4	384.9
Deferral account, BT rate	D-2004-47	138.5	0.0	0.0
	D-2004-170			
Pass-through account for the purchase of post-heritage electricity in 2005	D-2005-34	33.3	36.0	0.0
Forecast pass-through account for the purchase of post-heritage electricity in 2006	D-2005-132		(182.0)	
	D-2006-34			
		171.8	209.4	384.9

The following sections detail each of the deferred costs headings listed in the preceding table.

2 COMMERCIAL PROGRAMS

The balance for commercial programs as at December 31 for each of the fiscal years 2005, 2006 and 2007 is shown below:

**TABLE 1
COMMERCIAL PROGRAMS**

	COMMERCIAL PROGRAMS (in millions of dollars)		
Description	As at December 31		
	2005 Historical Year	2006 Base Year	2007 Test Year
Rate M – Business – Medium Power:			
Revenue protection program	1.9	0.8	0.3
Electrotechnologies	2.3	0.9	0.3
	4.2	1.7	0.6
Rate G – Business – Small Power			
Revenue protection programs	0.6	0.2	0.1
Electrotechnologies	0.3	0.2	0.0
	0.9	0.4	0.1
Rate G9			
Electrotechnologies	0.1	0.1	0.0
Independent networks			
Heating system conversion	2.6	2.8	3.5
Total for commercial programs	7.8	5.0	4.2

3 ENERGY EFFICIENCY ACTION PLAN

Table 2 lists the components of the EEAP by rate class for the years 2005 to 2007.

**TABLE 2
ENERGY EFFICIENCY ACTION PLAN**

Description	ENERGY EFFICIENCY ACTION PLAN (in millions of dollars)		
	As at December 31		
	2005 Historical Year	2006 Base Year	2007 Test Year
Rate D – Residential			
Core	18.7	34.0	46.8
Home Diagnostic program	13.4	22.2	39.0
Power Wise Program – residential	21.9	37.3	65.9
Novoclimat Program	8.2	20.6	42.3
Energuidé Program	4.4	22.2	52.5
Program for Low-Income Households	7.8	10.0	15.0
Energy retrofit for MFR's	0.1	1.1	2.9
	74.5	147.4	264.4
M rate – Business – Medium Power			
Core	6.7	12.2	16.8
Empower Program for Building Optimization – Commercial and institutional markets	13.4	24.7	42.8
Empower Program –Industrial systems – Small and medium Industries	0.8	1.3	2.2
Energy Initiatives Program – Small and medium industries	12.0	16.5	24.4
	32.9	54.7	86.2
Rate G – Business – Small power:			
Core	1.3	2.4	3.3
Power Wise Program – Business – Commercial and institutional markets	1.7	16.7	39.0
Empower Program – Industrial systems – Small and medium industries	0.1	0.1	0.2
	3.1	19.2	42.5
Rate L:			
Core	2.2	6.4	9.4
BIPLE – Commercial and institutional markets	2.7	6.3	8.9
IADP – Major customers	1.6	4.1	5.8
IIP – Major customers	9.0	24.5	35.7
	15.5	41.3	59.8
Efficient Products Program – lighting – Commercial and institutional markets	4.2	7.8	13.5
HQ Building Initiatives Program – Commercial and institutional markets	0.6	2.6	5.6
Energy Efficiency Action Plan	130.8	273.0	472.0

4 DEFERRAL ACCOUNT FOR TRANSMISSION COSTS

The Distribution Provider paid the sum of \$340 million into its deferred costs account, representing the annual disparity between the \$2,313 million transmission cost considered in the Distribution Provider's 2005 and 2006 rates, and the \$2,483 million authorized in Decision D-2006-66 for these years. The interest was calculated monthly beginning May 1 2006 (see appendix), at the average rate of the cost of capital. Exhibit HQD-4, Document 3 specifically addresses the disposition of the deferred transmission costs account.

**TABLE 3
TRANSMISSION COSTS DEFERRAL ACCOUNT (\$ MILLIONS)**

	As of December 31		
	2005 Historical year	2006 Base year	2007 Test year
Initial balance		0.0	355.4
Deferred transmission costs		340.0	0.0
Interest ⁽¹⁾		15.4	29.5
Final balance		355.4	384.9

(1): The average rate of the cost of capital used is 7.75% in 2006 and 7.99% in 2007.

