

CORPORATE EXPENSES

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Requested R –3492-2002 - Phase 2

1 In the Decision D-2003-93, the Régie permits the Distributor to use the
2 method of the apportionment of corporate expenses based on the total
3 charges excluding the purchases of electricity, fuel and transmission.
4 However, in order to enable it to decide in phase 2 on the choice of the
5 best method taking into account at the same time the operational activities
6 and investment, the Régie requires of the Distributor to provide a
7 simulation with accompanying notes for three years relating to the two
8 following methods:

- 9 • the primary operational charges and the net fixed assets at a
10 proportion of 50% - 50%;
- 11 • the primary operational charges and investments at a proportion of
12 50% - 50%;

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1. CORPORATE EXPENSES INCLUDED IN THE REVENUE REQUIREMENTS

14 Table 1 details for the years 2001 to 2004 the components of corporate
15 expenses taken into account in the calculation of the revenue
16 requirements.

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Table 1

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Summary of corporate units

Corporate units	Distributed Corporate Expenses (in M\$)			
	Financial Period Ending December 31			
	Historical years		Base Year	Forecast Year
	2001	2002	2003	2004
Offices of the chairman, PCA, Trustee	1.6	1.3	1.0	1.0
Verification general	2.3	2.2	2.5	2.5
Research and strategic planning	3.7	5.4	1.3	1.3
Corporate affairs and secretariat-general	17.7	17.0	21.7	22.5
Finances	8.4	8.4	12.6	12.8
Human resources	2.1	2.1	5.8	5.3
Total	35.8	36.4	44.9	45.4

1 Tables 2 and 3 hereafter present for the years 2001 to 2004 the part of the
2 corporate expenses of Hydro-Quebec assumed by the Distributor.

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Table 2

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2001-2002 Distributor Share in the Corporate Expenses

Corporate units	Distributed Corporate Expenses (in M\$)					
	Financial Period Ending December 31, 2001			Financial Period Ending December 31, 2002		
	Distributor	Hydro- Quebec	Ratio Distributor/ Hydro- Quebec	Distributor	Hydro- Quebec	Ratio Distributor/ Hydro- Quebec
Offices of the chairman, PCA, Trustee	1.6	4.5	35.6%	1.3	3.7	35.1%
Verification general	2.3	6.5	35.4%	2.2	6.2	35.5%
Research and strategic planning	3.7	10.3	35.9%	5.4	15.1	35.8%
Corporate affairs and secretariat-general	17.7	49.1	36.0%	17.0	47.3	35.9%
Finances	8.4	23.2	36.2%	8.4	23.2	36.2%
Human resources	2.1	5.7	36.8%	2.1	5.7	36.8%
Total	35.8	99.3	36.1%	36.4	101.2	36.0%

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2003-2004 Distributor Share in the Corporate Expenses

Corporate units	Distributed Corporate Expenses (in M\$)					
	Financial Period Ending December 31, 2003			Financial Period Ending December 31, 2004		
	Distributor	Hydro- Quebec	Ratio Distributor/ Hydro- Quebec	Distributor	Hydro- Quebec	Ratio Distributor/ Hydro- Quebec
Offices of the chairman, PCA, Trustee	1.0	2.8	35.7%	1.0	2.7	37.0%
Verification general	2.5	6.9	36.2%	2.5	6.8	36.8%
Research and strategic planning	1.3	3.5	37.1%	1.3	3.5	37.1%
Corporate affairs and secretariat-general	21.7	60.4	35.9%	22.5	60.7	37.1%
Finances	12.6	35.0	36.0%	12.8	34.7	36.9%
Human resources	5.8	16.2	35.8%	5.3	14.2	37.3%
Total	44.9	124.8	36.0%	45.4	122.6	37.0%

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8 In the course of the period 2001-2004, the corporate expenses increased
9 at annual intervals of 7.28%. However, this growth results especially from
10 the difference between the real historical data and the projected data. This
11 variation is explained notably by the fact that in provisional mode,
12 corporate reserves are set by certain units within the normal framework of

1 their precautionary activities, whereas in real mode, when the events
 2 materialize, the related costs are assigned specifically to the charges or
 3 the investments of the operational units concerned. However, for the
 4 period covered, the share of the corporate expenses assumed by the
 5 Distributor remains stable, in the area of 36%.

