Réponse au demande de renseignements n° 1
d'Hydro-Québec TransÉnergie à Option consommateurs
Relative à la demande R-3549-2004 – Phase 2

1. Référence : i) Rapport de William Harper, page 9.

Préambule :

i) *«Table 2 summarizes the imports and exports reported by the NEB for the same period – broken down between those by HQP and other parties.»*

Demandes :

1.1 Veuillez fournir la définition des imports et exports publiés par l'Office national de l'énergie (ONÉ).

Response

The NEB publication does not contain a formal definition of imports or exports. However, it is Mr. Harper's understanding that exports represent electricity delivered from Canada to the US whereas imports represent electricity delivered from the US to Canada. For information purposes, a copy of the NEB's Electricity Exports and Imports - December 2004 is attached.

1.2 Est-ce que les autres parties (« others parties ») constituent un regroupement de plusieurs importateurs ou exportateurs ? Dans l'affirmative, veuillez indiquer lesquels.

Response:

Yes, "other parties" represent a grouping of importers or exporters. The actual parties in the grouping vary from year to year. However, over the 2001-2004 period:

- Importers included Énergie Maclare, MEHQ and Brascan.
- Exporters included Énergie Maclare, MEHQ, and Brascan.

2. Références : i) Rapport de William Harper, page 12. ii) Rapport de William Harper, page 47.

Préambule :

i) « *Traditionally, cost allocation studies also employ a three-step process where:*

- *The revenue requirement is functionalized according to the services the utility provides,*
- *The costs in each function are classified according to the system design or operating characteristics that caused the costs to be incurred, and then*
- *The costs in each function are allocated to the various customer classes based on each class' contribution to the specific cost driver selected*[38] *.*

[38] *D-2002-95, page 210* »

ii) *« Table 5 sets out the allocation of 2005 total cost service to Native Load and long-term PTP service using the foregoing recommendations regarding the allocation of each function and sub-function's costs. »*

Demandes :

2.1 Veuillez justifier votre approche d'utiliser dans le cadre de la répartition du coût du service les revenus de 78 M$ indiqués au Tableau 5.

Response:

The objective of the cost allocation methodology is to allocate the revenue requirement that is to be recovered from Native Load/Network Integration service and Long-Term Firm PTP service between the two services. The revenue requirement to be recovered from these two services is HQT's total revenue requirement for 2005 (i.e., $2,591 M) less the revenues that are forecasted to be received from Short-Term PTP sales ($78 M). As a result, the cost allocation methodology must deal with the revenues associated with Short-Term PTP sales.

The proposal is to identify the costs that can be attributed to Short-Term PTP sales and then allocate the net revenues of $68.7 M (i.e., revenues of $78 M less allocated Control Centre costs of $9.3M) to each of the two services based on the total costs

attributed to each through the cost allocation methodology. The rationale for this approach is set out on pages 36-37 of the OC Evidence.

2.2 Veuillez expliquer comment votre approche s'insère dans les étapes spécifiées au point (i) du préambule.

Response:

The forecast revenues from Short-Term PTP service represent a cost (or in this case, a cost reduction) that needs to be allocated to Native Load/Network Integration and Long-Term PTP services. As a result, while these revenues are not assigned to a unique function (as per step one of the quote), Mr. Harper's Evidence proposes that they be tracked and treated separately.

As is the case of the costs attributed to the Support function, there is no clear underlying cost driver. As a result, the cost allocation methodology must allocate the cost reduction attributable to Short-Term PTP services in a manner that best recognizes the nature and source of the associated revenues. Since Short-Term PTP service uses the lines and stations constructed to support Native Load/Network Integration and Long-Term PTP services, Mr. Harper's approach is to use the revenue from Short-Term PTP service to offset (i.e., reduce) the costs of these facilities. However, prior to doing so, the cost allocation methodology nets out against these revenues a portion of the costs of the Control Centre function as discussed on pages 44 and 45 of Mr. Harper's Evidence.

