HYDRO-QUEBEC DISTRIBUTION'S ANSWERS TO INFORMATION REQUEST # 1 OF MARK DRAZEN AND RON MIKKELSENS FOR FCEI/ASSQ

REQUESTS FROM MARK DRAZEN, EXPERT FOR LA FÉDÉRATION CANADIENNE DE L'ENTREPRISE INDÉPENDANTE AND L'ASSOCIATION DES STATIONS DE SKI DU QUÉBEC

Request # 1

Reference: Hqd-5, Document 3, Page 6

Preamble: HQD says that it will be required to buy energy above the Heritage amount in 2005. It says:

> *The deliveries will be managed in real time and in an integrated fashion without distinguishing the origin of the demand and without any possibility to associate to this demand a contract or a specific price. This type of a dynamic management aims to allow the Distributor to globally optimize its purchases with a view to ensure the lowest supply cost to Quebec's customers.*

(A) Please explain the procedures that HQD will use to determine when post-patrimonial energy will be required on a hour-to-hour basis. That is, will HQD have a choice in most hours between relying entirely on patrimonial energy or purchasing a portion of its needs in the market?

Answer:

As indicated in the progress report of the plan filed in October 2003 and reiterated in the procurement plan 2005- 2014, the Distributor's strategy for short-term electricity procurements can be divided into two main parts. The first part consists of procuring through calls for tender a great proportion of the expected requirements for the current year.

Let us mention that the Act with respect to the Régie de l'Énergie requires that the Distributor proceeds through tenders opened to all suppliers to fulfill requirements that exceed Heritage electricity. By proceeding in this manner, the Distributor ensures procurement security. These calls for tender primarily aim at the purchase of two products: base products at peak or off-peak and customized products for which the deliveries can be modulated to meet certain requirements of the Distributor. For these calls for tender, the required quantities and products are determined from the analyses of requirements at the

margin of Heritage electricity. The classified power curves of the required additional procurements and the maximal required monthly power curves are used, among others, to define the products. An analysis of the power demand at the winter peak is performed as well. Finally the analysis of certain risks, which could occur during the year, completes the definition of the products and their required quantities.

In addition, to ensure the procurement of the energy quantities resulting from climatic risks, the temporary unavailability of supplier's production equipment or a poor balance between the Heritage electricity profile and the demand pattern, the Distributor intends to use the very short-term markets.

In very short-term management, the Distributor will be able to count primarily on the following products:

- **customized products contracted through calls for tender offering flexibility by determining the quantities which will be delivered to him 36 hours in advance;**
- **bilateral transactions with other suppliers;**
- **very short term products which can be bought in markets like the DAM (Day-ahead market) [1] and in a less likely manner on the HAM (Hour-ahead market) [2].**

Thus, each day the Distributor will submit to Trans-Energy a schedule indicating, for each hour of the following day, the forecasted deliveries according to each of the contracted agreements that compose its portfolio. Then the Distributor will implicitly choose the quantity of Heritage electricity which it expects to use each hour.

In its very short-term management, the Distributor will obviously first attempt to ensure the safety of procurement and to maintain some flexibility in dealing with the situations that differ from those planned. This will be done while considering the costs to customers.

[1] DAM: scheduled delivery for two days later for which the program can be set up to approximately 36 hours before its realization.
[2] HAM: scheduled delivery for which the program can be set up to 90 minutes before its realization.

Thus very short-term strategies aiming for example to acquire large quantities of energies on the HAM are not in the Distributor's plans. The latter will rather seek to meet the demands beyond the Heritage electricity volume by firm purchases and customized purchases made through calls for tender and when necessary, purchases made on the DAM.

On an annual basis, the Distributor will have an objective to maximize the use of Heritage electricity, i.e. to succeed in consuming the quantity that is the closest possible to 178,86 TWh, while exceeding as little as possible the curve of the Heritage electricity sticks defined in the Heritage electricity Decree since these excesses will be subject to the tariffs to be included in the framework agreement.

(b) Does HQD have a forecast of hourly market prices that it will uses to determine optimal purchasing strategy? If so, what is the basis for that forecast?

