

Hydro Québec Distribution Generation Cost Allocation

R-3541-2004

Régie de l'énergie
DOSSIER: R-3541-2004
DÉPOSÉE EN AUDIENCE
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Overview of Pre-Filed Evidence

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Overview

- For HQD generation cost allocation, the "rolled-in" approach is superior to an "incremental approach."
- HQD's proposal for a generation cost deferral account should be approved subject to a retrospective prudence review.

Rolled-In *versus* Incremental

- A rolled-in approach treats new loads the same as existing loads in the allocation process.
 - Different types of costs can be allocated differently within a rolled-in approach, but no distinction is made between new customers and existing customers.
- An incremental approach attempts to assign the costs for existing capacity to existing customers, and the costs for new capacity to new customers.

Rolled-In *versus* Incremental: Evaluation Criteria

- Cost causation
- Fairness/equity
- Simplicity
- Stability
- Regulatory precedent

Cost Causation

- All loads are equally responsible for new capacity.
 - Each customer who decides to consume a kWh of electricity contributes equally to the need for new capacity.
 - An existing customer who decides not to make an investment in energy efficiency equipment is as responsible for new load as a customer who invests in new energy-consuming plant.
 - Sometimes called the "Kahn Principle."

Fairness/Equity

- Incremental costing treats equals unequally.
 - It is not clear why existing Québec residents and businesses should be more entitled to low-cost heritage pool electricity than new customers.
 - Incremental costing can create inequitable competitive advantages for some competitors.
 - Incremental costing may discourage efficient investment.

Other Criteria

- Stability
 - Incremental costing implies unstable rates for new customers.
- Simplicity
 - Matching the actual incremental costs and incremental loads will be complex and contentious.
- Regulatory Precedent
 - Traditional generation cost allocation
 - NEB: GH-5-89
 - Alberta Transmission

Generation Deferral Account

- Reconcilability
 - Fully reconcilable deferral accounts discourage efficiency.
 - Deferral accounts are used when uncertainty and lack of utility control outweigh efficiency considerations.
 - HQD has significant control over post-patrimonial energy costs.
 - Absence of a deferral account may encourage excessive cost forecasting.
 - For now, a deferral account is not unreasonable, subject to prudence review.
- Allocation
 - All loads are equally responsible for balances in the deferral account, and should be allocated accordingly.