

IEC

Hydro Québec Distribution  
R-3610-2006

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on behalf of

l'Association québécoise des  
consommateurs industriels  
d'électricité (AQCIÉ)  
Conseil de l'industrie forestières du  
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Régie de l'énergie
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## Topics

- Post-Patrimonial Cost Allocation
- HQD's Cross-Subsidization Proposal
- Summary of Recommendations

## Hourly Allocation Method is Flawed

- Incorrect Assumption of Post-Patrimonial Load Independence
- Arbitrary Allocation of Patrimonial Load to Rate Classes
- Cost Causation Errors
  - Zero recognition of capacity-related peak demand costs; no explicit recognition of “load factor.”
  - Inadequate recognition of hourly energy cost variation - no marginal cost signal.
  - Fails badly in even simple example - substantial over-allocation of costs to high load factor customers.
- Lack of Transparency
  - Relies on contract specifications and not underlying cost causation.
  - Relies on confidential data.

## Anomalies with R/C Cross-Subsidization Metric

- Revenue increase for business classes exceeds stand-alone cost of post-patrimonial energy acquisition.
  - Increasing cross-subsidization, even as defined by economists.
  - Causes inaccurate price signals for incremental consumption.
- Increases in distribution costs are partially passed on to large industrial customers, who do not use distribution system.
- Disproportionate increases in residential load growth will cause increases in rates for business customers, regardless of cost effects.

## HQD's Proposal for Cross-Subsidization

- Adjust rates annually and mechanistically for changes in per-unit cost allocation.
- HQD's evidence is that this approach will retain constant dollar cross-subsidies to/from each rate group.
- IEC analysis indicates that this approach will retain constant dollar per MWh cross-subsidies from each rate group.
  - That is, cross-subsidy dollar values will increase with load growth.
- Constant per-MWh cross-subsidies mitigates problems with R/C ratio, but does not eliminate them. Fixed-dollar cross-subsidization targets would eliminate most anomalies.

## Other Considerations re Cross-Subsidization

- Large industrial customers are exposed to disproportionate rate increases
  - Cost basis is all generation and transmission costs.
  - Expect disproportionate cost growth in generation costs.
  - Impact of HQD proposed change as shown in HQD-12 Document 1 Table 30 is not likely to be representative of future years.
- Consideration of alternative cross-subsidization metrics should begin at the time of exhaustion of the heritage pool.
- Mechanistic implementation of HQD recommendation will eliminate useful discretion and flexibility of Régie.

## Overview of Recommendations

- **Post-Patrimonial Generation Cost Allocation**
  - Apply the Load Factor Method until post-patrimonial load shape and supply sources are stable. At least ten years.
  - In the future, consider alternative methods that reflect both **peak** demand costs and **hourly** marginal energy cost differentials.
- **Transmission Cost Allocation**
  - Apply the 1 CP method, unless/until TransÉnergie tariff is modified.
- **Cross-Subsidization Metrics**
  - Per-MWh and fixed-dollar cross-subsidization approaches are superior to current method. Should be considered.
  - Régie should retain flexibility in rate increases for rate stability reasons.
- **Rate L Tariff Design**
  - Apply the same percentage increases to demand and energy charges, to be more consistent with cost allocation analysis.

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