

**PRESENTATION  
OF THE REQUEST OF THE TRANSMITTER**



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1       **1       CONTEXT**

2       The *Transmission Service Rates and Conditions of Hydro-Québec* ("rates  
3       and conditions") are in effect since January 1, 2001, in accordance with  
4       decision D-2002-95 of April 30, 2002 of the Régie of energy (the "Régie") and  
5       with the supplementary decisions given thereafter, particularly  
6       decision D-2003-12 of January 16, 2003 approving the final text of the rates and  
7       conditions.

8       On September 30, 2004, Hydro-Quebec in its electricity transmission  
9       activities (the "Transmitter") filed with the Régie the  
10      request R-3549-2004 relating to the modification of the conditions of the transmission  
    services

11     especially targeting the establishment of applicable transmission rates  
12     as of January 1, 2005.

13     In practice, the request R-3549-2004 relating to the modification of the  
14     conditions of transmission services was divided into two phases in order to  
15     ensure a rigorous and effective treatment.

- 16     • Phase 1 concerned the determination of the required revenues of the  
17       Transmitter and resulted in decisions D-2005-50 of March 31, 2005  
18       and D-2005-63 of April 15, 2005. During this first phase, the  
19       Transmitter addressed, in particular, the following subjects:  
20       regulatory principles and methods for establishing service cost,  
21       transmission network planning, performance indicators,  
22       global financial projections, the necessary expenditure  
23       for the delivery of the (~~cost of~~) service, the rate base  
24       as well as the structure and the cost of capital.
- 25     • Phase 2 concerns the allocation of the cost of service of the Transmitter  
26       and the determination of the rates of the transmission services, including the  
27       establishment of the invoice for the transmission service to supply the local

1 load and the determination of the rates for the point-to-point transmission  
2 service for the year 2005. This constitutes the object of the current request.

3 In its request of September 30, 2004, the Transmitter also asked  
4 the Régie to order that existing rates for electricity transmission  
5 services be declared provisional as of January 1, 2005 and that the Transmitter be  
authorized to apply the new electricity transmission rates in a retroactive fashion as of  
the same date.

8 December 1, 2004, through its decision D-2004-253, the Régie declared the  
9 existing rates of the electricity transmission services provisional as of  
10 January 1, 2005. It ordered the Transmitter to publicize, as soon as possible,  
11 this decision in its *Open Access Same-Time Information*  
12 *System* (OASIS) as well as to notify its customers that the  
13 existing rates are provisional and subject to revision following the determination of the  
final transmission rates.

14 The Transmitter conformed to this ordinance by  
15 disseminating the necessary information on its OASIS system as of  
16 December 1, 2004. The Régie indicated that it will come to a conclusion about the  
request

17 for the retroactivity of the transmission rates during the second phase.

18 Concerning Phase 1 of the request of the Transmitter relative to the  
19 modification of the conditions of the transmission services, the Régie, in its  
20 decision D-2005-63 targeting the projected pilot year 2005, has in particular:

- 21 • approved the required revenues at a level of 2 591.0 M\$;
- 22 • approved a rate base of 14 657.1 M\$;
- 23 • authorized a weighted average cost of capital applicable to the rate base  
24 of 8.34 %, which results from a return  
25 on its stockholders' equity of 8.58 %;
- 26 • established the average cost of the prospective capital at 6.80 %.

1 In its decision D-2005-50, the Régie authorized the Transmitter to file  
2 rates allowing him to receive the required revenue for the year 2005.  
3 The present request conforms in all points to the provisions of the *Act*  
4 *on the Régie of energy* (the "Act"). It also conforms with the ordinances  
5 and relevant decisions of the Régie and with governmental decrees, in addition to the  
6 regulatory principles stated in decisions D-99-120, D-2002-95  
7 and D-2005-50.

8 In the paragraphs that follow, the Transmitter will describe summarily  
9 the evidence submitted in support of the second phase of its request.

