

**PASS-ON ACCOUNT FOR THE
PURCHASE OF POST-
HERITAGE ELECTRICITY**

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1 SUMMARY

In its decision D-2005-34, the Régie, recognizes the principle of transfer of supply costs. According to this principle, all supply costs and any deviation between actual costs and projected costs, for both the portion related to the volume of heritage electricity and the portion exceeding this volume, are recognized in the Distributor's cost of service and recovered in the rates.

Decision D-2005-132 specifies the scope of the transfer authorized in the event that supply volumes exceed heritage electricity. Thus, all volumes in excess of heritage electricity are recognized and must be reflected in the rates, so that all (volume and price) deviation between actual and projected supply costs over a year, net of revenues attributable to the supply component, are applied against a deferral account, the pass-on account, for subsequent recovery.

By its decision D-2006-34, the Régie extends the pass-on account for 2006 and following years, and allows calculation of the yield on the account balance at the average capital cost rate, as well as the account deviation integration method on the basis of actual data covering a twelve-month period from January 1 to December 31. These deviations represent the fair accounting of costs actually incurred in accordance with section 52.2 of the Act.

Finally, in decision D-2007-12 relating to filing R-3610-2006, the Régie approves the Distributor's requests to:

- Settle deviations in post-heritage supply costs for a given reference year in the subsequent financial year, based on four months of actual deviations and eight

months of projected deviations, and, in the second subsequent financial year, recognize the adjustments required in order to reflect actual final deviations. In establishing rates for 2007, the Régie departs from this principle just this once by asking the Distributor to take into account data determined on a basis of nine actual months and three projected months;

- Calculate the deviations relating to the deferral account on purchases of post-heritage electricity on an annual and not a monthly basis. Deviations relating to the account will in future be calculated on an annual basis and, as requested by the Régie, distributed by rate class according to the hour method;
- And finally, calculate interest at the average capital cost rate on the final account balance on December 31 of a year, for interest incurred since the following January 1.

In this same decision, the Régie asks the Distributor to hold technical sessions prior to submission of the present rate filing in order to:

- Provide more explanation of the reasons that prevent distinguishing between demand variances and weather variances within the pass-on account;
- Examine the possibility of clearly distinguishing deviations in this account attributable to weather and demand variances;
- Explore solutions to protect clients from significant fluctuations in the pass-on account, specifically those due to weather variances.

2 TECHNICAL SESSIONS ON THE PASS-ON ACCOUNT

Two technical sessions on the pass-on account were organized with stakeholders and the Régie on May 17 and June 19, 2007.¹ More specifically, in the following sections, the Distributor explains the conclusions that it draws from the discussions on the Régie's three main queries. With respect to the allocation of deviations in the pass-on account on an annual basis, the sessions also made it possible, using the data relating to 2006, to assess the very marginal impacts of computing deviation on a monthly or annual basis.

2.1 Distinguishing Weather and Demand Variances in the Pass-On Account

Following its examination, the Distributor concluded that it is impossible to distinguish the values associated with weather variances from those associated with demand variances in the pass-on account. This conclusion ensues from the following reports:

- **On a legal and regulatory level**, it is important to point out that the pass-on principle, in its present form, perfectly reflects the requirements set out in section 52.2 of the Act:

“The cost of electric power referred to in section 52.1 shall be established by the Régie by adding the cost of heritage pool electricity and the actual costs to the electric power distributor of the supply contracts entered into to meet the needs of Québec markets in excess of the heritage pool,....” (Our emphasis).

Under this principle, the Distributor is assured of recovering all the actual costs of supplying the needs of the Québec market. The deviations between actual supply

¹ The presentations are available in French at the following address <http://www.regie-energie.qc.ca/audiences/3610-06/mainSuivis3610.htm>

costs and projected supply costs, net of revenue effects, are recognized while the causes of these deviations (weather variances, demand variances, price changes) are not specifically distinguished. Also, if the spirit and purpose of section 52.2 of the Act are taken seriously, the pass-on account plays its role without any need to distinguish the portion attributable to each type of variance.

- **With respect to supply**, the Distributor's strategy does not differ depending on whether its need is due to economic or weather variances, particularly since it is unable to identify them in real time. In real time, it notes a supply need or absence of need and adapts its strategy accordingly, by either buying or selling the energy. It repeats in this regard that supply management takes place on the basis of overall needs and the various means of supplying them. The contributions of demand and weather variances to changes in needs are noted only after the fact.