Answer:

The Distributor uses the hourly prices based on the forward monthly prices published by energy brokers. These forward prices cover the peak periods (8:00 to 23:00) and off-peak periods (1:00 – 7:00 plus the hour 24:00 and weekends) for the next twelve months.

(c) What procedures will HQD have to determine after the fact whether its purchasing strategy was optimal?

Answer:

To introduce procedures allowing the determination of whether the purchasing strategy was optimal after the fact is premature at this stage. Nevertheless, the results of this strategy will be provided within the framework of the follow-up process on the deferred expenses account. Moreover, the evaluation of the Distributor's procurement strategy will inevitably have to take into account the safety of the procurements and the prudence the Distributor must respect in situations where significant economic and climatic risks have to be managed.

(d) Does HQD expect seasonal and day/night variations in the market prices for energy? If so, please summarize the expected differences.

Answer:

Seasonality as well as, peak (during the day time) and off-peak variations (during the night time and weekends) are naturally observed in energy prices. These variations are due to the subscribers' consumption patterns through the seasons. For example, for zone NYA the prices on September 13, 2004 indicate an average price of $US 55 /MWh for peak energy for the whole year 2005 and $US 40 /MWh for off-peak energy for the same period. These annual average prices vary from $US 60 /MWh at peak in winter and $US 43 /MWh off-peak, to $US 50 /MWh for the last quarter peak energy and $US 36 /MWh for off-peak. Thus, one can notice a rather constant day/night variation of approximately $US 15 /MWh.

_ (e) If there are systematic day/night variations, would it be advantageous to HQD to designate the portion of night usage as non-patrimonial in order to save the patrimonial amount to avoid higher peak period prices?

Answer:

In its management of very short term procurements it could be indeed possible for the Distributor to carry out certain short-term night purchases during certain months in order to save the Heritage electricity for periods or months where the prices are higher.

This must be done, however, over a few months so that night purchases can reduce the quantities of day purchases during other periods.

These transfers would be undoubtedly interesting in a deterministic environment where purchase prices and demand are known with certainty. However, the Distributor's environment is somewhat different. On the one hand the short-term market price can vary significantly over a few months, as shown in the last weeks. In addition, the demand can vary from month to month so that the transfer from one month to another was not only completely useless but that it had the consequence of reducing the consumption of Heritage electricity.

Finally, the transferable quantity of energy remains somewhat limited compared to all the short-term market purchases that the Distributor intends to carry out within the course of the next years.

Thus, although the concept is interesting, the Distributor does not intend to make these transfers a priority in managing its short-term procurements.

Indeed, the year 2005 will be the first year during which the Distributor will have to manage post-Heritage procurements. The first efforts will be obviously devoted to adopting a management infrastructure that will allow to ensure the maintenance of the supply-demand balance throughout the year. This will obviously be followed by the gradual establishment of methods, softwares and models, which will enable the Distributor to refine its supply strategies. These improvements will be inspired by the experience gained day after day. Let us recall that the Heritage electricity contract represents a procurement contract not very comparable with the supply arrangements of others distributors. Particular methodologies will have to be developed for its management.

(f) What are the incentives to HQD to minimize the cost of market purchases?

Answer:

The incentive for the Distributor to minimize its procurement costs are bound mainly with the objectives of Hydro-Quebec Distribution to minimize rate increases, with the objectives of LRE to resort to the least expensive procurement sources and with the multiple levels of the regulatory framework which guide the procurement operations.

See also the answer to question 13.4 of UC in Hqd-14, document 9.

Request # 2

Reference: Hqd-5, Document 3, Page 11

Preamble: HQD calculates the variation in the aggregate load that would result from various climatic conditions.

(A) Please describe the basis for estimating the variation in total load that would result from changes in climatic conditions.

Answer:

The impacts mentioned in the reference were evaluated in case R-3470-2001 according to methodology that the Distributor explained in answer to RNCREQ's question 7.3 in HQD 4, Document 7.

_ (b) Please provide an estimate of the changes in load, by rate class, that would result from the warmest and coldest winter based on the last 30 years of climatic data.

Answer:

The information requested is not available. Nonetheless, the data presented in Hqd-12, document 2, on p. 66 and Hqd-12, document 3, p. 66 detail the temperature effects in 2003 and 2004 per rate category. These data indicate that the shares of the effects in the domestic category are approximately 70 % and 84 % for 2003 and 2004 respectively.