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2. METHODS OF CORPORATE APPORTIONMENT OF COSTS

7 The following tables present on a 4 years horizon, the results obtained
 8 according to the method suggested by the Distributor or one of the two
 9 methods identified by the Régie.

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Table 3

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Corporate apportionment of costs (in M\$)

	Corporate apportionment of costs (in M\$)			
	Historical years		Base year	Forecast year
	2001	2002	2003	2004
Method proposed				
<i>Total loads excluding purchases</i>				
Distributor	35.8	36.4	44.9	45.4
Transmission Operator	32.3	31.5	39.3	38.1
Others	31.2	33.3	40.6	39.1
Total	99.3	101.2	124.8	122.6
Simulation 1				
<i>Primary charges and net fixed assets</i>				
Distributor	31.9	33.3	41.9	41.5
Transmission Operator	30.8	29.2	35.3	34.3
Others	36.6	38.7	47.6	46.8
Total	99.3	101.2	124.8	122.6
Simulation 2				
<i>Primary charges and investments</i>				
Distributor	38.0	37.6	45.9	44.4
Transmission Operator	29.2	25.9	31.9	31.6
Others	32.1	37.7	47.0	46.6
Total	99.3	101.2	124.8	122.6

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Corporate apportionment of costs (in %)

	Corporate apportionment of costs (in %)			
	Historical years		Pilot year	Projected year
	2001	2002	2003	2004
Method proposed				
<i>Total loads excluding purchases</i>				
Distributor	36.1%	36.0%	36.0%	37.0%
Transmission Operator	32.5%	31.1%	31.5%	31.1%
Others	31.4%	32.9%	32.5%	31.9%
Total	100.0%	100.0%	100.0%	100.0%
Simulation 1				
<i>Primary charges and net fixed assets</i>				
Distributor	32.1%	32.9%	33.6%	33.8%
Transmission Operator	31.0%	28.9%	28.3%	28.0%
Others	36.9%	38.2%	38.1%	38.2%
Total	100.0%	100.0%	100.0%	100.0%
Simulation 2				
<i>Primary charges and investments</i>				
Distributor	38.3%	37.2%	36.8%	36.2%
Transmission Operator	29.4%	25.6%	25.6%	25.8%
Others	32.3%	37.3%	37.7%	38.0%
Total	100.0%	100.0%	100.0%	100.0%

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3. COMMENTS AND RECOMMENDATION REGARDING CHOICE OF A METHOD

4 As mentioned in phase 1, the method of apportionment retained must
5 meet the following characteristics:

- 6 • to be **equitable** for the regulated activities and the non-regulated
7 activities, by rendering more possible the effective contributions of
8 the corporate units to the activities of the divisions;
- 9 • to be **stable** through time, the definition of the criteria is not subject
10 to significant and frequent modification through time;
- 11 • to be **simple** to understand and verify and **easy** to apply.

1 The three analyzed methods rest on stable criteria and are simple in
2 application.

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4 However, the method advocating the partial utilization of the value of net
5 assets seems less appropriate since it infers a direct relationship between
6 holdings of the assets and the corporate expenses whereas those are
7 generally related with the current activities of operation and investment.

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9 Regarding the method based partially on the annual investments of the
10 units, although it well reflects the advantages of the contribution of the
11 corporate units to those of the divisions, it can be prone to large volatility
12 with the carrying out of large investment projects able to be set up by one
13 or the other divisions.

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15 Lastly, the method suggested by Hydro-Quebec is better in that it takes
16 into account at the same time activities of operation and investment. In
17 effect, by including the financial depreciation and expenses and, by
18 excluding the purchases from electricity, transmission and fuel, the criteria
19 used takes account of the activities of operation of each division but also
20 of the costs related with the holding of the assets. Moreover, it ensures a
21 better stability at the time of significant investment programs.