To be able to make a distinction between weather variances and demand variances, the Distributor would have to make at least two series of simulations, one for needs due to demand variances and another for needs due to weather variances, with distinct market prices for these two types of variances, which is difficult to predict both with respect to supplies and economically.

Moreover, like deviations in heritage or post-heritage volumes, price deviations are attributable to both variances without distinction. Within a context where no variance priority can be assigned to either heritage or post-heritage volume, it is difficult to determine volumes of heritage and post-heritage electricity by variance.

- **With respect to economics**, the Distributor has demonstrated that a mathematical exercise of distributing variance by rate class does not make it

possible to establish a reasonable value for demand and weather variances in the pass-on account. This exercise consists in:

- Isolating by differentiation the volume deviations associated with weather variances compared to deviations in total volumes, and distributing them by rate class on the basis of the same allocation factors as those used in the transmission and distribution revenues levelling account;
- Identifying volumes by rate class due to the demand variances by difference between total pass-on account volumes broken down by rate class and volumes associated with weather variances broken down by rate class;
- By assumption, allotting the same value for the two variances to price deviations and revenue deviations;
- For this whole exercise, distributing volumes attributable to the two variances between heritage and post-heritage volumes. This stage adds another level of complexity and arbitrariness to the exercise.

In certain cases, this purely mathematical exercise gives illogical results for the same rate class and the same type of variances, as shown by the example in the table on page 19 of the document presented at the June 19 technical session. Thus, the allocation of the deviations in weather variance volume led to deviations relating to heritage and post-heritage volumes higher than the total deviation of weather variance volumes. To correct this situation, these volume deviations must be compensated, by simple mathematics, by a post-heritage price deviation in the opposite direction. This exercise is not however based on any economic logic and illustrates the arbitrariness and instability that such an allocation would create.

2.2 Distinct Accounting Treatment of Deviations Due to Weather and Demand Variances

The Distributor has two accounts: the pass-on account and the transmission and distribution revenues levelling account for weather variances. The pass-on account reflects deviations relating to supply costs, that is, deviations due to net demand and weather variances in supply revenues, whereas the levelling account is associated only with deviations in transmission and distribution revenues due to weather variances. In the temperature levelling account, weather variances in GWh cancel themselves out over a certain period of time, which has the effect of levelling volume impacts. In addition, insofar as impacts on unit revenues associated with a cooler or warmer temperature are relatively symmetrical, the balance of the levelling account established in dollars also cancels itself out over time, which, in principle, makes its amortization unnecessary and justifies its inclusion in the rate base for the purpose of recognizing the financing costs associated with the account balance.

By analogy, the weather variances of the pass-on account also cancel themselves out in volume but do not necessarily cancel out in dollars. In addition, whereas in the levelling account, the only variable expressed in dollars is projected revenue, in the pass-on account, a multitude of variables interfere with the calculation of the economic value of the weather variances. For each variable, many hypotheses must be put forth to assign an economic value to the weather variances. The heritage cost and post-heritage cost attributable to this type of variance, the supply revenue, the deviation between the projected cost and the actual cost, the time when deviations appear due to weather variances, and changes in market prices mean that the estimated value of the account, for this type of variance, is linked to many factors other than just the weather variable. Also, cancelling out of the weather portion of the pass-on account would be unlikely except by coincidence. However, without cancelling out the pass-on account over time,

the portion of the pass-on account linked to weather variances cannot be treated in the same way as the balance of the levelling account.

In general, logic means that the deviation due, for example, to a warmer temperature than expected would have the effect of creating:

- A credit balance in the pass-on account for weather variances. Projected supply costs are then greater than the actual costs and the Distributor returns the cost differential to customers. This is the case observed in 2006, where the estimated balance of the pass-on account for weather variance was indeed negative by \$144 M;²
- A debit balance in the transmission and distribution revenue levelling account. If the weather was warmer, the Distributor recorded lower revenues than what it would have received if the weather had been normal. In this case, it must therefore collect from customers the transmission and distribution revenues it was deprived of and place them in the levelling account. For 2006, the actual balance of the levelling account was positive by \$118 M.³

This logic leads us to believe that the two portions can always compensate each other and thus have the effect of smoothing out impacts on customers due to weather variances. This is not done systematically, however. In addition, examples presented at the technical session on June 19 demonstrated that compensation does not always occur between the levelling account balance and the estimated value of the pass-on account for weather variances. Without systematic compensation, jointly processing the levelling

² See R-3610-2006, HQD16, document 1.1, table R1.3 B, page 8 of 15.