5 DEFERRAL ACCOUNT – BT RATE

5.1 Background

To begin with, section 5.2 shows the overall changes in the account while the following items, which constitute the account, are presented separately in sections 5.2.1 to 5.2.3:

- The deficit generated by a supply cost over the selling price at the BT rate;
- the costs as financial incentives;
- the costs of consulting services.

These components are recorded in the deferral account according to parameters approved by the Régie de l'énergie.

5.2 Changes to the deferral account

The amounts associated with the components of the deferral account were accumulated in the account until March 31 2006. The account's cumulative balance was then put into the rate base for the purposes of a 60-month straight-line depreciation beginning April 1 2006. Table 4 shows the overall changes to this account for the years 2005-2007.

**TABLE 4
CHANGES TO THE DEFERRAL ACCOUNT - BT RATE (\$ MILLIONS)**

	2004	2005		2006		2007	
	Balance as at December 31	Change	Balance as at December 31	Change	Balance as at December 31	Evolution	Balance as at December 31
Deficit	50.3	49.5	99.8	71.1	170.9	0.0	170.9
<i>Impact D-2005-132</i>		3.0	3.0		3.0	0.0	3.0
Adjusted deficit		52.5	102.8	71.1	173.9	0.0	173.9
Financial incentive	20.9	2.1	23.0	0.0	23.0	0.0	23.0
Consulting services	0.5	0.5	1.0	0.2	1.2	0.0	1.2
	71.7	55.1	126.8	71.3	198.1	0.0	198.1
Interest ⁽¹⁾	2.4	9.3	11.7	3.3	15.0	0.0	15.0
	74.1	64.4	138.5	74.6	213.1	0.0	213.1
Depreciation			0.0	(32.0)	-32.0	(42.6)	(74.6)
DEFFERAL ACCOU TN – BT RATE	74.1	64.4	138.5	42.6	181.1	(42.6)	138.5

5.2.1 Recognized Supply Deficit

The following tables show the annual shortfall attributable to sales at the BT rate for the years 2005 and 2006. This deficit stems from the disparity between the revenues from sales at the BT rate and recognized supply cost of these sales augmented plus losses.

**TABLE 5
DEFICIT – SUPPLY COSTS (\$ MILLIONS)**

	2005 Historical year			2006
	January to March	April to December	Total	Base year January to March
Sales revenue				
Sales in GWh	531.5	603.1	1,135	457.2
Unit price in ¢/kWh	3.47	3.51		3.51
Total	18.4	21.2	39.6	16.0
Supply cost				
Sales in GWh	531.5	603.1	1,135	457.2
Rate of loss (%)	7.86	7.86		9.06
Augmented sales (GWh)	573	651	1,224	498.6
Recognized unit cost in ¢/kWh	8.60	6.12		17.47
Total	49.3	39.8	89.1	87.1
DEFICIT	30.9	18.6	49.5	71.1
Adjustment D-2005-132 ¹			3.0	
ADJUSTED DEFICIT			52.5	71.1

(1) Recognition of unit cost of December 2004 at 7.3¢/kWh (7.3¢/kWh - 6¢/kWh x 227 GWh).

5.2.2 Financial incentive

A financial incentive was given to some BT rate customers under certain conditions to leave the BT rate plan for good and adopt another energy source or appropriate general rate for their load. Table 6 shows the amounts paid out in 2005. No monies were paid out in 2006 and 2007.

**TABLE 6
COST OF FINANCIAL INCENTIVE (\$ MILLIONS)**

	2005 Historical year	2006 Base year	2007 Test year
Repurchases (in GWh) ¹	84	-	-
Costs of the incentive (2.4 ¢/kWh in 2005)	2.1	-	-

1: Briefly, the incentive is paid for the unconsumed kWh (repurchased), the measurement of which is based on the customer's historical consumption for an equivalent period. The complete description of the calculation method appears in Section 5.2 of Exhibit HQD-1, Document 1 of the Distribution Provider's Application R-3531-2004.

5.2.3 Consulting Services

The consulting services fell under a technical support program adapted to the needs of the clientele. They were offered until the abolition of the BT rate in April 2006. Table 7 presents the costs that were added to the account in 2005 and 2006.