(c) Please provide an estimate of the changes in total load that would result from the warmest and coldest summer over the last 30 years of climatic data.

Answer:

With the hottest summer reported between 1971 and 2000, applied to the consumption structure of year 2005, the demand for energy for the period from June to August would be approximately 0.4 TWh above the normal. In the opposite case, during the coldest summer, it would be 0.4 TWh less than under normal climatic conditions.

(d) Please provide an estimate of the changes in load, by rate class that would result from the warmest and coldest summer based on the last 30 years of climatic data.

Answer:

See the answer to question 2 (b).

Request # 3

Reference: Hqd-5, Document 3, Page 13

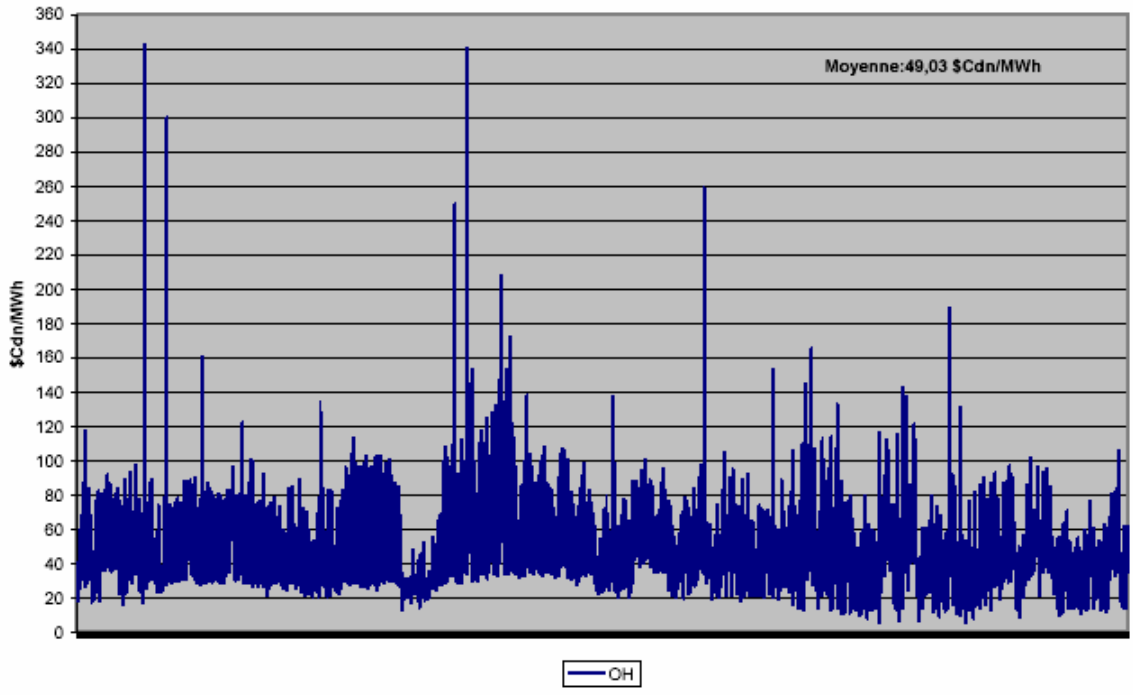
Preamble: HQD shows a list of hourly prices in the NEPOOL market.

(A) Please provide a similar graph for hourly prices in the Ontario market.

Answer:

Hourly prices for the Ontario market during the period from September 2003 to August 2004 appear in the Graph R-3 (A) as follows:

Graph R-3 (A)
Price "Real Time" ($$Cdn/MWh>)
September 2003 at August 2004



(b) What is the average cost for the period shown (U.S.$/MWh for NEPOOL and $/MWh for Ontario)?

Answer:

The average of the hourly prices in the Ontario and NEPOOL markets from September 2003 to August 2004 is $Cdn 49.03 /MWh and $US 50,67/MWh respectively .

(c) Given the variability in the prices shown, what analyses has HQD done to study the effect of different purchasing strategies? Please provide copies of any such studies.