³ Real balance for 2006 shown in to the annual report of the Distributor 2006. See http://www.regie-energie.qc.ca/audiences/RappHQD2006/HQD_4doc3_RA06_comptesFraisReportes_8juin07.pdf

account and the estimated value of the pass-on account for weather variances loses all interest. Instead of decreasing the effects of weather, some combinations could have the contrary effect of increasing them, and working against rate stability.

2.3 Mechanisms to Attenuate Impacts of Fluctuations in the Pass-On Account

In its decision D-2007-12, the Régie claimed it attaches great importance to rate stability. It is concerned by “*the magnitude of deviations forecast in the pass-on account*”⁴ and considers it necessary to set up “*a mechanism to protect clients against significant fluctuations in this account, more specifically those due to weather variances.*”⁵ The Distributor explained the reasons why it considers it inappropriate at the moment to decide on a proposed specific regulatory mechanism that would make it possible to respond to the Régie’s concerns.

From the outset, the Distributor wishes to stress the fact that like the Régie, it also accords great importance to rate stability. It considers however that this stability is not limited solely to fluctuations in weather variances in the pass-on account. Rate stability is related to many factors, such as:

- The balance in the pass-on account (weather and demand variances);
- The balance in the deferred transmission expenses account;
- Changes in distribution costs and client services, and;
- Changes in financial parameters.

⁴ Decision D-2007-12, page 18.

⁵ Decision D-2007-12, page 18.

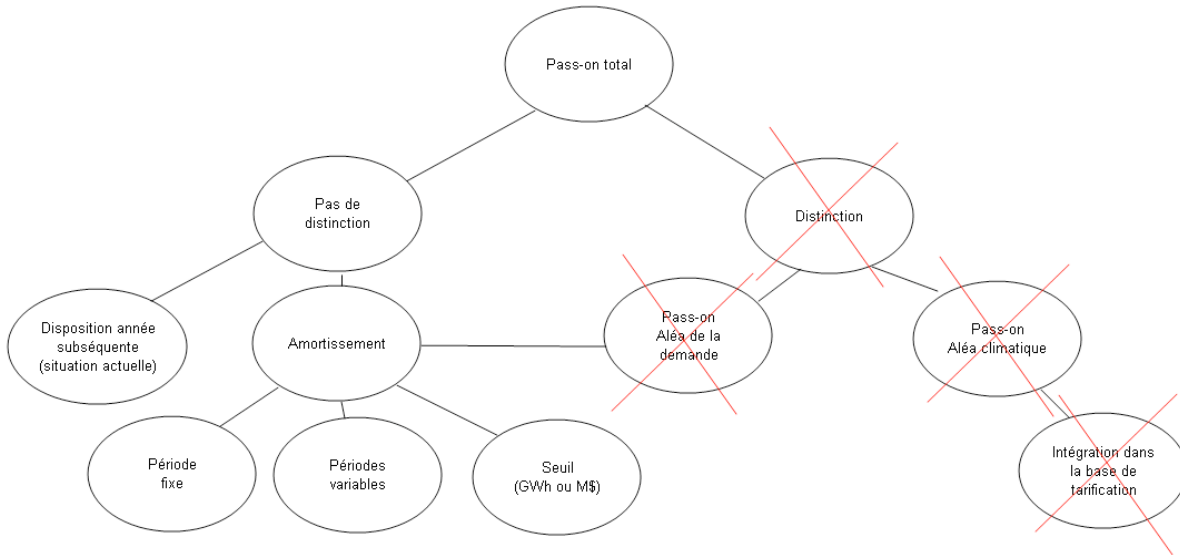
All these factors are combined in the Distributor's required revenue and it is at this more general level that rate stability must be assessed. Moreover, rate stability might sometimes stand in the way of other principles such as cost causality, intergenerational fairness and fairness among the various rate classes. In its decision D-2007-12, the Régie asked the Distributor to begin in 2007 to absorb an amount of \$70 M relating to the deferred transmission expenses account, thus partly recognizing the pre-eminence of intergenerational fairness over the principle of stability. Nevertheless, the full and entire recognition of an allocation of costs to the proper generation of customers should have occurred through the reflection in the Distributor's required revenues of 100% of the balance of the deferred transmission expenses account or, minimally, a amount equal to the pass-on account credit balance for 2006 estimated at \$251 M, in accordance with the Régie's decision. This example illustrates not only the difficulty of reconciling the principles of rate stability with those of cost causality and intergenerational fairness, but in particular it shows the need to analyse any factors inherent in service costs and their impact within a general perspective, over and above any mechanism to attenuate the impact of fluctuations in the pass-on account.