Thus, while HQD's proposed cost allocation methodology pro-rates the costs associated with Support Services across the functions prior to the allocation to services, the requirement to net out a portion of the Control Centre function's costs means that the pro-ration must be done later in the process after the relevant Control Centre function costs have been identified and allocated. As a result, in the OC Evidence, Short-Term

PTP service is initially treated as a “service” for purposes of steps two and three. However, after the other components of the revenue requirement have been allocated to services, steps two and three are then applied to the net revenues from Short-Term PTP service and the net revenues are allocated to Native Load/Network Integration and Long-Term PTP service on a pro-rata basis.

2.3 Veuillez indiquer si d'autres transporteurs, à votre connaissance, appliquent l'approche que vous proposez. Dans l'affirmative, veuillez spécifier lesquels et expliquer dans quels cas.

Response:

The five other provinces in Canada (British Columbia, Saskatchewan, Manitoba, Nova Scotia and New Brunswick) where the utilities offer transmission tariffs based on an open access design all follow FERC’s pro-forma tariff as opposed to undertaking a formal cost allocation study and using its results as a primary input for transmission rate setting. As a result, none of the associated utilities have found it necessary to address the question of how Short-Term PTP revenues should be treated in a formal cost allocation methodology.

However, as noted by Dr. Orans (HQD-6, Document 9, Question 46.5), utilities offering transmission service based on FERC’s pro-forma OATT most commonly treat Short-Term PTP revenue in a manner comparable to that suggested in Mr. Harper’s Evidence (i.e., the revenues are used to offset the costs allocated to both Network Service and PTP service). One exception noted in the Evidence is the British Columbia Transmission Corporation which assigns all of the net revenues from Short-Term PTP service to Network Service. In contrast, under HQT’s proposed cost allocation methodology, all the revenues from the Short-Term PTP Service are ultimately assigned to Long-Term PTP service (see HQT-4, Document 1, page 25).

3. Référence : i) Rapport de William Harper, page 14.

Préambule :

i) « *Furthermore, in BC and Manitoba, GRTAs include various types of facilities that HQT has chosen to include in Networks function. […] In the case of these two jurisdictions, the distinction is important as the costs associated with GRTAs are treated as generation costs and excluded from the Transmission revenue requirement used to derive the transmission tariffs*[51] *.*

[51] *Instead the costs are treated as generation costs and recovered from the generators and, where generation is regulated, the associated rates.* »

Demande :

3.1 Veuillez confirmer que dans les deux juridictions que vous mentionnez, l'ensemble des coûts de raccordement des centrales est exclu des revenus requis utilisés pour l'établissement des tarifs de transport.

Response:

Confirmed.

4. Référence : i) Rapport de William Harper, page 24.

Préambule :

i) «*Similarly, if the intent is to directly use the dollars assigned to each category of transmission service in determining the "rates" then a fair degree of precision is desirable.»*

Demande :

4.1 Veuillez indiquer quels transporteurs, à votre connaissance, basent leurs tarifs de transport directement sur les montants provenant de la répartition du coût par service de transport.

Response:

In general, Canadian provinces have introduced open access to their transmission systems by adopting the FERC pro-forma tariff for purposes of setting transmission

tariffs and do not employ a formal cost allocation study. (See response to Question 2.3 above.)

In the case of Ontario, which uses a pool design and incorporates competitive generation, the transmission rates for Network Service, Line Connection Service and Transformation Connection Service are based directly on the amounts coming from the application of a cost allocation methodology to Hydro One Networks' approved transmission revenue requirement.