Answer:

Studies linking directly the impact of price variability in the short-term markets and various purchasing strategies have not been done by the Distributor.

Request # 4

Reference: Hqd-8, Document 4, Page 10

Preamble: *Adding these 28 staff members, on the overall, does not have an impact on the administrative expenses of the Distributor since the increase in salary expenses is compensated by an equivalent reduction of the loads of shared services (roughly 2 M$).*

(A) Please provide a breakdown for each of three categories (Page 10, Line 9; Page 10, Line 23; and Page 11, Line 3) according to the categories in Table 3.

Answer:

Table R-4.1 presents the distribution of the manpower increase by the employment group.

Table R 4.1

	AVERAGE MANPOWER		
Employment Group	**Transfer of the Distributor's activities**	**Activities of electricity supply**	**Investments Projects in the scope approved by the Régie**
Office	**5**	**0**	**25**
Permanent	5	0	13
Temporary	0	0	12
Executives	**0**	**1**	**7**
Permanent	0	1	7
Engineers	**0**	**0**	**10**
Permanent	0	0	9
Temporary	0	0	1
Trades	**0**	**0**	**0**
Professionals	**12**	**10**	**5**
Permanent	12	10	5
Specialists	**11**	**6**	**80**
Permanent	11	5	80
Temporary	0	1	0
Technicians	**0**	**0**	**0**
Annual Average Manpower	**28**	**17**	**127**
Permanent	28	16	114
Temporary	0	1	13

(b) How many of these new HQD employees were transferred from CSP?

Answer:

Hqd-8, Document 4 mentions that the CSP transferred to the Distributor its invoice printing service as well as the related manpower, which represents 4 staff members. This transfer is explained by the fact that this activity is exclusively dedicated to the benefit of the Distributor and that consequently it does not constitute a shared service.

The invoice printing service concerning only the Distributor, other divisions of Hydro-Quebec are not affected by this transfer of activities.

(c) How many were transferred from other corporate divisions of HQ? Please identify the other corporate divisions and the number of employees from each.

Answer:

Twenty four employees were transferred from the Finance Vice-Presidency due to the decentralization of accounting activities of the corporate units towards the divisions.

Request # 5

Reference: Hqd-8, Document 2, Page 5

Preamble: The patrimonial energy for 2005 equals 166 400 GWh. In order to manage the procurement of post patrimonial energy it is necessary to assess the amount of patrimonial energy available.

(A) Please describe the flexibility available to HDQ to determine when the patrimonial energy shall be received.

Answer:

The Distributor does not have to reserve for a given hour the quantity of Heritage electricity that it wishes to consume. In fact, the Heritage consumption will be established by deducting from the real demand of a given hour, the deliveries made in virtue of other agreements than the Heritage contract.

(b) Please describe the limitations of the patrimonial energy in terms of minimum and/or maximum volumes that are available each month, day and/or hour.

Answer:

There is no monthly, daily or hourly operational limit of the Heritage electricity. The only limitation applies to the availability of the sticks defining the Heritage electricity.

Request # 6

Reference: Hqd-8, Document 4, Page 11

Preamble: *Adding these 127 staff members, on the overall, does not have an impact on the administrative expenses of the Distributor since the increase in salary expenses is compensated by an equivalent increase in the in the capitalized costs since these projects are of capitalizable nature.*

(A) Please show the amount of costs to be capitalized in respect of SIC and PGEÉ, respectively.

Answer:

The costs of the manpower assigned to the SIC and PGEÉ projects, just as the other costs directly contributing to the work of these employees, are included in the investments by way of the work provisions.

In 2005, the total costs included in the Distributors' investments by way of the work provisions amount to $9,9M for the SIC project and $6,3M$ for the PGEÉ. The Distributor wishes however to specify that these amounts are not referring only to 127 employees mentioned in the preamble (new employees of the Distributor), but that they include the whole manpower costs of the Distributor related to these projects (new and old employees of the Distributor).

(b) Will SIC have to go a longer-range impact of reducing manpower and other costs related to customer services? If so, how much are the expected savings and when will they start to be realized?