Thus, the use of a particular regulatory mechanism associated with the pass-on account must be examined within the context of the present rate filing.

- Insofar as the pass-on account relating to 2005, 2006 and 2007 presented in the present filing shows a very small credit balance of \$10.8 M, the Distributor estimates that, on the short term, there is no particular issue this year with the pass-on account, and the proposed special mechanism for this account has even proven unnecessary. It has proven even more unnecessary as the record is too short to decide on a proposal for the moment.

- The Distributor is unable to exclude *a priori* the possibility that for a given year, weather and demand variances may be opposite in amplitude, for example, a colder temperature for 2 TWh together with the loss of an industrial customer for 2 TWh. In such a case, a mechanism to stabilize deviations (zero in this case) would be of no use since the natural mitigation of the impacts of the pass-on account would still be possible. Thus, the systematic introduction of an appropriate mechanism would deprive the Distributor and Régie of a certain flexibility and occasionally prove useless.

Despite the above, the Distributor has carried out an examination of the various mechanisms that would make it possible to mitigate the impact of fluctuations in the pass-on account. These mechanisms are shown in the following figure:



Total Pass-On					
No Distinction			Distinction		
Subsequent Year Settlement (Present Situation)	Amortization		Demand Variance Pass-On		Weather Variance Pass-On
Fixed Period	Variable Periods	Single (GWh or \$M)			Integration into Rate Base

On the basis of the previously established principle that it is impossible to distinguish weather variances from demand variances, only the mitigation mechanisms for the whole of the pass-on account have been examined. If we exclude the present mechanism to reflect the whole account in the rates for the subsequent year, considered by the Distributor as inherent to the very principle of cost transfer to required revenue, the mechanisms examined consist in alternative amortization methods for the pass-on account.

Three main mechanisms have thus been assessed:

- **An automatic mechanism to amortize the account balance over a fixed period:** This mechanism has the effect of consolidating the rate impact of the

account balance over a number of years. It would be systematically applied to both credit and debit balances. This implies that the longer the fixed period, the less the compliance with the principle of intergenerational fairness. This occurs within a context where at the accounting level, a great deal of pressure is exercised to limit the amortization period for most deferral accounts. This mechanism, with the nature of an automatic response, offers little flexibility. In cases where the account balance is small, as in 2007, it is useless. Overall, this mechanism proves unsatisfactory.

- **Account balance amortization threshold mechanism:** By this mechanism, the portion of the account balance below the threshold would be reflected automatically in the required revenues for the subsequent year while the portion exceeding this threshold would be absorbed over several years. The threshold could be set in dollars or in volume. For example, volume amortization could be triggered when the account balance reached 1% variation in rates (roughly \$93 M). In volume, the trigger could be located at the level of one standard deviation in temperature variation. With such a mechanism, both in volume and dollars, for portions of deviations exceeding the threshold, the Distributor would face the same problems as those arising from the distinction in the pass-on account between weather and demand variances. Moreover, the whole method of allocation by rate class should be redefined. This mechanism does not guarantee that the principles of intergenerational fairness and stability will be adhered to. This second mechanism does not appear satisfactory either.
- **An account amortization mechanism if necessary and if required because of the size of the pass-on account balance:** according to this mechanism,

on the basis of a factual assessment, and after considering the pass-on account balance and compliance with the principles of intergenerational fairness and rate stability, the Distributor might or might not suggest amortizing the account balance. With respect to the regulations, this mechanism poses two main problems. The mechanism would be discretionary. It would not guarantee any predictability as to the settlement of balances.

Although it was not the subject of a proposal by the Distributor at the June 19 session, the possibility has been raised of settling the pass-on account balances more quickly than on an annual basis, like the SCGM's mechanism reflecting any variation in the gas price in customer billings on a monthly basis. The Distributor considers that this avenue must be rejected in the light of the following:

- The Distributor's rates are not separated into their supply, transmission and distribution components;
- Deviations in the pass-on account can be determined only on an annual basis;
- Customer billing systems make such a mechanism impossible;
- Balance adjustment and administrative follow-up mechanisms would be extremely awkward;
- The very principle of adjusting rates on a less-than-annual basis raises serious problems of social acceptability.

