

**ANSWERS BY HYDRO-QUÉBEC DISTRIBUTION TO SELECTED
INFORMATION REQUESTS BY VARIOUS INTERVENORS
(LA RÉGIE, LA FCEI, LE GRAME, AQCIE-CIFQ)**

Régie IRs 16.1, 23.1, 23.2 (HQD 16, Doc 1)

16.1

16 Reference: HQD-4, Document 2, page 9, revised August 29, 2006.

Preamble:

In the particular context of 2006, where climate conditions at the beginning of the year were exceptionally warmer than the norm, this option is translated as a significant credit balance, estimated at \$182 million, which reduces HQD's cost of service in the year 2007 to the benefit of all the Quebec customers.

Questions:

16.1 In order to distinguish the climate variances and the demand variances included in the pass-on, please provide the detail of the calculations of the weather impact on the pass-on account on December 31, 2006, by considering the following elements and all other useful information:

- monthly break-down (January to April, 2006)
- break-down by customer class (using the percentages for allocation of the impact of weather conditions for heating presented in Exhibit HQD-4, Document 4, page 9, Table 1);
- details related to the calculation of the variances for volume, price and revenues
- a summary.

Answer:

The forecast 2006 pass-on account provided a credit of \$182 M, determined on an annual basis and representing the variances (volume, price and revenues) between the annual projected sales (4 months actuals and 8 months forecast) and the forecast sales in the R-3579-2005 filing.

In this way, Table R16.1-C presents the details of the 2006 pass-on account calculation on annual basis according to the format present in the Distributor's Annual Report at Exhibit HQD-7, Document 1, Appendix 1. As such, HQD is not able to supply for the moment the detail of the monthly calculation of the pass-on for 2006. Various necessary information cannot be determined monthly. As an example, the non-utilized heritage pool volume forecast for 2006 is currently estimated at 280 GWh and it is impossible to determine a monthly allocation for this volume by customer class without setting arbitrary hypotheses. This variable alone has impacts on the allocation of the heritage pool volume, the cost of heritage pool electricity and the cost of post-heritage pool electricity by cc. Again, it is important to note that the monthly calculation of the pass-on account for

2005 is not possible until the end of the year, even several months after year-end when all of the information related to sales totals by cc, actual rate of losses and the total cost of heritage pool purchases are known definitively.

Conversely, Table R16.1-A presents the pass-on account actuals for the four first months of 2006. Even her, some adjustments could not be made such as the unused heritage volume over the 4 actual months for the reasons explained above. For only the first 4 actual months of 2006, the pass-on account provides an estimated credit of \$107.4 M, excluding special contracts. By differential, a credit of \$74.6 M is provided for the remaining 8 months of the year. Regarding the evaluation of the impact of weather variation of the calculation of the pass-on, HQD provides, in Table R16.1-B, a estimate on the basis of normalized annual sales (the impact of the weather variation of the first 4 months of 2006). The weather impact is allocation among the customer classes according to the actual percentages for heating presented in the Exhibit HQD-4, document 4, page 9, Tableau 1. This estimate is based on hypotheses that presuppose the purchase of new quantities of electricity if the weather conditions were normal. The allocation of the heritage pool and the post-heritage pool by customer class is then modified, as well as the unused heritage pool volume by cc. For the purposes of this exercise, if the weather conditions had been normalized, the hypothesis chosen would be the acquisition of addition quantities of post-heritage electricity at the forecast unit cost of 10.82 ¢/kWh. If the weather conditions had been normal, the pass-on account should have been established only for a credit of \$40.0 M, excluding the special contracts. Thus, by differential, the weather impact will be estimated at \$142 M.