Answer:

The SIC project lies within the framework of an in-depth reform of the process supporting the commercial relations of Hydro-Quebec Distribution with its customers. Its objective is to support the modernization of the ways the Distributor interacts with its customers in order to meet their demands today and in the future. It aims to modernize the information systems in order to initially support the new standards of performance and then allowing their evolution following the needs of the customers. In addition, the replacement of

the information systems ensures the continuity on the level of the assets related to the information technologies of the Distributor. Finally, the project aims at improving the Distributor's efficiency in terms of management and control of its costs as well as the ability to respond to the changes in the regulatory environment.

After the project will be operational, the productivity gains and the service cost reductions of customer service brought by the recasting of the work processes and the new systems will be of the order of $20M a year. These gains follow especially from the better integration of the information systems and the acceleration of the time required to handle customers' requests. The project was the subject of a request for authorization by the Distributor (Request R-3491-2002) that the Régie granted (Decision D-2002-280). It is also the subject of an annual follow-up process.

Request # 7

Reference: Hqd-8, Document 5, Page 4

Preamble: *The charges of Financial Resources notably include irrecoverable debts, allowances for damages and interests paid on the deposits of the customers. For 2004 and 2005 it also includes various provisions having the purpose to protect against some operational risks. These provisions include among others:*

- *Additional expenditures of a non-capitalizable nature associated with the realization of the SIC project and with the compliance program of the aerial network as well as certain special projects concerning the autonomous networks;*
- *The takeover of the management of the distribution network of Schefferville.*

(A) What portion of SIC expenses are not capitalized? Why is there uncertainty as to this amount?

Answer:

In a general way, the costs of a non-capitalizable nature that are connected to the SIC project are as follows:

- **Planning of the project, that is the analysis of the processes, the feasibility study, identification of materials and selection of the suppliers;**
- **Updating the user's guidelines and training the users;**
- **Support and maintenance following the introduction of SIC.**

When known or predictable, these costs were recorded (2003) or were the subject of budgeting (2004-2005) in the appropriate accounts.

Hqd-8, document 5 refers to a comprehensive provision taken by the Distributor which could amongst other things cover, in the case of the SIC project, the excess of the costs (non-capitalizable) or for which specific planning was not possible.

_ (b) What uncertainties are associated with taking over the Schefferville network?

Answer:

The uncertainty concerning the electric network of the city of Schefferville is linked to the probability, the nature as well as the extent of the work. The work associated with the production, transmission and distribution of electricity in the community will have to be carried out by the Distributor following the takeover, in order to ensure the compliance with acceptable standards.

Request # 8

Reference: Hqd-8, Document 7.1, Page 11, Table 7

Preamble: According to Hqd-8, Document 4, Page 10, part of the increase in manpower of HQD is because of the transfer of employees and operations from CSP to HQD.

(A) Please identify whether there were similar transfers of employees and operations from CSP to HQP and HQT. Identify the number of employees.

Answer:

See the answer to question 4 (b).

(b) Why do the projections for 2004 and 2005 not show any reduction in CSP manpower resulting from the decentralization of the divisions?

Answer:

The number of employees transferred by the CSP is 4 and is marginal compared to the total number of manpower of the CSP. In the financial evidence in Hqd-8 document 7.1, the CSP mentions that it does not expect to increase its manpower between 2003 and 2005.

Request # 9

Reference: Hqd-8, Document 11, Page 3

(A) Please provide the details of the calculation of depreciation of plant (fixed assets) showing the amount of each type of property and the depreciation rate.

Answer:

Table R-9.1 provides the details on the depreciation charges of fixed assets from 2003 to 2005, such as presented in Hqd-10, document 2.

TABLE R-9.1
Depreciation Charges of Fixed Assets

DEPRECIATION OF THE FIXED ASSETS	Historic year	Basic year	Pilot year
	2003	**2004**	**2005**
Measuring Equipment	24,1	24,9	24,3
Distribution Stations (DS)	5,1	2,9	1,3
Overhead Distribution Lines	197,0	203,7	213,4
Underground Distribution Lines	69,6	73,0	76,8
Autonomous Networks	30,1	34,8	35,7
Other Networks Assets	0,6	0,6	0,6
Supporting Assets	67,4	79,6	59,5
Total	**393,9**	**419,5**	**411,6**

The Distributor wishes to present the following precisions concerning the information structure of the fixed assets and the method for the calculation of depreciation charges.