In the light of this assessment of the facts and the various mechanisms examined, the Distributor has arrived at the conclusion that at present, a case-by-case approach including all required revenue components must be given preference over any regulatory

mechanism that would deprive the Régie of the flexibility it currently has, which allows it to adapt to different cases and different situations. The Distributor repeats however that these adjustments should be made in a way that, as much as possible, ensures rate stability and avoids useless deferral of costs to future generations.

3 ADJUSTMENTS TO PASS-ON ACCOUNT CALCULATIONS

3.1 Account Components

Three main components are captured by the pass-on account: volume deviation, price deviation and revenue deviation. Revenue deviation is calculated on the basis of the principle that additional sales normally imply additional purchase volumes. These additional sales generate additional revenues and also contribute to the recovery of excess supply costs. The inverse effect can also be observed: lower revenues imply purchase volumes less than expected.

Certain adjustments are made to the pass-on calculation mainly in order to take into account the unused volume of heritage electricity and the positive or negative impact on the revenue deviation of variations in the loss rate observed in the year as compared with predictions.

The calculation of deviations on an annual basis makes it possible to take into account all actual deviations and adjustments resulting from the management of post-heritage supplies and calculate interest on the total of all these deviations and adjustments, giving them equal weight.

3.2 Transfer Modalities

For a given reference year, transfer modalities include:

1. An analysis of deviations on an annual basis, from January 1 to December 31;
2. Inclusion of estimated deviations in subsequent application rates, without interest, under supply costs for the reference year. These deviations are established on the basis of four actual months (January to April) and eight projected months (May to December);
3. Inclusion, in the rate application rates for the second subsequent financial year, of adjustments required according to the final deviations observed under supply costs, established on the basis of the twelve actual months of the reference year (January to December). In particular, the final deviations include volumes of unused heritage electricity observed at the end of the reference year and accrued interest. Generally, the required adjustments equal the differential between actual final deviations for the reference year and the deviations already included in the previous rate filing for this same year.

3.3 Additional Adjustments to the Pass-On Account Calculation

On the basis of its experience since the account was created in 2005, the Distributor would like to suggest some additional adjustments to the calculations for the pass-on account. These are adjustments to billed/delivered, adjustments to unit revenue, and modifications of the modalities relating to the deferral account for the interruptible electricity option as well as its allocation by rate class.

3.3.1 Billed/Delivered Adjustment

For a given year, two adjustments are required for billed/delivered, the first identified on December 31 of the year in question for the period from January 1 to June 30, and a

second identified only towards the end of the following year and covering the period from July 1 to December 31.

Thus, sales (in GWh) and revenues (\$M) for the actual year 2005 were first adjusted for billed/delivered on December 31, 2005. This adjustment was reflected in the pass-on account for 2007. At the end of 2006, a second adjustment for billed/delivered was recognized for the period from July to December 2005.

This second adjustment has a -\$5.5 M impact on the amounts accumulated in the pass-on account for 2005.

In order to reflect actual supply costs for 2005, all adjustments, including the portion of the 2006 billed/delivered recognized in November 2006 and attributable to 2005, must be included in the calculation of the pass-on account for 2005. The Distributor therefore includes the billed/delivered adjustment of-\$5.5 M in its supply cost for 2008.

The billed/delivered adjustment identified only in November is not unique to 2005. It will be recurrent, considering when this information is identified, and will appear in the rate filing for the third subsequent financial year. Thus, the 2006 billed/delivered adjustment, which will be identified at the end of 2007, will be reflected in the rate filing for 2009.

The Distributor would also like to point out that there is no link between the size of the pass-on account and the amount of this adjustment, which every year should be approximately the same as the amount calculated for 2005.

3.3.2 Unit Revenue Adjustment

For 2005 and 2006 respectively, the revenue deviation associated with the supply component of rate-class rates is assessed on the basis of the average projected heritage and post-heritage supply revenue by rate class, as determined in Table 9a of the

Distributor's cost allocation method (HQD-11, document 4 of filing R-3479-2005 and HQD-12, document 2 of filing R-3541-2004).

