

DEFERRED CHARGES

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1 INTRODUCTION

From an accounting standpoint, deferral accounts generally represent assets flowing from the deferral of incurred costs that will be stated as charges in subsequent financial years. From a regulatory standpoint, these accounts are justified by the principle of intergenerational equity. In contrast, certain other accounts of a purely regulatory nature were created to provide a way to subsequently take account, in the revenue requirement, of costs incurred during the test year for which the amounts were unpredictable at the time that distribution rates were set. In these cases, the use of the deferral account is a means of recovering the costs in the rates.

Deferral accounts are, in principle, kept out of the rate base until their disposal. This exhibit reviews the deferral accounts for which there was a balance in 2006, 2007, and/or 2008, with the exception of the “Assets relating to earned benefits” account, due to its special nature.

The Distributor notes that for purposes of interest calculation, the rates applied are those presented in Exhibit HQD-1, Document 2.1, Principal Economic Parameters.

TABLE 1
DEFERRED CHARGES AS AT DECEMBER 31 (M\$)

Description	See section	As at December 31		
		Historical year 2006	Base year 2007	Test year 2008
Deferred charges included in rate base				
Commercial programs	Section 2	5.0	4.0	2.5
Comprehensive energy efficiency plan (PGEÉ)	Section 3	251.9	417.3	602.2
Transmission deferral account	Section 4	355.4	285.4	178.4
Rate BT deferral account	Section 5	177.3	135.7	94.0
Temperature variation averaging account	Section 7			131.9
Contributions to subtransmission projects	Section 9	76.0	94.8	93.1
Development charges	Section 10	2.9	2.3	1.6
Maintenance charges - private switchyards	Section 11	1.3	2.7	3.2
Assets relating to earned benefits		369.5	267.0	300.0
		1 239.3	1 209.2	1 406.9
Non-rate-base deferred charges				
Comprehensive energy efficiency plan (PGEÉ)	Section 3		9.1	12.9
Transmission deferral account	Section 4		58.9	
Temperature variation averaging account	Section 7	122.4	131.9	
Pass-on account for 2005 supply of post-heritage electricity	Section 6	29.7	(6.8)	
Pass-on account for 2006 supply of post-heritage electricity		(261.7)	(11.5)	
Pass-on account for 2007 supply of post-heritage electricity			7.5	
Interruptible Electricity option	Section 8	1.1	4.2	
		(108.5)	193.3	12.9

The following sections describe each of the deferred charge items in this table.

2 COMMERCIAL PROGRAMS

The balance of the deferral accounts for commercial programs as at December 31 of 2006, 2007, and 2008 is as follows:

**TABLE 2
COMMERCIAL PROGRAMS (M\$)**

Description	As at December 31		
	Historical year 2006	Base year 2007	Test year 2008
Rate M - Business - Medium power:			
Revenue protection program	0.9	0.3	0.0
Electrotechnologies	0.9	0.3	0.0
	1.8	0.6	0.0
Rate G - Business - Small power:			
Revenue protection programs	0.3	0.1	0.0
Electrotechnologies	0.2	0.1	0.0
	0.4	0.2	0.0
Rate G9:			
Electrotechnologies	0.1	0.0	0.0
Remote communities:			
Heating system conversion (1)	2.7	3.2	2.5
Total – commercial programs (2)	5.0	4.0	2.5

(1) Also called Remote Communities Efficient Energy Use Program (PUEÉRA).

(2) The totals are calculated from non-rounded data.

3 COMPREHENSIVE ENERGY EFFICIENCY PLAN (PGEÉ)

The programs and activities pertaining to the Distributor’s PGEÉ are more fully described in Exhibit HQD-14, Documents 3 and 4. Table 3 details the components of the PGEÉ deferral account for each customer class as at December 31 for years 2006–2008.