5. Références : i) Rapport de William Harper, page 24. ii) D-2002-95, page 210.

Préambule :

i) «*It was not totally clear from the Régie's Decision (D-2002-95) which of these two purposes it had in mind when requesting the study.*»

ii) « *L'article 49, alinéa 1, paragraphe 6, établit le lien entre l'allocation des coûts et la fixation d'un tarif. Cet article mentionne que lorsque la Régie fixe ou modifie un tarif, elle doit notamment :*

> *« […] tenir compte des coûts de service, des risques différents inhérents à chaque catégorie de consommateurs […].* »

[…]

« *Les résultats de cet exercice d'allocation des coûts servent ensuite d'intrants à l'exercice d'établissement de la structure tarifaire qui, en plus des coûts, peut faire intervenir d'autres facteurs dans le but d'établir des tarifs justes et raisonnables.*
La Régie considère qu'en vertu de sa mission première, qui en est une de régulation économique, et des exigences de la Loi, incluant celle de s'assurer que les tarifs sont justes et raisonnables, une allocation des coûts selon les trois étapes ci-dessus est nécessaire, indépendamment de la structure tarifaire adoptée. Il s'agit, en fait, de déterminer avec un degré d'exactitude suffisant quels sont les coûts attribuables à chaque service.
Selon la Régie, il est important, dans un premier temps, de souligner la distinction entre les étapes de l'allocation des coûts et de la fixation des tarifs. »

Demande :

5.1 Compte tenu de la référence (ii), veuillez indiquer si vous considérez que la Régie n'a pas exprimé clairement son intention dans la décision D-2002-95 quant à la répartition du coût du service ?

Response:

In the quoted portion of the D-2002-95 Decision, the Régie indicated that the results of the cost allocation exercise would be used, along with other factors, in establishing whether the proposed rates were just and reasonable. The Régie did not indicate the weight it would assign to the results of the costs allocation exercise relative to other factors, nor the degree of exactitude it would require when comparing the results of the cost allocation methodology by service (i.e., Native Load/Network Integration and Long-Term PTP service) with the anticipated revenues by service. Also, with respect to the latter point, regulators frequently adopt a target revenue-to-cost ratio band with the expectation that over time the rates designed by utilities will produce results within the band for each customer class/service. It is unclear from the Decision whether the Régie has a similar intent and, if so, what degree of exactitude would be expected.

6. Référence : i) Rapport de William Harper, page 44.

Préambule :

i) «*The 39.57%*[139] *associated with imports should be allocated to both Native Load and PTP service based on their total requirements (as opposed to just Native Load as proposed by HQT); »*

Demande :

6.1 Veuillez précisez quels besoins de transport (« total requirements ») vous proposez d'utiliser pour chaque service de transport ?

Response:

Mr. Harper's proposal is to allocate the Import share of the costs in the Interconnection sub-function between Native Load and Long-Term PTP service based on the 3-CP allocation factor (as per page 40 of Mr. Harper's Evidence), taking into account the total

requirements for each service. The values for 2005 can be found in HQT-6, Document 7, Question 52.a and are set out below:

- Native Load Service – 33,188 MW
- Long-Term PTP Service – 405 MW

7. Références : i) Rapport de William Harper, page 69.

ii) Décision D-2002-95, page 174.

Préambule :

i) «*The only exception to the 100% demand classification is the Control Centre function. Classification of this function's costs as energy-related would better reflect the role of the associated activities. »*

ii) « *La Régie retient que, selon la preuve du transporteur, les transactions à court terme sont effectuées aux fins d'optimisation du réseau. Dans la mesure où le réseau de transport est conçu pour satisfaire les besoins fermes à long terme, il apparaît logique, en conséquence, de ne pas inclure les besoins à court terme dans ceux du service de point à point aux fins d'allocation des coûts et d'établissement des tarifs.* »

Demandes :

7.1 Veuillez indiquer quels transporteurs, à votre connaissance, répartissent le coût du *Centre de conduite du réseau* (CCR) entre les services de transport en fonction de l'énergie.

Response:

As per the response to Question 2.3, Mr. Harper is not aware of any transmission service providers that perform a cost allocation study to support the derivation of their transmission tariffs. As a result, he is not aware of any transmission service providers that allocate the cost of the System Control Centre as a function of energy in performing such studies.