In filing R-3610-2006, the Régie approved the settlement of the pass-on account balances for 2005 and 2006 (\$36.0 M and -\$251.0 M) in required revenue for the projected test year 2007. The pass-on account balances were therefore added to the heritage and post-heritage electricity purchases for 2007. Consequently, the average projected supply revenue considered in the calculation of the pass-on account for 2007 must take into account the settlement of pass-on balances for 2005 and 2006. The following table presents the average supply revenue adjusted by rate class for 2007.

TABLE 1

ADJUSTMENT OF UNIT REVENUE FOR 2007

	(1) Rate Class	(3) Total Consumption			(5) Pass-On Account 2005 (\$M)	(6) Projected Pass-On Account 2006 (\$M)	(7) Total Production (\$M)	(8) Unit cost (¢/kWh)
		(2) Unit Cost (¢/kWh)	Energy (GWh)	(4) Total Cost (\$M)				
1	Residential							
2	D and DM Rates	3.51	56,444	1,980.6	15.2	(107.9)	1,888.0	3.34
3	DH Rate	3.38	4	0.1	0.0	(0.0)	0.1	3.21
4	DT Rate	2.92	2,610	76.3	0.6	(4.5)	72.4	2.77
5	Total	-	59,058	2,057.0	15.8	(112.4)	1,960.5	
6	Small and Medium Power							
7	G Rate and Flat Rate	3.16	12,888	407.2	3.2	(22.4)	388.0	3.01
8	G-9 Rate	3.06	1,114	34.1	0.3	(1.8)	32.5	2.92
9	M Rate	2.92	27,359	798.4	6.1	(43.0)	761.5	2.78
10	Public and Sent. Lighting Rates	2.87	561	16.1	0.2	(0.9)	15.4	2.74
11	BT Rate ⁽³⁾	-	-	-	-	-	-	
12	Total	-	41,922	1,255.8	9.8	(68.2)	1,197.3	
13	Large Power							
14	L Rate	2.69	45,708	1,229.0	10.5	(70.4)	1,169.1	2.56
15	H Rate	2.89	8	0.2	0.0	(0.0)	0.2	2.75
16	LD and LP Rates	8.71	17	1.5	-	-	1.5	8.71
17	Special Contracts W/O Adjust.	2.65	27,323	725.4	-	-	725.4	2.65
18	Special Contracts With Adjust.	2.07	27,323	565.3	-	-	565.3	2.07
19	Total-W/O Adjust.	2.68	73,056	1,956.1	10.5	(70.4)	1,896.2	
20	Total-With Adjust.	2.46	73,056	1,796.1	10.5	(70.4)	1,736.1	
21	Subtotal Heritage	2.77	166,400	4,603.5	-	-	-	
22	Subtotal Cons. Man. Rates	8.71	17	1.5	-	-	-	
23	Post-Heritage Subtotal	8.71	7,619	664.0	-	-	-	
24	Total- Before Adjustment	3.03	174,036	5,269.0	36.0	(251.0)	5,054.0	2.90
25	Total-With Adjustment	2.94	174,036	5,108.9	36.0	(251.0)	4,893.9	

The pass-on settlement for a given year thus has an impact on unit revenue for the following year and therefore on the calculation of the pass-on for that year. The same is true for the settlement of the deferral account for the interruptible electricity option discussed in the next section, which will also affect unit revenue for the following year.

The adjustment to unit revenue relating to pass-on accounts for previous years allows the Distributor to precisely cover all of its actual supply costs.

3.3.3 Modification of Modalities Relating to the Interruptible Electricity Option Deferral Account

In its decision D-2006-149 (R-3603-2006), the Régie authorized the establishment of a deferral account for the recording of cost deviations between the fixed and variable credits that are expected to be paid to customers and those actually paid out. In the present filing, the Distributor asks the Régie to accept two modifications relating to the modalities of the interruptible electricity option deferral account. These modifications will have the effect of harmonizing it with the treatment of the pass-on account.

- First, the Distributor considers that just like the pass-on account, interest should be accrued from January 1 of the subsequent year, contrary to decision D-2006-149, where interest was accrued from the month following the recognition of the deviation. This first modification has the effect of decreasing the balance of the deferral account for 2007, and is reflected in the required revenue for 2008.
- Secondly, the deviations between the fixed and variable discounts that will be reflected in required revenues for the test year will be accrued from January 1 to December 31 of the base year, the same reference period as the calculation of the pass-on account, contrary to the modalities accepted in request R-3603-2006, where deviations covered December, January, February and March of the same winter season but overlapped two calendar years. In 2007, this modification has the effect of decreasing the account by an amount of \$0.2 M relating to December 2007.

