



Stein Monast S.F.N.C.R.L. AVOCATS

Édifice Stein Monast  
70, rue Dalhousie  
Bureau 300  
Québec (Québec) G1K 4B2  
CANADA

Téléphone : 418.529.6531  
Télécopieur : 418.523.5391

[www.steinmonast.ca](http://www.steinmonast.ca)

Québec, le 14 décembre 2009

Me Véronique Dubois  
Secrétaire  
RÉGIE DE L'ÉNERGIE  
Tour de la Bourse, C.P. 001  
800, Place Victoria, 2<sup>e</sup> étage, bureau 255  
Montréal (Québec) H4Z 1A2

OBJET: Demande relative à l'établissement des tarifs d'électricité  
pour l'année tarifaire 2010-2011  
Réponse à l'engagement # 1 de l'AQCIE et du CIFQ  
Dossier : R-3708-2009  
Notre dossier No : 1040515

---

Chère Consoeur,

Je joins la réponse à l'engagement numéro 1 de l'AQCIE et du CIFQ.

Vous noterez que la réponse comporte un document en forme PDF comportant les explications de monsieur Knecht concernant l'établissement d'un montant d'au moins 180 M\$ au titre des « *standard costs* » de même que des documents de travail en format EXCEL.

Quinze (15) exemplaires du premier document sont mis à la poste ce jour et nous demandons à la Régie de dispenser les intervenants de produire sur format papier les documents en format EXCEL, lesquels comptent quelque 200 pages.

Veuillez agréer, chère consœur, l'expression de mes sentiments les meilleurs.

PIERRE PELLETIER

PP/lm  
pièce jointe  
c.c. par courriel seulement :  
Hydro-Québec – Me Éric Fraser  
Les intervenants

**RÉPONSE À L'ENGAGEMENT N° 1 DE L'AQCIE / CIFQ  
RELATIVEMENT À LA DEMANDE TARIFAIRE 2010-2011**

UNDERTAKING NO. 1  
TO UNION DES  
CONSUMMATEURS

1 Please provide supporting calculations for the rough estimate shown at page 5 lines 17  
2 to 18 of Mr. Knecht's evidence that HQD's stranded costs represent at least \$180  
3 million of total post-patrimonial costs of \$285 million.

4 **RESPONSE**

5 At the aggregate level, HQD reports a post-patrimonial cost total of \$285.1 million. If  
6 stranded costs are in the \$180 to \$200 million range, the net costs incurred to supply  
7 Québec post-patrimonial load would be in the \$85.1 to \$105.1 million range. Before  
8 losses, HQD's post-patrimonial load in Québec is 1,475.5 GWh. The implied cost of  
9 the domestic supply would then be \$58 to \$71 per MWh, which is in the range that  
10 would appear to be reasonable for wholesale power costs.

11 At the more detailed level, Mr. Knecht prepared an hourly analysis based on the  
12 interrogatory responses provided by HQD. That analysis is shown in the attached  
13 workpapers, and explained herein.

14 The analysis begins with the recognition that the allocation of the TCE stranded costs  
15 affects the cost basis for the resold power, and therefore the TCE stranded costs and  
16 the book losses on resales are inter-related. Therefore, the stranded costs associated  
17 with resale supplies of \$145 million shown in Exhibit IEc-2 (\$194.7 million in costs  
18 less \$42.3 million in revenue) necessarily include some TCE stranded costs. These  
19 stranded costs contribute significantly to the fact that HQD reports a much higher unit  
20 cost for resold power than for Québec loads. As shown in Exhibit IEc-2 (which itself  
21 is based on HQD-13, Document 4, page 6, Table R-5.a), those amounts are 9.66 cents  
22 per kWh for Québec loads and 15.42 cents per kWh for resold loads. (Note that these  
23 cost rates are for loads after losses.)

24 The reason for this large discrepancy is that, in its interpretation of the hourly method  
25 (an interpretation which Mr. Knecht concludes is not consistent with theory behind the  
26 hourly method), HQD spreads the fixed costs of the TCE facility equally among every  
27 hour of the test year. (See HQD-13, Document 4, page 3.) Since the total load, which  
28 includes both Québec load and resold load, tends to be lower in those hours in which  
29 HQD is reselling power, HQD's method results in much higher unit costs in the hours  
30 in which power is resold.

31 The attached "RDK Hourly Workpapers" worksheet is designed to estimate the cost of  
32 supply to both resale loads and Québec loads. Because the TCE fixed cost charge is  
33 confidential, the TCE fixed cost charge is a parameter of the calculation, and is  
34 entered at cell BD8768. The worksheet, like HQD, then spreads that value among all  
35 8760 hours in column BD. The cost is then measured in dollars per MWh in column  
36 BE, by dividing the hourly assignment of TCE costs (in column BD) by the sum of  
37 Québec loads (column L) and resale loads (column X) in each hour. Using that unit  
38 cost, the TCE fixed cost is then segregated between resale loads and Québec loads in  
39 columns BF and BG. An average hourly TCE fixed costs for each of those loads is  
40 derived by summing costs across all hours and dividing by the respective total loads  
41 (cells BF8769 and BG8769). The TCE average costs for each category are then

1 deducted from the total average costs for each category, as derived in Exhibit IEC-2  
2 (and adjusted for losses), to produce a cost to serve both load types net of TCE costs.

3 To approximate the TCE stranded cost, it is reasonable to assume that, net of TCE  
4 stranded costs, the average hourly cost for resale loads would be similar to the average  
5 hourly cost for Québec loads. If the TCE stranded cost is set at approximately \$164  
6 million, the average supply cost for *both* resale loads and Québec loads is about \$58  
7 per MWh. Under that assumption, the book loss on resales *excluding* TCE is \$36  
8 million (as calculated in cell BF8775), and the total stranded cost is \$200 million.

9 Of course, it is certainly possible that the average cost, net of TCE, for hours in which  
10 power is resold is greater than that for hours in which Québec load is served. For  
11 example, if the TCE fixed cost is assumed to be \$120 million (the figure assumed by  
12 Mr. Knecht in Docket R-3677-2008), the cost to supply resale loads would be about  
13 \$81 per MWh, and the cost to supply Québec loads would be \$66 per MWh. Under  
14 this scenario, the book loss on resales would be \$67 million, and total stranded costs  
15 would be \$187 million.

16 Based on these analyses, Mr. Knecht deemed it reasonable to conclude that HQD's  
17 test year forecast stranded costs are at least \$180 million.