**TABLE 7
ADMINISTRATIVE COSTS OF THE TECHNICAL SUPPORT PROGRAM
(\$ MILLIONS)**

	2005 Historical year	2006 Base year	2007 Test year
Preparation, processing of offers/development and training/information, etc.	0.3	0.1	
Technical studies	0.2	0.1	
Total cost of consulting service	0.5	0.2	

6 PASS-THROUGH ACCOUNT FOR THE PURCHASE OF POST-HERITAGE ELECTRICITY

6.1 2005 Pass-through account for the purchase of post-heritage electricity

The amount paid into the pass-through account for the year 2005 was established using the actual data covering the period January 1 2005 to December 31 2005. The detailed calculation was already presented in the Distribution Provider's 2005 annual report in Exhibit HQD-7, Document 1.

While the method of disposition of this account is the object of a specific request elaborated in Exhibit HQD-4, Document 2 for the year 2005, the Distribution Provider adheres to the method authorized by the Régie in Decision D-2006-34, namely, that of integrating the observed variances for a test year into the rate case of the second year subsequent. These variances are paid beforehand into a non-rate-base deferral account until the time of their disposition. The balance in the account as of December 31 2005 is charged in its entirety to the Distribution Provider's cost of service in 2007, without deferral.

**TABLE 8
DEFERRED PASS-THROUGH COSTS – 2005 PURCHASES OF
POST-HERITAGE ELECTRICITY (IN \$MILLIONS)**

	2005 Historical year	2006 Base year	2007 Test year
Initial balance	0.0	33.3	
Deferred costs – PASS-THROUGH purchase of post- heritage electricity in 2005	31.4	0.0	
Interest ¹	1.9	2.7	
Final balance	33.3	36.0	

(1): The average rate of the cost of capital used is 8.40% in 2005 and 7.75% in 2006.

6.2 Projected pass-through account for the purchase of post-heritage electricity in 2006

The amount paid into the pass-through account for the year 2006 was estimated using the actual data for the initial four months of the year and the projected data for the final eight months.

As set forth in exhibit HQD-4, document 2, the projected variance in 2006 is integrated into the 2007 rate case. Beforehand, this variance is paid into a non-rate-base deferral account until the time of its disposition. The estimated balance of the account as of December 31 2006 is charged in its entirety to the Distribution Provider's cost of service in 2007, without deferral.

TABLE 9
PROJECTED DEFERRED PASS-THROUGH COSTS – 2006 PURCHASES OF
POST-HERITAGE ELECTRICITY (IN \$MILLIONS)

	2005 Historical year	2006 Base year	2007 Test year
Initial balance	0.0	0.0	
Deferred costs – PROJECTED PASS-THROUGH purchase of post-heritage electricity in 2006		(182.0)	
Interest		0.0	
Final balance	0.0	(182.0)	

APPENDIX

CALCULATION OF INTEREST

TRANSMISSION COSTS DEFERRAL ACCOUNT

INTEREST – DEFERRED TRANSMISSION COSTS

FOR THE PERIOD JANUARY 2006 – DECEMBER 2007 (\$ MILLIONS)

	Initial balance	Deferred costs	Interest (1)	Final balance
<u>2006</u>				
January	0.00	0.00	0.00	0.00
February	0.00	0.00	0.00	0.00
March	0.00	0.00	0.00	0.00
April	0.00	226.67	0.00	226.67
May	226.67	14.17	1.59	242.43
June	242.43	14.17	1.63	258.23
July	258.23	14.17	1.79	274.19
August	274.19	14.17	1.90	290.26
September	290.26	14.17	1.94	306.37
October	306.37	14.17	2.11	322.65
November	322.65	14.17	2.15	338.97
December	338.97	14.17	2.32	<u>355.46</u>
TOTAL 2006		340.03	15.43	
<u>2007</u>				
January	355.46	0.00	2.41	357.87
February	357.87	0.00	2.19	360.06

March	360.06	0.00	2.44	362.50
April	362.50	0.00	2.38	364.88
May	364.88	0.00	2.48	367.36
June	367.36	0.00	2.41	369.77
July	369.77	0.00	2.51	372.28
August	372.28	0.00	2.53	374.81
September	374.81	0.00	2.46	377.27
October	377.27	0.00	2.56	379.83
November	379.83	0.00	2.49	382.32
December	382.32	0.00	2.59	<u>384.91</u>
TOTAL 2007		0.0	29.45	
TOTAL		340.03	44.88	

(1): The average cost of capital used is 7.75% in 2006 and 7.99% in 2007.