## 10 **2 CONTENT OF THE REQUEST OF THE TRANSMITTER**

### 11 **2.1 Introduction**

12 After having presented in HQT-1, Document 1, the context of  
13 the regulations that apply to this request, the Transmitter presents,  
14 in HQT-1, Document 2, the measures he adopted following the requests  
15 formulated by the Régie that affect the information to be provided  
16 within the framework of the current Phase 2. In this context, he presents, in the form of  
17 a table, the details of the requests of the Régie and the references to the pieces and  
18 documents containing the elements provided in response to them. It also provides  
19 the information relative to certain requests formulated by the Régie.

### 20 **2.2 Marketing**

21 The section HQT-2 of the evidence pertains to the aspects related to the  
22 marketing of transmission services. In HQT-2,  
23 Document 1, the Transmitter first provides a report about the commercial context in  
24 which he operates. This context is characterized among other things by a  
25 significant increase in the needs of the local load, a significant reduction in the  
26 reservations of the long-term point-to-point transmission service  
1 and a large number of requests for the connection of power stations to  
2 the transmission network. This context, combined with the desire of the Transmitter to  
3 specify certain business practices, render necessary the modifications

4 that the Transmitter proposes to certain provisions of the *rates and conditions*.

5 After having described the electricity market in Quebec and those of the neighboring  
6 areas,

6 the Transmitter presents the transmission services and the supplementary  
7 services that he offers. He provides a progress report on the transitory reduction  
8 policy which was into effect from January 15, 2003 to January 14, 2004 following  
9 decisions D-2002-95 and D-2003-02 of the Régie. He then discusses the  
10 relevance of establishing a new reduction policy. The Transmitter continues  
11 with the provision of information on its commercial relations with its  
12 customers. He provides a progress report on its OASIS system and the  
13 evaluation of customer satisfaction with regard to the services that he supplies to them.  
14 He finally discusses the complaints examination procedure that was modified at  
15 the request of the Régie in its decisions D-2002-95 and D-2002-180 in order to  
16 include the possibility of the emergency treatment of a request in the case where  
17 a transmission service request is refused by the Transmitter.

18 In piece HQT-2, Document 2, the Transmitter conducts the assessment and provides  
19 explanations on the evolution of the use of the transmission network since the  
20 last rate request in 2001. He then provides a status report on its  
21 forecasts for the needs relating to the various transmission services for  
22 the year 2005 and on the revenues that will come from these services.

23 Pieces HQT-2, Documents 3 and 4 contain respectively the *Assessment of*  
24 *the transitory reduction policy* and the text of the accelerated complaints  
25 examination procedure.

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1      **2.3 Allocation of the cost of service**

2      Following up on a request of the Régie in decision D-2002-95, the section  
3      HQT-3 of the evidence of the Transmitter pertains to the allocation of the cost of  
4      service.

5      In procedural decision D-2004-206 pertaining to Phase 1 of  
6      the current request of the Transmitter, the Régie mentioned that it  
7      would deal with this subject in Phase 2.

8      In HQT-3, Document 1, the Transmitter presents the allocation method of the cost of  
9      service by initially outlining the foundations on  
10     which rest the three following stages: the allocation of the costs of service  
11     by function, component and service. The Transmitter explains the manner  
12     each one of these stages apply to its situation and finishes by presenting  
13     a table summarizing the allocation of the cost of service for each year from  
14     2001 to 2005. The Information of this table is presented in  
15     more detail for each of those years in HQT-3,  
16     Documents 2 to 6.

17     In its decision D-2002-95, the Régie requested the Transmitter, on the topic of  
18     the allocation of the cost of service between the components, power, energy  
19     and subscription, to include in the allocation the data necessary  
20     to examine, if necessary, the energy component to be applied to the cost of the  
21     departure stations and the lines connecting power stations.

22     The Transmitter presents this data in HQT-3, Document 7 as well as  
23     the scenarios of the allocation of the cost of the transmission service which result from  
24     this.