**Table 3
Comprehensive Energy Efficiency Plan (M\$)**

Description	As at December 31		
	Historical year 2006	Base year 2007	Test year 2008
Deferred charges included in rate base			
<u>Residential customers</u>			
Shared components	30.1	37.3	51.4
Residential diagnostic program	18.4	29.2	36.7
Energy Wise program – residential	36.8	63.5	95.4
Novoclimat program (Agence de l'efficacité énergétique du Québec (AEÉ))	13.2	24.0	46.4
Rénoclimat program (AEÉ)	12.3	21.5	35.0
Éconologis program (AEÉ)	10.0	11.8	11.9
Energy efficiency renovation for low-income households	0.5	12.7	23.8
	121.3	199.9	300.6
<u>Business customers</u>			
Shared components	12.7	23.5	40.8
Building Initiatives program – Commercial and institutional markets	23.0	34.4	50.1
Industrial Initiatives program – SME	0.7	0.6	0.5
Energy Initiatives program – SME	13.9	27.1	35.7
HQ Buildings program – Commercial and institutional markets	1.9	2.9	3.9
Public Lighting program – Commercial and institutional markets	8.6	7.1	5.6
Energy Wise program – Business – Commercial and institutional markets	32.7	61.1	88.3
	93.4	156.6	224.9
<u>Major customers</u>			
Shared components	5.0	8.1	10.2
PIBGE Program – Commercial and institutional markets	5.9	9.4	11.8
PADIGE Program – Large industrial establishments	1.9	2.2	2.3
PIIGE Program – Large industrial establishments	24.3	41.1	52.5
	37.2	60.8	76.8
	251.9	417.3	602.2
Non-rate-base deferred charges			
<u>Major customers</u>			
PAMUGE Program		9.1	12.9
		9.1	12.9
TOTAL – PGEÉ	251.9	426.4	615.1

Pursuant to decision D-2006-56, financial aid paid to PAMUGE program participants will only be amortized as from when the energy savings materialize. Consequently, the amounts of \$9.1 M in 2007 and \$12.9 M in 2008 (including interest) are recorded as non-rate-base deferred charges.

4 TRANSMISSION DEFERRAL ACCOUNT

4.1 Deferred transmission charges recorded for 2005–2006 and 2007

In 2006, the Distributor recorded in its deferral account an amount of \$340.0 M, representing the sum of the annual differences between the transmission cost of \$2 313.0 M considered in the Distributor's rates in 2005 and 2006 and the amount of \$2 483.0 M applied retroactively to 1 January 2005. To this amount is added interest calculated monthly totaling \$15.4 M as at 31 December 2006, as presented in the appendix to Exhibit HQD-9, Document 1 in case R-3610-2006.

Of this balance, the Distributor disposed of an initial portion of \$70.0 M at the start of 2007 and proposes to dispose of an additional portion of \$107.0 M in 2008 (see HQD-4, Document 3). Consequently, the balance of the account included in the rate base is \$178.4 M as at 31 December 2008.

Furthermore, the new authorized rate for native load applicable as at 1 January 2007 was set at \$2 539.7 M, compared with the amount of \$2 483.0 M taken into account by the Distributor in its 2007 revenue requirement. The Distributor has therefore recorded in its non-rate-base deferral account an amount of \$56.7 M representing the difference between the two amounts. Added to this amount is the interest applicable as at 1 April 2007 of \$2.2 M. The balance of \$58.9 M was fully recorded in the Distributor's revenue requirement in January 2008.

Table 4 summarizes the changes in this account, both rate base and non-rate base portions, for 2006–2008.

TABLE 4
TRANSMISSION DEFERRAL ACCOUNT (M\$)

Description	Non rate base	Rate base	Revenue requirement
<u>Historical year 2006</u>			
Deferred charges for 2005-2006	340.0		
Interest	15.4		
Transfer to rate base	(355.4)	355.4	
Balance as at 31 December 2006	0.0	355.4	0.0
<u>Base year 2007</u>			
Deferred charges for 2007	56.7		
Interest on deferred charges for 2007	2.2		
Amortization of deferred charges for 2005-2006		(70.0)	70.0
Balance as at 31 December 2007	58.9	285.4	70.0
<u>Test year 2008</u>			
Amortization of deferred charges for 2005-2006		(107.0)	107.0
Recording of 2007 deferred charges in revenue requirement	(58.9)		58.9
Balance as at 31 December 2008	0.0	178.4	165.9

5 RATE BT DEFERRAL ACCOUNT

Rate BT was abolished on 31 March 2006. Pursuant to decision D-2006-34, the cumulative balance of this account was included in the rate base as of the beginning of its disposal, i.e., 1 April 2006. The account is amortized linearly over a 60-month period.

