Montréal, February 26, 2008 – The Régie de l’énergie has released Decision D-2008-024 on the application to modify the rates of Hydro-Québec when carrying on electric power distribution activities. In the decision, the Régie set the Distributor’s revenue requirement at $10.54 billion for the 2008 test year and authorized an average 2.9% rate increase as of April 1, 2008.

The average 2.9% increase translates into $2.97 per month for the average residential customer. The Régie is authorizing a uniform rate increase this year.

The increase could be absorbed or offset by implementing the energy efficiency measures offered by the Distributor. In the same decision, the Régie has authorized a $252 million budget to promote energy efficiency in 2008. Of this amount, $116 million is allocated to residential customers, including $30 million earmarked specifically for low-income households. The Distributor plans to spend $1.3 billion on its energy efficiency programs between now and 2010, and expects them to generate total energy savings of 4.7 TWh, of which 1.8 TWh will be realized by residential customers.

The Régie has also authorized a total of $640 million for capital projects under $10 million.

**DECISION SUMMARY**

Decision D-2008-024 relates to an application by Hydro-Québec when carrying on electric power distribution activities (the Distributor) to modify its rates and certain conditions for the distribution of electric power as of April 1, 2008.

For regulatory purposes, the Distributor is a distinct, independent entity of Hydro-Québec. The Act respecting the Régie de l’énergie allows the Distributor to apply for a modification of its rates to recover its operating and capital costs, and to realize a reasonable return, as determined by the Régie, on its rate base, i.e. the assets required for electricity distribution in Québec. For regulatory purposes, the recovery of these costs is referred to as the Distributor’s “revenue requirement.”

The Distributor asked the Régie to authorize a revenue requirement of $10.54 billion for the 2008-2009 rate year, a $267 million increase over the previous year. The additional amount will be recovered starting April 1 by means of an average 2.9% rate increase.

The revenue requirement includes:

- Supply costs: $4.978 billion
- Transmission costs: $2.727 billion
- Distribution costs: $2.835 billion.

The Distributor has announced a cost containment plan. At the Régie’s request, the Distributor filed an integrated efficiency improvement plan which calls for changes in current operations management in order to generate recurring annual gains of $10 million (1% of controllable costs). Cost control efforts have also enabled the Distributor to cut $30 million from its operating budget for 2008. Together, these initiatives will help mitigate the cost increases generated by growth in activities and in operating costs.

To set the revenue requirement for the 2008-2009 rate year, the Régie took into account the significant impact of the balance of the Distributor’s deferred charge accounts (DCAs):

- Transmission costs from previous years are accumulated in the “transmission DCA.” A portion of these costs is included in the revenue requirement and has an impact on the
authorized rate increase. The balance is owed to the Distributor by consumers and bears interest until it has been recovered through rates.

- The “supply costs DCA” has a positive balance due to lower-than-projected electricity supply costs in 2007. This amount is to be returned to consumers through rate reductions.
- The Régie also took into account a decrease in transmission costs resulting from Decision D-2008-019 and reduced the balance of the “transmission DCA” accordingly.

As requested by the Distributor, and in keeping with its previous decisions, the Régie has decided to allocate the positive balance from the “supply costs DCA” to pay down outstanding transmission costs from previous years before using it to reduce 2008-2009 rates. Regulatory best practices require that costs — in this case, transmission costs from 2005 and 2006 — be billed to the generations of consumers by which they were incurred, to the extent possible.

The Régie has authorized recovery of a $10.54 billion revenue requirement in 2008 through an average 2.9% increase in distribution rates, which the Régie calculates will translate into a monthly increase of $2.97 for the average residential customer. The increase could be absorbed or offset by implementing the energy efficiency measures offered by the Distributor.

**Rate of return**

The Régie has set the Distributor’s return on its rate base at 7.81%.

**Rate structure**

In the Régie’s judgement, the Distributor’s proposals for rate structure reforms adequately address the objectives established in previous decisions and in the government of Québec’s 2006-2015 energy strategy. In the long run, these changes will result in more effective price signals.

The Régie has approved the changes proposed by the Distributor. It has also authorized the Distributor to begin phasing in changes to the rate structure for the G and M rates in 2009. Review of changes to other rates continues.

The Régie has also authorized the Distributor to launch a time-differentiated pricing pilot project to test incentives for residential customers to change their electricity consumption habits.

**Pricing strategy**

The Régie is authorizing a uniform rate increase this year. It has rejected increases differentiated by consumer class for 2008-2009. There are a number of impediments to precise cost allocation to each class of consumer, including the fact that the review of cost allocation methods has not been completed, that the rates include transmission costs from 2005 and 2006, and that demand from large industrial users is declining. The Régie also took the economic, social and environmental concerns described by the government of Québec in Order in Council 1164-2007 into account.

**Comprehensive energy efficiency plan**

The Régie reviewed the Distributor’s comprehensive energy efficiency plan (PGEÉ), taking into account the new responsibilities stipulated in the Act respecting the Régie de l’énergie and those of the Agence de l’efficacité énergétique du Québec, as well as the forthcoming filing of the comprehensive energy efficiency and new technologies plan.

The Régie has approved a $252 million budget for PGEÉ implementation in 2008. The energy savings target for 2008 is set at 745 GWh, a 16% increase over last year’s projected target for 2008. The Distributor maintains its energy savings target for the period between now and 2010 at 4.7 TWh and plans to spend a total of close to $1.3 billion on the PGEÉ.
The Distributor is creating two new programs for residential customers to promote geothermal power and the disposal of inefficient refrigerators and freezers. The Distributor also filed a strategy to help low-income households improve the quality of their dwellings, and enhancements are being made to programs for major business customers.

**Capital expenditures**

The Régie has approved a total of $640 million in capital expenditures for projects under $10 million. This amount is over and above previously authorized projects. In all, the Distributor’s capital expenditures for 2008 amount to $733 million and primarily involve grid maintenance and improvement.

**The Régie’s mission**

The Régie de l’énergie is an economic regulatory agency whose mission is to reconcile the public interest, consumer protection and fair treatment of the electricity carrier and distributors. It promotes the satisfaction of energy needs through sustainable development, with due regard for equity at both the individual and collective levels.

To this end, the Régie fixes and modifies rates and conditions for the transmission and distribution of electric power.

The Régie’s decision and the full Hydro-Québec Distribution rate application can be consulted on the Régie’s website at [www.regie-energie.qc.ca](http://www.regie-energie.qc.ca).

---

Information: Pierre Méthé
Director of Communications and Public Affairs
514 864-7240