DISPOSAL OF DEFERRAL ACCOUNT FOR TRANSMISSION

1 BACKGROUND

In its first rate case, case R-3492-2002 Phase 1,[1] the Distributor asked the Régie to recognize the regulatory principle consisting of transferring, by means of a deferral account, any variation in the costs of transmission service provided by TransÉnergie that might occur during a year for which rates were already set. This request was justified by the unforeseeable nature of cost variations at the time of filing of the rate application; for example, in cases where the Transmission Company had not yet filed an application with the Régie or where a decision on such an application was pending.

In conformity to this principle, the transfer of the transmission service cost will result specifically from a modification to the transmission rate determined by the Régie as being applicable to native load.

As stated in decision D-2003-93,[2] the Régie approved the Distributor's request and authorized the creation of a deferral account for this purpose. In setting forth the grounds for the decision, the Régie stated that, in the context, the variation in the transmission cost was beyond the Distributor's control, and stressed the materiality of the transmission service cost. However, the Régie restricted the cost transfer to the price differential applicable to projected sales volumes and authorized the recording of interest at the average cost of capital rate.

In September 2004, the Transmission Company filed an application for modification of its rates applicable as of January 2005 (case R-3549-2004). The Distributor was unable to consider the new projected transmission rate in its rate cases for 2005 and 2006, since this rate was not yet approved when the applications were filed. Furthermore, the Distributor will have to await the Régie's decision before recording in the deferral account for transmission charges any variation relating to the cost of transmission service, in order to ascertain the new authorized rate as well as the date when it becomes effective.

Since the Régie approved a new transmission rate on April 18,[3] the application of this rate, which moreover is retroactive, will necessitate the use of the deferral account for transmission charges in 2006.

2 DISPOSAL OF DEFERRAL ACCOUNT

2.1 Approved Method

In its application,[4] the Distributor proposed that, upon inclusion of an application for transfer of transmission costs in its rate case, the balance of the deferral account

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[1] R-3492-2002, HQD-3, Document 3.
[2] D-2003-93, p. 21.
[3] D-2006-66, p. 50.
[4] R-3492-2002, p. 14.

covering one or more years be totally applied to the cost of service, without stabilization measures.

Under the terms of decision D-2003-93, the Régie approved this proposal as to the inclusion of the balance (of the account) in the Distributor's cost of service at the next rate application.

2.2 Modification of Transmission Rates Applicable to the Distributor

On 30 September 2004, the Transmission Company filed an application for modification of its rates and conditions of service, applicable as of rate year 2005, i.e., as of 1 January 2005. The Régie heard the case in two phases, the first dealing with determination of the 2005 revenue requirements and the second with the cost-of-service allocation as well as the rates and conditions of service.

In its final decision, D-2005-63, the Régie authorized revenue requirements for transmission service of $2 591.0 M for test year 2005. For ratesetting purposes, the Régie subsequently, in decision D-2006-66 on Phase 2 of the case, adopted the billing criterion based on coincident peak power proposed by the Transmission Company. It thus authorized the long-term annual transmission rate of $72.90/kW/year, which represented a bill to the Distributor of $2,483.0 M using the current approach consisting of billing the Distributor a fixed amount. This amount corresponds to the long-term rate of $72.90/kW/year multiplied by an estimated load of 34 060 MW.

In addition, the Régie approved the Transmission Company's request to apply its new rates as of 1 January 2005 in order to enable it to recover the sum total of revenue requirements authorized in decision D-2005-63. The Régie specified, however, that the retroactive application of the rates remained an exceptional measure.

The new transmission bill ($2 483.0 M) represents an annual increase of $170 M (nearly 7.4%) over the rate before the increase ($2 313.0 M). Thus, inclusion of the retroactive bill for 2005 and 2006 in 2007 would add a charge of $340 M to the cost of transmission service, for a total impact of $510 M, or 22.1% as compared with annual billing of previous years, even before application of interest to the account balance.

In view of the materiality of the amounts at issue and the exceptional nature of the current retroactive application of the new transmission rate, the Distributor thinks that it is relevant to dampen its impact. Thus, while it was initially planned that the deferral account balance be fully applied to the cost of transmission service without stabilization measures, in the year subsequent to its recording, the Distributor proposes to defer accounting for the retroactive amount of $340 M in the revenue requirements and to amortize the balance over more than one year. The following section describes the proposal concerning disposal of the deferral account in more detail.

2.3 Distributor's Proposal

As mentioned previously, the Distributor seeks to dampen the impact of retroactive billing for 2005 and 2006 on its cost of service. In this spirit, the Distributor is including in its 2007 cost of service the new transmission cost of $2 483 M authorized by the Régie in decision D-2006-66 for native load. Furthermore, it proposes, on an exceptional basis as discussed in section 2.2 above, that the retroactive amounts authorized for 2005 and 2006, including interest, be recorded in the deferral account created for that purpose. The Distributor will revisit the method of disposal of the deferral account in the 2008 rate case. At this stage, it is planned to amortize the balance over a maximum period of three years. The Distributor will detail the disposal strategy for this account in next year's case, in a context where it should be in a position to incorporate the Régie's decision in the Transmission Company's case R-3605-2006.

The Distributor specifies that this proposal differs from the principle of rate stabilization proposed in case R-3579-2005 for the following reasons:

- The deferral account for transmission charges concerns a specific component of the Distributor's cost of service, namely transmission cost, while the planned rate stabilization account concerned a proportion of the sum total of its cost of service, without distinction as to the nature of the costs. Moreover, the principle of rate stabilization is not incompatible with stabilization measures for one or more specific cost components, as noted in the majority of cases compiled by the Distributor in its review of rate stabilization mechanisms.[5]

- The amounts recorded in the deferral account are clearly defined as being related to the application, retroactive to 1 April 2005, of the increase in the transmission bill.

- The amortization of the deferral account for transmission will take place over a limited number of years; to wit, a maximum three-year period, whereas the Distributor planned to recover the entire amounts in the rate stabilization account over an indeterminate but probably longer period.

At the end of test year 2007, the balance of the deferral account for transmission will be $384.9 M, composed of an amount of $340 M, being the arrears of the transmission cost for 2005 and 2006, plus applicable interest from 1 May 2006 totaling $44.9 M (see HQD-9, Document 1).

Given this proposal and in accordance with the Régie's decision[6] to allow the inclusion of the deferral account balances in the rate base as from the commencement of their disposal, the deferral account for transmission will remain a non-rate-base account for 2006 and 2007 and could be included in the rate base in 2008.

[5] R-3579-2005, HQD-4, Document 5, and HQD-14, Document 1, pp. 20–26.
[6] D-2006-34, p. 23.