Table R16.1-A

Catégorie de consommateurs	4 mois réels 2006 M\$	8 mois prévisionnels M\$	Pass-on projeté 2006 M\$
Domestique			
Tarifs D et DM	(51,1)	(26,6)	(77,7)
Tarif DH	(0,0)	(0,0)	(0,0)
Tarif DT	(2,1)	(1,1)	(3,2)
Total	(53,2)	(27,7)	(80,9)
Petite et moyenne puissance			
Tarifs G et à forfait	(9,0)	(7,2)	(16,2)
Tarif G9	(0,7)	(0,6)	(1,4)
Tarif M	(17,7)	(14,0)	(31,7)
Tarifs d'éclairage public et Sent.	(0,3)	(0,4)	(0,7)
Total	(27,6)	(22,2)	(49,8)
Grande puissance			
Tarif L	(26,5)	(24,7)	(51,2)
Tarif H	(0,0)	(0,0)	(0,0)
Contrats spéciaux	(13,1)	(15,3)	(28,4)
Total - sans ajust.	(39,6)	(40,0)	(79,6)
Total -incluant les contrats spéciaux	(120,5)	(89,9)	(210,3)
Total excluant les contrats particuliers	(107,4)	(74,6)	(182,0)

Table R16.1-B

Catégorie de consommateurs	Pass-on normalisé 2006 M\$	Impact estimé de la température M\$	Pass-on projeté 2006 M\$
Domestique			
Tarifs D et DM	(17,0)	(60,7)	(77,7)
Tarif DH	(0,0)	(0,0)	(0,0)
Tarif DT	(0,7)	(2,6)	(3,2)
Total	(17,7)	(63,2)	(80,9)
Petite et moyenne puissance			
Tarifs G et à forfait	(3,5)	(12,7)	(16,2)
Tarif G9	(0,3)	(1,1)	(1,4)
Tarif M	(6,8)	(24,9)	(31,7)
Tarifs d'éclairage public et Sent.	(0,1)	(0,5)	(0,7)
Total	(10,7)	(39,1)	(49,8)
Grande puissance			
Tarif L	(11,6)	(39,6)	(51,2)
Tarif H	(0,0)	(0,0)	(0,0)
Contrats spéciaux	(6,4)	(21,9)	(28,4)
Total - sans ajust.	(18,0)	(61,6)	(79,6)
Total -incluant les contrats spéciaux	(46,4)	(163,9)	(210,3)
Total excluant les contrats particuliers	(40,0)	(142,0)	(182,0)

Translator's Note: For Tables R16.1-C, D and E please see pp 34-36 of the original document (HQD-16, Doc 1).

23.1 Please provide details on the notion of follow-up of the pass-on account on an annual basis. Does the follow-up include the 12-month break-down? Please comment.

Answer:

The year-end follow-up will not include a 12 month break-down. The current monthly exercise is done as a formality and in response to Régie requests. In reality, the follow-up of the pass-on account on a monthly basis requires several hypotheses with respect to the estimation of parameters, specifically the unused heritage pool, and the actual rate of losses, the monthly sales per customer class and the detail of the monthly cost of post-heritage purchases.

HQD notes that the allocation of the supply cost and the establishment of the unit cost and the volumes by customer class are done on an annual, not monthly basis. To be coherent, it would be more appropriate to calculate the pass-on and an annual basis because the annual basis provides an overall portrait of what was actually consumed with respect to forecast, as well as the costs that are related, and avoids possible variations in the data resulting from a monthly treatment.

Moreover, Table R23.2-C in the next question, shows weak variances between the annual and monthly treatments in 2005. Finally, a total amount could, to an extent, be calculated for a given year and allocated to the deferred year according to the corresponding supply cost. The results of this allocation will remain more or less the same as those allocated on the basis of the previous year.

For HQD, the follow-up of the pass-on on an annual basis would include the set of information provided in Tables 2 and 3 of Exhibit HQD-4, Document 2. In addition, once the year is ended, HQD will provide the balance sheet of the supply in terms of energy and dollars. The information contained in this balance sheet is detailed in Tables 1 and 2, pages 7 - 8 of Exhibit HQD-2, document 2, which concerns supply. To this information, the volume of unutilized heritage pool electricity will be added.

23.2 Please present the results of the pass-on account according to the current means of establishing the account, and that proposed for the year 2005. Please provide the detail of the calculations and comment on the variances.

Answer:

Table R23.2-A presents the variances of the 2005 pass-on account according to the current means of determining the account, i.e. on the basis of a monthly calculation. The results of the calculation of the variances of the pass-on account according to an annual basis as proposed by HQD are presented in Table 23.2-B. A summary showing the variances between the two methods is presented in Table R23.2-C.