25     Lastly, the Transmitter provides in HQT-3, Document 8, as he had  
26     committed, the information requested by the Régie within the framework of

1 Phase 1 with regard to more detailed data relative to  
2 depreciation.<sup>1</sup>

### 3 **2.4 Rate Determination**

4 The section HQT-4 of the evidence concerns the elements relating to the determination  
5 of the rates

6 of the transmission services intended to allow the Transmitter to recover the  
7 required revenues approved by the Régie in Phase 1.

8 HQT-4, Document 1 initially addresses the determination of the rates of the  
9 transmission services that were established in order to ensure the stability and  
10 continuity of existing rates. The Transmitter then addresses the determination of the  
11 rates for supplementary services as well as the maximum allowances for additions to  
12 the transmission network and the maximum contribution for departure stations.

13 The Transmitter initially states that the rate setting principles that guided him  
14 are the same as those which were used for the development of existing rates. He  
15 proposes the maintenance of a postage stamp type rate which respects  
16 in particular the territorial uniformity principle of rate setting on  
17 the entire transmission network, as stated in article 49 of the Act.

18 The Transmitter recommends the maintenance of the recovery of the required revenues  
19 from all the revenues from the transmission services that he offers. He  
20 also proposes to maintain the determination of the rates according to  
21 the peak power demand since the transmission network is conceived, planned and  
22 operated to face the peak winter load. Lastly, it proposes to continue  
23 to express the rates in \$/kW.

24 The Transmitter then discusses the determination of the rates for transmission  
25 services. For point-to-point transmission services, he proposes to renew the  
approach used to establish existing rates. He provides explanations on

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<sup>1</sup> R-3549-2004, Phase 1, HQT-10, Document 1, p. 128, request 60.1 and HQT-10, Document 1.7, p. 31, request 16.1.

1 the establishment of the annual, monthly, weekly, daily and hourly rates  
2 for these services. The rates that he proposes are essentially the same as  
3 existing rates which allows to ensure rate stability for its customers.  
4 On the subject of transmission services for the supply of the local load,  
5 the Transmitter proposes to maintain the approach where a fixed amount  
6 is established and invoiced to the customer of this service, Hydro-Quebec in its  
7 activities of distribution of electricity (the "Distributor").  
8 As explained in a more detailed manner in HQT-2,  
9 Document 2, the forecasted needs of the local load will increase by  
10 7,4 % in 2005 compared to the forecasted needs retained in 2001 for  
11 the establishment of the annual amount invoiced since then. The Transmitter provides  
12 information on the determinants of the fixed amount of 2 483 M\$ that he  
13 proposes for this service. This amount represents an increase of 7,3 %  
14 compared to the amount currently invoiced. This rise is however  
15 slightly less than the growth observed in the needs for the local load,  
16 so that the unit cost invoiced with the Distributor is slightly  
17 lower than that established in 2001.  
18 As for the interconnected network transmission service, the Transmitter does not expect  
19 any demand, since there is no customer who subscribes to this service.  
20 Consequently no income is planned for this service.  
21 In addition it is useful to stress that the renewal of the rate structure  
22 proposed by the Transmitter for transmission services is coherent  
23 with the results of the allocation of the cost of service presented in section  
24 HQT-3, Document 1.  
25 The remainder of section HQT-4, Document 1 pertains to the rate determination of  
26 supplementary services. The Transmitter proposes to update the rates of these  
27 services, from the same approach as that used to establish existing rates

1 and this, in order to reflect the evolution of the transmission needs over the  
2 past years and the price of the production fixed by the producer who provides  
3 these services.

4 The Transmitter then examines the cost of the additions to the transmission  
5 network that must be carried out to meet the requirements of transmission service  
6 customers. The cost which can be integrated into the rate base of the  
7 Transmitter is limited to the maximum amount established in accordance with  
8 the instructions of the Régie in decision D-2002-95. The Transmitter proposes  
9 to revise this maximum amount and provides information on the topic of the  
10 new maximum amount proposed, which was established by taking into account  
11 the applicable financial parameters following decision D-2005-63  
12 relative to Phase 1 of the current request of the Transmitter and the annual rate  
13 now proposed. As for the cost of departure stations, the  
14 Transmitter proposes to renew the maximum amounts that are  
15 currently applicable.