Information Structure

The Distributor divides the fixed operating assets in seven groups as shown in the table above. Each group of assets consists of one or several categories. An asset category includes several fixed assets; each one possesses a distinct fixed asset identification number.

Table R-9.2 illustrates the different groups of fixed assets of the Distributor.

TABLE R-9.2
GROUPS OF FIXED ASSETS OF THE DISTRIBUTOR

Groups of assets	Categories	## of categories	## of total fixed assets
Measuring Equipment	Measuring Equipment	22	**Approximately 31 000**
Distribution Stations (DS)	Distribution Stations (DS)	110	
Overhead Distribution Lines	Overhead Distribution Lines	27	
Underground Distribution Lines	Underground Distribution Lines	26	
Autonomous Networks	Hydraulic production	44	
	Other Production	97	
	Transportation Stations	52	
	Distribution Stations	39	
	Overhead Distribution Lines	17	
	Buildings, rolling stock and others	37	
Other Networks Assets	Streets lighting - overhead	3	
	Streets lighting - underground	4	
Supporting Assets	Buildings	91	
	Rolling stock	7	
	Data-processing equipment	2	

	Miscellaneous	74	

Thus, the register of the fixed assets of the Distributor has more than 31 000 fixed assets.

Depreciation Method

Each category of assets has its own lifespan. To all fixed assets Hydro-Quebec applies one of the two following depreciation methods:

- **depreciation method at the compound rate of 3% for the basic assets, its administrative and service buildings, and some intangible assets;**
- **straight-line depreciation method for other assets.**

The majority of the fixed assets of the Distributor are depreciated according to the depreciation method at the compound rate.

Depreciation charges in 2003

The depreciation charges in 2003 were generated by the SAP accounting system for each fixed asset registered in the fixed assets register.

Depreciation charges in 2004

The depreciation charges in 2004 were established as follows:

1. **For the first four months of the year: the real depreciation charge generated by SAP for each fixed asset;**
2. **For the last eight months of the year, the depreciation charge corresponds to the following amounts:**
   - **a. a simulation of the depreciation charge generated by SAP for each fixed asset registered in the fixed assets register as of December 31, 2003;**
   - **b. a simulation of the depreciation charge for fixed assets brought into service in 2004 for each category. This simulation is prepared based on the average lifespan.**

Depreciation charges in 2005

The depreciation charges in 2005 correspond to the sum of the following elements:

1. a simulation of the depreciation charges for 2005 generated by SAP for each fixed asset registered in the fixed assets register as of December 31, 2003;
2. a simulation of the depreciation charges for 2005 for fixed assets put in service in 2004 for each category, based on the average lifespan;
3. a simulation of the depreciation charges for 2005 for fixed assets put in service in 2005 for each category, with the average lifespan.

Detail of the calculations of depreciation
The Distributor specifies that the calculations described above are prepared for each center of profit and then cumulated to obtain the total data of the Distributor.

The applied calculation methods make it possible to obtain a high level of precision. In addition, they involve an significant volume of information which cannot be the subject of a report in the current request.

Nevertheless, for illustration, the Distributor presents in Table R-9.3 the depreciation charges for the category "Measuring equipment" totaling $ 24,3M for the year 2005. The table reflects the described stages of calculation. The average lifespan of this category is estimated at 256 month or 21,3 years.

