



INDUSTRIAL ECONOMICS, INCORPORATED

VIA ELECTRONIC MAIL

15 September 2005

Mr. Luc Boulanger
directeur exécutif
Association québécoise des consommateurs industriels d'électricité (AQCIE)
1010, rue Sherbrooke Ouest; bureau 1800,
Montréal, Québec CANADA H3A 2R7

REFERENCE: Régie de l'énergie du Québec, Docket No. R-3579-2005; Hydro-Québec Distribution (HQD), Demande du Distributeur relative à l'établissement des tarifs d'électricité pour l'année tarifaire 2006-2007

Dear Luc:

Regarding our telephone conversation earlier today, I understand that AQCIE and CIFQ are interesting in retaining IEC for expert services in the referenced matter. In particular, AQCIE and CIFQ are focusing their intervention on HQD's proposed cost allocation methodology, notably the treatment of incremental generation costs for energy in excess of the heritage pool, and HQD's implementation method for the legislated cross-subsidy.

IEC will begin its work by briefly reviewing the relevant documents and exhibits, including HQD-12 and HQD-13, as well as relevant government decrees in respect of the allocation of post-patrimonial generation costs. Based on this brief review, IEC will estimate a budget for the work and submit it to AQCIE and CIFQ for approval. If a mutually acceptable budget can be developed by 23 September 2005, IEC will provide the following services.

- Review the relevant documents in detail;
- Prepare interrogatories to HQD;
- Review interrogatory responses from HQD;
- Identify key issues that may be potentially addressed in expert evidence; review and discuss findings with AQCIE and CIFQ;
- Prepare and finalize expert evidence, as necessary;
- Review evidence of other parties that is relevant to the relevant issues for AQCIE and CIFQ;
- Assist counsel with preparation of cross-examination of HQD and intervenor witnesses;
- Attend hearings and defend testimony;
- Assist counsel in preparing argument.

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At this time, I expect that I will be the only professional consultant engaged on this project. My billing rate is US \$180 per hour for this assignment. We will not add any additional professional staff without your approval. All clerical costs and other project expenses will be billed at cost. Note that IEC's normal charges for computer and phone resources will *not* be billed as expenses, and are incorporated into professional rates.

IEC will submit invoices to you on a monthly basis. However, payment terms remain those that we have agreed to in the past. In particular, payment is not due until such time as AQCIE and CIFQ have made a cost submission to the Régie, that a cost order has been issued by the Régie, and that HQD has made payment of the amounts approved. However, payment to IEC at that time is not conditional on approval of AQCIE's or CIFQ's claimed costs in the proceeding.

Please let me know if you have any questions regarding this proposal. If these terms are acceptable, please confirm with a signature at the bottom of this page, and fax a copy of this letter back to me. Thank you for giving IEC the opportunity to work with you again!

Best regards,

Robert D. Knecht
Principal

The terms of this proposal are acceptable.

Industrial Economics, Incorporated
2067 Massachusetts Avenue
Cambridge, MA 02140 USA
617.354.0074 | 617.354.0463 fax
www.indecon.com

Mr. Luc Boulanger, on behalf of AQCIE and CIFQ