By applying the method proposed by HQD, the 2005 pass-on account would have been \$30.2 M instead of \$31.4 M, which was determined with the current method. The variance of \$1.3 M comes mainly from the following:

- the allocation of heritage and post-heritage consumption volumes by customer class according to a monthly or annual basis: the percentages of consumption per customer class vary from one month to the other, which affects the allocation of the heritage and post-heritage consumption volumes with respect to a direct calculation on an annual basis. This translates to a variance of \$0.5 M;
- the allocation of the costs of the actual post-heritage purchases by cc: the use of a monthly basis implies different unit cost per month for each customer class and, which differ also from the unit post-heritage cost by customer class set on annual basis. In addition, the post-heritage price variance is calculated with respect to a forecast post-heritage unit cost. the difference between the two methods implies a variance of \$2.4 M;
- the monthly variation of the forecast unit revenues used to reflect the monthly treatment: for each month, the unit revenues of a customer class is determined as a function of the heritage unit cost and the post-heritage unit cost applied on the variable sales from month to month. In the annual treatment, the forecast unit revenues for each customer class are determined as a function of the set of heritage and post-heritage costs and the sales are determined on an annual basis. This implies the downward variance if \$0.5 M.

For these different reasons, and insofar as the variances between the two models are fairly minimal, HQD proposes a pass-on account treatment on an annual basis. This would avoid the additional complexities of the monthly treatments that give a false impression of precision, but also and above all, this would allow the use of the same annual base that was used to the heritage and post-heritage consumption volumes and their respective forecast costs by cc.

Translator's Note: For Tables Tables R23.2-A to R23.2-C, please see pp 59-61 of the original document (HQD-16, Doc 1).

FCEI IR 1.1 (HQD 16, Doc 5)

1. Reference(s): Background, Objectives and Direction for the 2007-2008 Rate Application

- i) HQD-1, Document 1, page 8, lines 16-18
- ii) HQD-1, Document 1, page 9, lines 13-15

Preamble:

i) Considering the significance of this reduction (reduction of \$182 M of the forecast supply costs for 2006) and the desire to better match costs with the appropriate customer generations, the Distributor proposes not to wait until the next rate case (the second rate case following the accounting of the pass-on) to reflect the reduction in its cost of service.

ii) The Distributor proposes...to spread the non-recovered balance (recently authorized annual cost for transmission) for the years 2005 and 2006, that is, \$340 million plus interest, over a maximum of three years starting in 2008.

Question:

1.1. The two propositions cited in the preamble appear contradictory. Should the will to better match costs to with the appropriate customer generations also be desirable for the balance of transmission costs? Please comment.

Answer:

Generally, the will of HQD is indeed to better match costs with the appropriate generations of customers. It is in this direction, moreover, that that HQD proposed to reflect the deferral accounts for the ph supply costs directly in its rates for the following year. The Régie recognized the exceptional retroactive application of the transmission bill from January 1, 2005. Considering this exceptional character, the materiality of the amounts and the important impact on the 2007 rates for HQD's customers of billing all the transmission costs, including the retroactive portion, HQD also favoured an exceptional approach. It should be noted, however, that the transmission service bill for the native load of \$2,483 M was applied in its entirety with no spreading in 2007. We note that the cost of service for transmission in 2007 has increased by 7.4% with respect to 2006 and that this does not take into account the current annual increase. The integration in the 2007 revenue requirement of the transmission deferral account of \$340 million, plus interest of \$15.4 million for 2006, would bring the increase in the 2007 transmission cost up to 22.7% with respect to 2006.

For HQD, this scenario would consist of recovering in one year the annual increase of transmission costs for three consecutive years.

See also the answer to question 13a of CETAF-AQLPA-SÉ at Exhibit HQD-16, Document 4.

GRAMÉ IR 3.2 (HQD 16, Doc 6)

3. Reference(s) : HQD-1, doc. 1, p. 9 de 18.

Preamble :

As such, HQD proposes the integration, as of 2007, of the annual recently authorized transmission cost, but to spread the non-recovered balance for the years 2005 and 2006, that is, \$340 million plus interest, over a maximum of three years starting in 2008.

Question:

3.2) Why not start in 2007 to integrate the deferral account? What would be the impact in (M\$ and in % of increase) with the hypothesis of a first payment over 3 years? A first payment over 2 years?