TABLE R-9.3
DEPRECIATION CHARGES IN 2005
CATEGORY: MEASURING EQUIPMENT

Category	Designation of the category	Life Term (years)	Depreciation method	Depreciation
1) Depreciation of assets registered in the register of the fixed assets as of December 31, 2003:				
34266	REGULAR WATHOURMETERS AND Bi-Energy	25		7,85
34267	POWER METER INDICATOR	25		2,06
34268	METERS WITH DIGITAL DISPLAY AND ANALOG JEM	10		0,06
34269	ELECTRONIC METERS	10		3,88
34271	METERS WITH IMPULSE	10		0,03
34272	INDICATOR METERS WATH. AND POWER	10		0,36
34275	SPECIALIZED METER	10		0,61
34276	ELECTRONIC RECORDERS	10		0,19
34277	COMBINE MEASURING MEDIUM VOLTAGE	25		0,05
34278	COMBINE MEASURING HIGH VOLTAGE	25		0,22
34279	LOW VOLTAGE TRANSFORMER OF UP TO 750 VOLTS	25		0,51
34280	MEDIUM VOLTAGE TRASFORMER FROM 751 TO 50000 VOLTS	25	Compound Rate	0,08
34281	HIGH VOLTAGE TRANSFORMER FROM 50000 V AND MORE	25		0,05
34282	TRANSFORMERS OF CURRENT FROM 0 TO 999AMP	25		0,57
34283	TRANSFORMER OF CURRENT FROM 1000 AMP AND MORE	25		0,10
34284	TEST BLOCKS AND CONNECTOR BLOCK	30		0,69
34285	RELAY Of ISOL., TRANSM., RECEPT.IMPULSIONS	15		0,02
34286	CONTROLLER FOR RESIDENTIAL Bi-Energy	25		0,75
34289	CONTROL CLOCK AND PROBE	20		0,86
34291	ENERGY METER NERTEC	20		0,75
34292	RADIOFREQUENCES TELELECTEUR	10		2,66
34294	DEVICE TO READ METERS	5		0,57
				22.92
2) Impact of the startups 2004		256 months		**0,93**
3) Impact of the startups 2005		256 months		**0,44**
				24,3

(b) Have there been any changes in the depreciation rates for plant in service? If so, please explain.

Answer:

There was no change in the depreciation rates of fixed assets.

(c) Please provide the derivation of the depreciation/amortization of intangible assets (actifs reglementaires) and regulatory assets (actif incorporels).

Answer:

Table R-9.4 details the depreciation charge of the intangible assets for 2003 to 2005, as presented in Hqd-10, document 2.

Table R-9.4
DEPRECIATION CHARGES OF THE INTANGIBLE ASSETS

DEPRECIATION OF THE INTANGIBLE ASSETS	Historic year 2003	Basic year 2004	Pilot year 2005
Software	28,0	26,2	39,2
Other intangible assets	0,0	1,0	1,0
Total	**28,0**	**27,2**	**40,2**

The Distributor divides intangible assets into two groups of assets. Like all fixed assets in operation, each group of assets consists of one or more categories. The assets' categories include several intangible assets, each in its turn incorporates its own intangible assets identification number.

The following table illustrates the Distributor's intangible assets division.

Groups of assets	Categories	Numbers of categories	Total numbers of fixed assets
Software	Software	6	**Roughly**
Other intangible assets	Other intangible assets	2	**900**

Establishment of the depreciation charge

The depreciation charges are established in same manner as those for the fixed assets.

(d) Have there been any changes in the depreciation rates applied to such assets? If so, please explain.

Answer:

There was no change in the depreciation rates of intangible assets.

Request # 10

Reference: Hqd-10, Document 4

Please provide the details of the calculation of the lead or lag days for revenue and for each category of expense.

Answer:

The details of calculations for the lead-lag study was presented in Hqd-6 part, Document 6 of phase 1 of Request R-3492-2002. The calculations used in the current rate case are the same.

REQUESTS FROM RON MIKKELSENS

Request # 1

Reference: Hqd-5, Document 3, Pages 23 to 26

Preamble: HQD discusses the treatment of costs associated with post-patrimonial energy.

(A) Is it the position of HQD that the costs of post-patrimonial energy must be allocated between rate classes in a manner consistent with the allocation of costs for the patrimonial energy? If so, please explain the basis for this view.

Answer:

See the answers of the Distributor to question 23.1 of Union des Consommateurs in Hqd-14, document 9 and 31.1 and 31.2 of the Régie in Hqd-14, document 1.

(b) Does HQD propose to recognize deferral costs arising from differences between forecast and actual load by rate class?