Considering the proposed modifications, the amounts entered in the deferral account for the interruptible electricity option, of the order of \$4.2 M, that are included in the required revenue for 2008, include:

- The balance relating to December 2006 for \$1.1 M;
- An amount of \$3.0 M covering the period from January 1 to December 31, 2007, composed of deviations between the revised fixed and variable credits for the base year and those projected in rate filing R-3610-2006 for 2007.

3.3.4 Allocation by Rate Class of the Interruptible Electricity Option Deferral Account

The interruptible electricity option is a means of managing supplies available to the Distributor. The cost of using this program is therefore included *a priori* in the total post-heritage supply cost, both projected and actual. Since these amounts are already posted in a deferral account, they must first be excluded from the pass-on calculations. Therefore, for 2007, the amounts accumulated by pass-on account rate class as presented in Table 5 exclude \$4.2 M of deviations relating to the interruptible electricity program.

Furthermore, the amounts paid into the interruptible electricity program deferral account and included in required revenue for 2008 must then be allotted by rate class. If there had not been a specific deferral account for the interruptible, this deviation would have been reflected in the pass-on calculations and would have had an impact solely on the price effect. The way to allot amounts included in this account is therefore to recalculate the pass-on by rate class, including these amounts in the price effect at the level of the unit supply cost for the actual year 2007. The rate-class differential between pass-on accounts including and excluding the deferral accounts for the interruptible electricity

option constitutes the allocation of this account by rate class as presented in Table 6 in Section 4.3 of the present document.

4 PASS-ON ACCOUNT FOR 2005, 2006 AND 2007,

4.1 2005 Pass-On Account

2005 was the first year in which the heritage electricity volume was exceeded and for which the Distributor had all the information allowing it to take into account accrued deviations in the deferral account.

The Distributor presented in its rate filing R-3610-2006 the net deviation calculated by rate class for 2005, identifying the volume deviation, price deviation and income deviation for 2005, for an amount of \$31.4 M plus \$4.6 M accrued interest, for a total of \$36 M.

Following the delivered/billed adjustment for sales from July 1, 2005 to December 31, 2005, the pass-on account for 2005 was reduced by \$5.5 M, which implies a \$1.3 M reduction in interest (See HQD-9, Document 1). The account details by rate class thus revised are shown in Table 2.

TABLE 2

DETAILS OF 2005 PASS-ON ACCOUNT

(1) Rate Class	(2) Volume Deviation		(3)	(4)	(5)	(6)=(2)+(3)+(4)-(5)	(7)	(8)=(6)-(7)	(9)	(10)=(8)+(9)
	Post-Heritage \$M	Heritage \$M	Price Deviation \$M	Revenue Deviation \$M	Final Net Deviation \$M	Net Deviation R-3610-2006 \$M	Final Impact (Billed/Delivered) \$M	Interest 2006 And 2007 \$M	Deferral to 2008 \$M	
Residential										
D and DM Rates	15.7	(19.5)	(0.7)	(15.3)	10.9	13.1	(2.3)	(0.5)	(2.9)	
DH Rate	0.0	(0.0)	(0.0)	(0.0)	0.0	0.0	(0.0)	(0.0)	(0.0)	
DT Rate	0.6	(1.3)	(0.1)	(1.1)	0.4	0.5	(0.1)	(0.0)	(0.1)	
Total	16.4	(20.8)	(0.7)	(16.5)	11.3	13.6	(2.4)	(0.6)	(3.0)	
Small and Medium Power										
G Rate and Flat Rate	3.7	(1.9)	(0.3)	(0.9)	2.3	2.8	0.5)	(0.1)	(0.6)	
Rate G-9	0.3	0.3	(0.0)	0.4	0.2	0.2	(0.0)	(0.0)	(0.1)	
M Rate	7.4	8.0	(0.7)	10.2	4.4	5.4	(0.9)	(0.2)	(1.2)	
Public and Sentinel Lighting Rates	0.3	(0.0)	(0.0)	0.1	0.1	0.2	(0.0)	(0.0)	(0.0)	
Total	11.6	6.3	(1.0)	9.8	7.1	8.6	(1.5)	(0.4)	(1.8)	
Large Power										
L Rate	11.6	(34.6)	(1.4)	(32.0)	7.5	9.2	(1.6)	(0.4)	(2.0)	
H Rate	0.0	(0.0)	(0.0)	(0.0)	0.0	0.0	(0.0)	(0.0)	(0.0)	
Special Contracts	6.1	28.5	(1.1)	31.3	2.1	2.1	-	-	-	
Total	17.6	(6.1)	(2.5)	(0.7)	9.7	11.3	(1.6)	(0.4)	(2.0)	
Total	45.6	(20.6)	(4.3)	(7.4)	28.0	33.6	(5.5)	(1.3)		
Total Excluding Special Contracts					25.9	31.4	(5.5)	(1.3)	(6.8)	