7.2 En tenant compte du point (ii) en préambule, veuillez justifier l'utilisation des besoins en énergie des services de transport de point à point à court terme au niveau des résultats présentés dans votre rapport, page 47, Tableau 5.

Response:

The referenced quote in the preamble identifies the Régie's view that there is a need to distinguish between Short-Term PTP service and longer term firm services offered by HQT (i.e., Native Load/Network Integration service and Long-Term Point to Point Service) and not combine the two for the purposes of cost allocation. The proposed cost allocation methodology set out in the Evidence prepared for OC makes this distinction.

The results presented in Table 5 use "energy requirements" only to allocate the costs of the Control Center function. In doing so, the proposed cost allocation methodology maintains a separation between Short-Term and Long-Term PTP service, as suggested by the Régie. The justification for using energy requirements to allocate the Control Centre function costs, and for including short-term PTP service in the allocation, can be found on pages 33 and 44-45 of the OC Evidence.

8. Références : i) et ii) Rapport de William Harper, page 33.

iii) Rapport de William Harper, page 45.

Préambule :

i) « *While larger systems likely require larger and more costly control centres and telecontrol support, it is not evident that system demand is any more a defining factor than say system energy requirements. Furthermore, since the control centres manage the operation of the system throughout the year*[91] *,*
they serve to deliver both capacity and energy.

[91] *HQT-6, Document 1, page 34, Question 13.1»* (notre souligné)

ii) « *As discussed later in Section 4.5.2, this Evidence concludes that the Control Centre function should be classified as energy-related and its costs allocated directly to services.* » (notre souligné)

iii) «*There are a number of possible alternatives including 12-NCP by service class, total contracted volume by class (i.e., contracted MW times contract period), and total energy transmitted by service class. Of these, total contracted volume by class is the recommended allocation factor. It provides the best measure of the transactions associated with each service class that must be managed by system control. »* (notre souligné)

Demande :

8.1 Veuillez concilier votre affirmation au point (i) du préambule avec votre proposition du point (ii) et celle du point (iii).

Response:

The first quote from the OC Evidence (point (i)) simply notes that the System Control Centre is used to manage the operation of the transmission system, which delivers both capacity and energy. Similarly, the transmission facilities whose costs have been assigned to the four main functions also deliver both capacity and energy.

The issue, in terms of the cost allocation methodology, is to determine the appropriate "cost driver" for each function. In the case of the transmission facilities associated with the four main functions, Mr. Harper has agreed that "demand" represents the appropriate cost driver (see pages 31-33 of the Evidence) for cost allocation purposes, even though the facilities concerned deliver both capacity and energy. However, in the case of the System Control Centre, the OC Evidence recommends that energy is a more appropriate cost driver as per point (ii) – for the reasons set out on pages 44-45.

The third quote from the OC Evidence (point (iii)) was meant to indicate how Mr. Harper proposed to establish the energy requirements associated with each class of service (i.e., Native Load/Network Integration, Long-Term PTP and Short-Term PTP):

- For Native Load/Network Integration, the allocation would be based on the forecast energy requirements, i.e., the forecast volume of energy to be delivered.
- For Long-Term PTP service, Mr. Harper's initial understanding was that there was no forecast of the associated energy. As result, the proposal was to establish an allocation factor based on the product of the contracted MWs and the number of hours in the year (i.e., the contracted volume).

- Similarly, for the various Short-Term PTP service (excluding Hourly Non-Firm PTP service), Mr. Harper's initial understanding was also that there was no related energy forecast and, thus, the proposal was to establish an allocation factor based on the product of the contracted MWs and the contract period (i.e., the contracted volume). For example, for Daily Short-Term PTP service the contract quantity would be multiplied by the 24 hours.

However, if forecasts of the energies associated with Short-Term and Long-Term PTP service are available (as suggested in HQT-3, Document 7, page 8), then total energy to be transmitted by service class would be the preferred allocation factor and the text of the OC Evidence should be changed accordingly.