Answer:

No. The deferred expenses account proposed by the Distributor in Hqd-5, document 3 under "pass on" of the costs of supply beyond the volume of Heritage electricity has the following objective:

- **The recognition the net variations of supply arising from the difference between:**
  - **The increase or decrease in costs resulting from the difference between the real costs of supply in the course of the pilot year and the costs projected for the same pilot year. This difference includes all sources of climatic and demand risks;**
  - **And the increase or decrease in revenues associated with the volumes (of energy) sold. These revenues are calculated on the basis of average required revenue of the supply component;**
- **To charge these net variations to the deferred expenses account;**

- **To charge this account to the Distributor's required revenue where it will be added or deducted from the costs of procurements;**

- **To allocate the costs of procurements, including the deferred expenses account, to the various categories of consumers according to the procurement costs allocation methodology recognized by the Régie.**

In summary, the calculations of the net variations charged to the deferred expenses account are made globally, without taking into account tariff categories.

_ (c) Does HQD propose to recognize deferral costs arising from differences between forecast and actual energy costs by rate class?

Answer:

No. See the answer to the prior question.

Request # 2

Reference: Hqd-5, Document 3, Pages 23 to 26

Preamble: HQD discusses the proposed treatment for actual energy costs incurred.

(A) Please describe and rank in importance the major uncertainties in forecast load (e.g. climatic factors, growth in number of customers etc.) by rate class.

Answer:

The requested information is not available. Nonetheless, in the Distributor's request R-3550-2004 to approve the procurement plan 2005-2014 submitted to the Régie on November 1st, the standard deviation of the impact on the energy requirement from the economic risk was established at 4,6 TWh for 2005, while the standard deviation of the impact of the climatic risk is about 1,8 TWh. (Hqd-2, document 1, section 2.4 of R-3550-2004).

(b) Please describe any load research undertaken by HQD, which assists in understanding the load characteristics (average daily load shapes, seasonal variations etc.) of the various rate classes. Please provide copies of any such studies.

Answer:

The consumption characteristics considered for allocating the Distributor's costs of supply and the deferred expenses account are presented in Hqd-12, Document 4, Tables 9A and 9B of pages 15 and 16, as well as in Table 53 on page 70 of appendix 4.

(c) Can HQD confirm that the proposed deferral allowance mechanism will recognize the costs of energy to serve deviations from forecast load and also the incremental revenue impacts of such deviations?

Answer:

The Distributor confirms it. Only the variations of costs (increases or decreases compared to the costs of supply forecasted for the pilot year) net of the revenues associated with the increased or decreased volumes are actually targeted by the proposed mechanism.

Request # 3

Reference: Hqd-5, Document 3, Pages 6 and 17

Preamble: HQD discusses the balancing of risks and the procurement of energy under shorts term energy contracts.

Please describe and discuss the factors which HQD will consider in determining the extent to which energy will be purchased under term contracts or be purchased at real-time market prices.

Answer:

The Distributor intends, in a general manner, to supply a large proportion of the expected annual demand through calls for tender.

By proceeding in this way, the Distributor ensures the safety of procurements at the beginning of the year. These calls for tender will be targeting products available on the market.

In addition, a certain quantity of energy cannot easily be satisfied by the standard short-term products. These requirements may come from climatic risks, temporary unavailability of the Supplier's operating equipment or poor balance between the profile of the Heritage and the demand profile. It is because of these unforeseeable requirements that the Distributor intends to resort to the very short-term markets.

For this purpose the Distributor filed with the Régie the request for exemption (File R-3539-2004).

The quantities purchased on the very short-term markets will vary from one year to another due to the reasons stated above.

See also the answer to question 1 (A) of Mark Drazen.

Request # 4

Reference: Hqd-5, Document 3, Page 8

Preamble: HQD discusses management of costs in contracts for post- patrimonial energy.

Please describe the nature of the contract terms in any existing contracts for post-patrimonial energy in 2005. Are the energy costs fixed $/mwh, tied to market prices for electricity and/or tied to natural gas prices? Are there components of cost that are incurred regardless of the amount of energy actually received?

Answer:

Beyond the volume of Heritage electricity in 2005, the Distributor will have on hand a portfolio of contracts for which all the prices will be fixed in $/MWh. Certain contracts comprise base deliveries which will have to be received by the Distributor, if not, the latter will have to pay damage fees to the supplier. Other contracts also comprising base deliveries offer the Distributor some flexibility in customizing programs of deliveries allowing him to reduce the annual cost of purchases that it will have to realize.