16 The schedule of the transmission services rates suggested is presented in section  
17 HQT-4, Document 2.

18 The expert report of Dr. Ren Orans on the structure of the transmission rates  
19 (rate setting) is presented in section HQT-4, Document 3. This expert  
20 evaluated the rate structure suggested by the Transmitter by taking into account the  
21 particular characteristics of Quebec's electricity market and the objectives and  
22 general practices of the industry with regards to rates structure. In  
23 essence, Dr. Orans concludes that the *Open Access Transmission Tariff* (OATT)  
24 that the Transmitter proposes, which follows the model endorsed by the Federal  
25 Energy Regulatory Commission (FERC), generally respects the principles  
26 accepted with regards to electricity transmission service rates and  
27 aligns itself to the general practices of the industry in North America.

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## 1      2.5      **Rates and conditions**

2      In HQT-5, Document 1, the Transmitter presents the modifications  
3      that he proposes to some other provisions of the *rates and conditions*.  
4      The Transmitter believes that these modifications will allow to respond to the  
5      needs of its customers in addition to the expectations of the Régie and to ensure  
6      the compatibility of the services that it offers with those proposed in neighboring  
7      markets. These modifications relate mainly to:

- 8      - the connection of power stations;
- 9      - the HQT reception point;
- 10     - additions to the network in the case of temporary service;
- 11     - the solvency and the management of credit risk;
- 12     - supplementary services;
- 13     - emergency energy;
- 14     - transmission services agreements.

15     In addition, the Transmitter provides a progress report on the priority granted for  
16     the use of the interconnections, however, without proposing modifications.

17     The Transmitter presents in HQT-5, Document 2 a table indicating the  
18     modifications suggested to the *rates and conditions* as well as the elements  
19     justifying them. Lastly, the modified text of the *rates and conditions* are presented in  
20     HQT-5, Document 3.

## 21     **3      CONCLUSION**

22     In the procedures that he carried out in order to establish transmission service  
23     rates and to determine the other modifications to be made to the rates and  
24     conditions, the Transmitter took into account the commercial context in which  
25     he operates. This context is characterized in particular by a significant increase  
26     in the needs for local load, a significant reduction in

1 the reservations of the long term point-to-point service and a large number of  
2 requests for the connection of power stations.

3 The purpose of the rate proposal submitted by the Transmitter is to allow him  
4 to recover the required revenues approved by the Régie while ensuring  
5 the stability and continuity of the rates which he invoices to its customers for the  
transmission services

6 that he provides to them. The increase in the amount invoiced to the Distributor  
7 for the transmission service for the supply of the local load corresponds  
8 altogether with the forecasted increase in the needs for transmission services  
9 in 2005 compared to 2001. The unit cost invoiced to the Distributor is  
10 therefore slightly lower than that applied since 2001. On their part,  
11 the rates for point-to-point transmission services are,  
12 practically, the same as the existing rates, ensuring at the same time  
13 stability and continuity for the customers of these services.

14 With respect to the rate structure, the expertise of Dr. Ren Orans supports  
15 the approach proposed by the Transmitter since, according to this expert, it  
16 respects the principles generally accepted as regards to setting  
17 electricity transmission service rates. Moreover, let us recall that the rates suggested  
by  
18 the Transmitter are coherent with the results of the allocation of the cost of service.

20 The Transmitter proposes, in addition, modifications to certain aspects of the  
21 *rates and conditions* that he considers necessary for responding  
22 to the needs of its customers and to ensure the compatibility of the  
23 electricity transmission services that he offers with those offered in neighboring  
24 markets.

25 Lastly, the Transmitter submits that the proposals made within the framework of  
26 Phase 2 results in the maintenance of fair and reasonable rates and other  
27 conditions applicable to transmission services.