**TABLE 5
RATE BT DEFERRAL ACCOUNT (M\$)**

Description	Non rate base	Rate base	Revenue requirement
Historical year 2006			
Balance as at 1 January 2006	138.5		
Deferred charges	66.6		
Interest	3.4		
Transfer to rate base	(208.5)	208.5	
Amortization for the year		(31.2)	31.2
Balance as at 31 December 2006	0.0	177.3	31.2
Base year 2007			
Amortization for the year		(41.6)	41.6
Balance as at 31 December 2007	0.0	135.7	41.6
Test year 2008			
Amortization for the year		(41.7)	41.7
Balance as at 31 December 2008	0.0	94.0	41.7

6 PASS-ON ACCOUNT FOR POST-HERITAGE ELECTRICITY SUPPLY

6.1 Pass-ON Account for 2005 Post-Heritage Electricity Supply

As mentioned in the Distributor's 2006 annual report, Exhibit HQD-4, Document 3, the pass-on account for 2005 was reduced in 2006 by \$5.5 M following the delivered/billed adjustment for sales from 1 July 2005 to 30 June 2006, bringing the balance of this account as at 31 December 2006 to \$29.7 M.

Since in case R-3610-2006, the Distributor estimated this account at \$36.0 M and recorded this amount in its 2007 revenue requirement, a \$6.8 M adjustment (including 2006 and 2007 interest) is required in this rate case to reflect the real amount of the difference.

**TABLE 6
2005 PASS-ON ACCOUNT (M\$)
NON-RATE-BASE**

	Historical Year 2006	Base Year 2007	Test Year 2008
Balance as at January 1	33.3	29.7	(6.8)
Deferred charges for 2005	(5.5)		
Interest	1.9	(0.5)	
Transfer to supply costs	0.0	(36.0)	6.8
Balance as at December 31	29.7	(6.8)	0.0

6.2 Pass-On Account for 2006 Post-Heritage Electricity Supply

In rate case R-3610-2006, the Régie ordered the Distributor, exceptionally, to estimate its pass-on account for 2006 on the basis of real data for the first nine months of the year and on projected data for the last three months. This amount, determined as -\$251.0 M, was applied against the Distributor's 2007 revenue requirement.

As mentioned in its 2006 annual report in Exhibit HQD-4, Document 3, based on real data, the balance of this account as at 31 December 2006 was -\$261.9 M (credit). This amount is revalued in the rate case at hand at -261.7 M to account for the real amount for 2006 relating to the framework agreement with the Generator. Thus, an amount of \$11.5 M (including 2007 interest), reflecting the difference between the amount stated in the 2007 revenue requirement and the balance of -\$261.7 M in the account as at 31 December 2006, is being stated in the 2008 revenue requirement.

**TABLE 7
2006 PASS-ON ACCOUNT (M\$)
NON-RATE-BASE**

	Historical Year 2006	Base Year 2007	Test Year 2008
Balance as at January 1	0.0	(261.7)	(11.5)
Deferred charges for 2006	(261.7)		
Interest		(0.8)	
Transfer to supply costs		251.0	11.5
Balance as at December 31	(261.7)	(11.5)	0.0

6.3 Pass-On Account for 2007 Post-Heritage Electricity Supply

Pursuant to decision D-2007-12, the Distributor is valuing its 2007 pass-on account on the basis of four real months and eight projected months and is therefore stating an amount of \$7.5 M (debit) in its 2008 revenue requirement (see HQD-4, Document-2)

**TABLE 8
2007 PASS-ON ACCOUNT (M\$)
NON-RATE-BASE**

	Historical Year 2006	Base Year 2007	Test Year 2008
Balance as at January 1	0.0	0.0	7.5
Deferred charges for 2007		7.5	
Transfer to supply costs			(7.5)
Balance as at December 31	0.0	7.5	0.0

7 TEMPERATURE VARIATION AVERAGING ACCOUNT

In decision D-2006-34, the Régie accepted the transmission and distribution revenue averaging mechanism for temperature variations, applicable as from 1 January 2006. This temperature averaging account concerns the revenue deficits or surpluses due to temperature variations. The annual differences recorded in the account bear interest that is added to the account balance up to its inclusion in the rate base.

As presented in the Distributor's 2006 annual report, Exhibit HQD-4, Document 1, p. 13, the balance of this non-rate-base account as at 31 December 2006 was \$122.4 M, including interest of \$4.6 M.

The addition of \$9.5 M in interest for 2007 brings the balance to \$131.9 M, and it is this amount that is included in the rate base as at 1 January 2008, the start of the second test year following the one corresponding to the differences, as stipulated in the account mechanisms described in case R-3579-2005.