Answer:

The 2007 cost of service for transmission is increasing by 7.4% with respect to 2006 and this only takes into account the current annual increase. On its own, this element contributes to almost 1.9% of the 2.8% rate adjustment needed to meet the 2007 cost of service, that is over 2/3 of the adjustment. This is why HQD considered it reasonable to limit the adjustment of transmission service to this level, given HQD's other needs for 2007, specifically the important needs with respect to system maintenance. The scenario planned by HQD also provides the advantages of a greater rate stability. See also HQD's answer to question 13 of the CETAF-AQLPA-SÉ (HQD-16, Document 4).

Moreover, HQD reiterates its intention of proposing in its next rate filing, a specific strategy with respect to the integration of the deferred transmission costs, which, we note, contain the increases of two complete years and not only one (see HQD-1, Document 1, page 9).

Given the hypothesis of the disposition of the deferral account for transmission service for the years 2005 and 2006 (totalling \$340 million plus interest) over a period of 3 years, from 2007 to 2009, the anticipated rate increases would be in the order of:

	2007	2008	2009	2010
Revenue requirement	10,335	10,669	11,027	11,042
Required rate increase	4.3%	2.5%	1.6%	-1.2%

Under the hypothesis where the transmission service deferral account for the years 2005 and 2006 (totalling \$340 million plus interest) was disposed of over a period of 2 years, from 2007 to 2008, the anticipated rate increases would be in the order of:

	2007	2008	2009	2010
Revenue requirement	10,395	10,729	10,904	11,042
Required rate increase	4,9%	2,6%	-0,3%	-0,6%

AQCIE-CIFQ IR 5.1 and 6.1 (HQD 16, Doc 3, page 9 and 11)

Question #5

Reference : R-3610-2006, HQD-4, Document 2, page 19 of 24

Preamble :

Among the determinative information that is known only at year-end, we identify the hourly allocation of the bars associated with heritage pool electricity and the determination of the actual rate of losses. This information makes it necessary to redo the calculations month by month once the year is over. An exercise undertaken on a yearly basis avoids many complexities associated with the retroactive compilation of the monthly variances.

Questions :

- 1- Please confirm that the lack of data during the year only affects two disbursements (“déboursés”):
- The heritage pool;
 - The energy variances with respect to the Framework Agreement between HQD and HQP.

Answer:

The lack of data during the year affects the calculation of the all of the pass-on account. In addition to affecting the determination of the heritage pool energy, it also affects the post-heritage pool energy in the sense that the pass-on is determined for each customer class mainly for the allocation of the cost of post-heritage purchases. The latter is allocated at the pro-rata of the cost of heritage pool of which the unit costs are already approved, as opposed to the heritage pool volumes that can only be estimated at year end. This problem takes on an even greater significance in the case of the monthly treatment of the pass-on.

Question #6

Reference: R-3610-2006, HQD-4, Document 2, page 18 de 24

Preamble:

Moreover, given the particularity of the year-end adjustment and for the reasons set out in section 5 above, the Distributor requests the authorization to calculate the variances on an annually basis, rather than monthly, as of 2006.

Question :

1- Confirm our understanding that HQD requests a modification of the pass-on treatment from January 1, 2006 to December 31, 2006?

b. In the affirmative, please indicate in what way this does not constitute a request for revision of decision D-2006-34 ?

Answer:

HQD's request covers a modality of the calculation and not the treatment of the account. The treatment of the account remains as provide, i.e. the account is still made up of the price and volume variances, net of the volume effect; it is calculated for each test year; it bears interest at the cost of capital, etc. In decision D-2006-34, the Régie (pages 22 and 23):

- a) Authorizes the integration method based on the calculation of the variances on the basis of actual data covering a period of 12 months from January 1 to December 31;
- b) Renews the pass-on for 2006 and the subsequent years;
- c) Considers that the pass-on should be treated outside the rate base and should bear interest at the average rate of the cost of capital;
- d) Asks HQD to present the modalities of the disposition of the account in the next rate filing.

HQD's request with respect to the annual calculation rather than the monthly calculation is in no way a request for revision of the elements in D-2006-34. If the Régie approves this modification to the modality of the pass-on account, it will take effect as of January 1, 2006 and will serve as a basic rule for the calculation of the pass-on account in the future.