Table 9 reviews this account up to the time of its transfer to the rate base in 2008.

**TABLE 9
2006 TEMPERATURE AVERAGING ACCOUNT (M\$)**

Description	Non Rate Base	Rate base	Revenue requirement
<u>Historical year 2006</u>			
Deferred charges	117.8		
Interest	4.6		
Balance as at 31 December 2006	122.4	0.0	0.0
<u>Base year 2007</u>			
Deferred charges			
Interest	9.5		
Balance as at 31 December 2007	131.9	0.0	0.0
<u>Test year 2008</u>			
Transfer to the rate base	(131.9)	131.9	0.0
Balance as at 31 December 2008	0.0	131.9	0.0

8 DEFERRED CHARGES – INTERRUPTIBLE POWER OPTION

In decisions D-2006-149 and D-2006-34, the Régie permitted the differences between the real and projected costs of the interruptible power options for large-power and medium-power customers as well as for the use of backup generators to be recorded in the deferral account created pursuant to decision D-2003-224.

As at 31 December 2006, the Distributor had recorded an amount of \$1.1 M in this deferral account, representing the fixed credits linked to the interruptible power option for large-power customers for the month of December 2006. The Distributor plans to record an additional amount of \$3.0 M in this account in 2007, corresponding to the differences between the revised fixed and variable credits for the base year and those projected in rate case R-3610-2006 for 2007.

As provided in the initial mechanisms, the 2006 balance of \$1.1 M will be included in the 2008 revenue requirement, i.e., two financial years later. However, as reflected in Table 10 below, the amount recorded in the account in 2007 will be included in the rate calculation as of 2008. Since this account bears similarities to the pass-on account for supply costs, the Distributor wishes to harmonize the treatments of these accounts. Therefore, the Distributor is asking the Régie to allow the amounts recorded in the deferral account for the interruptible power option to be calculated on the basis of the financial year from January 1 to December 31, and for them to be estimated using real and projected data for a given year (base year) and fully stated in the revenue requirement for the following financial year, all as more fully detailed in Exhibit HQD-4, Document 2. It is also proposed to calculate interest, similarly to the pass-on account, as from the January 1 following the statement of the differences for a full year. In the specific context of the interruptible power option pertaining to the months of January to March and to the month of December of the same year, the \$3.0 M recorded in the deferral account in 2007 is based on real data for the months of January to March and on projected data for the month of December 2007. Any difference between projected December 2007 data and the corresponding real data, once it is obtained, will be recorded in the account and will be reflected in the revenue requirement for the second year following, i.e., 2009.

The table below summarizes the account for 2006–2008.

**TABLE 10
DEFERRED CHARGES - INTERRUPTIBLE POWER OPTION (M\$)
NON-RATE-BASE**

	Historical Year 2006	Base Year 2007	Test Year 2008
Balance as at January 1	0.0	1.1	4.2
Deferred charges	1.1	3.0	
Transfer to supply costs	0.0		(4.2)
Balance as at December 31 (1)	1.1	4.2	0.0

(1) The totals are calculated from non-rounded data.

9 CONTRIBUTIONS TO SUBTRANSMISSION PROJECTS

This item corresponds to the Distributor's contribution to the Transmission Company in the context of the following subtransmission projects:

- Cree village of Waskaganish (D-2003-214), for which the equipment was commissioned in November 2006 (\$76.0 M);
- Distributor's annual contribution to Transmission Company's growth investment projects, pursuant to the last paragraph of section C of Appendix J of the Hydro-Québec Open Access Transmission Tariff (amount valued at \$20 M in 2007).

Contributions to subtransmission projects are included in the Distributor's rate base. These contributions represent the required investments for connection costs (amortized by the compound-interest method at 3%) as well as the present value over 20 years of the maintenance and operation charges (amortized linearly over 20 years).

10 DEVELOPMENT CHARGES

This item corresponds to a development project whose purpose is to improve the diagnostic methods for underground lines using dielectric tests to establish the lifetime of certain types of cables. The results will be helpful in assessing the required investments in grid sustainability. The development charges are included in the Distributor's rate base.

11 MAINTENANCE CHARGES – PRIVATE SWITCHYARDS

These deferred charges are related to contributions pertaining to private switchyards connected with wind power projects. They correspond to the present value of the maintenance and operation charges for the facilities over a 20-year period. These charges are also included in the Distributor's rate base and amortized linearly over 20 years.