4.2 2006 Pass-On Account

Table 3 shows the net deviation calculated by rate class for 2006, identifying volume deviation, price deviation and revenue deviation. Note that the table format has been modified in order to conform to the new presentation of the pass-on for 2007 (See following section). While keeping the same information available, the sole goal of this change is to simplify the presentation by eliminating irrelevant data and does not in any way modify the results of the pass-on calculation. On December 31, 2006, the total net deviation paid into the account was -\$261.7 M, compared with -\$251.0 M recognized in the required revenue relating to 2007 in accordance with decision D-2007-12. This deviation of \$261.7 M is detailed as follows:

- Volume deviation: a reduction in the volume of post-heritage purchases of 5283 GWh for an amount of -\$500.5 M, to which is added a reduction in the volume of heritage purchases of 1855 GWh for an amount of -\$54.6 M;
- Price deviation: an increase of 1.38¢/kWh in the price paid for post-heritage electricity compared with predictions, for an amount of \$30.2 M;
- Revenue deviation: a loss of revenue in the amount of \$221.6 M due to decreased sales of 7138 GWh;
- The recovery of \$41.6 M in deferrals attributable to the special contracts with the Producer during the current year. Note that the calculation exercise to assess the pass-on account must include the special contracts since they are part of heritage and post-heritage electricity.

TABLE 3

DETAILS OF PASS-ON ACCOUNT AS OF DECEMBER 31, 2006 (EXCLUDING INTEREST)

Rate Class	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
	Actual GWh (A), (B)	Projected GWh	Actual ¢/kWh	\$M	Actual GWh (B)	Projected GWh	Projected ¢/kWh	\$M	Actual ¢/kWh (C)	Projected ¢/kWh	Actual GWh	\$M	Actual GWh (E)	Projected GWh	¢/kWh	\$M	Pass-Through \$M (C)
Residential																	
D and DM Rates	52,767	53,782	3.20	32.5	700	2,406	10.97	-187.1	12.57	10.97	700	11.2	53,467	56,188	3.53	-96.2	-112.0
DH Rate	3	3	3.10	0.0	0	0	10.6	10.0	12.16	10.61	0	0.0	3	4	3.42	0.0	0.0
DT Rate -	2,696	2,486	2.68	5.6	36	111	9.18	-6.9	10.52	9.18	36	0.5	2,731	2,597	2.96	4.0	-4.0
Total	55,466	56,271		-26.9	736	2,517		-194.0			736	11.7	56,202	58,788		-92.2	-111.0
Small and Medium Power																	
G Rate and Flat Rate	12,098	12,312	2.88	-6.2	160	551	9.88	-38.5	11.32	9.88	160	2.3	12,258	12,862	3.18	-19.2	-20.0
G-9Rate	1,021	1,061	2.79	-1.1	14	47	9.56	-3.2	10.96	9.56	14	0.2	1,035	1,108	3.08	-2.3	-1.0
M Rate	25,249	25,687	2.67	-11.7	335	1,149	9.15	-74.5	10.48	9.15	335	4.5	25,584	26,836	2.95	-36.9	-40.0
Public and Sent. Lighting Rates.	565	532	2.65	0.9	7	24	9.06	-1.5	10.39	9.06	7	0.1	572	556	2.92	0.5	-1.0
Total	38,933	39,592		-18.1	516	1,771		-117.7			516	7.1	39,449	41,363		-57.9	-70.0
Large Power																	
L Rate	44,682	45,021	2.46	-8.4	593	2,028	8.44	-121.1	9.67	8.44	593	7.3	45,274	47,049	2.72	-48.3	-70.0
H Rate	9	9	2.65	0.0	0	0	9.06	0.0	10.39	9.06	0	0.0	9	10	2.92	0.0	0.0
Special Contracts-W/O Adjust.	25,455	25,507	2.43	-1.2	338	1,149	8.33	-67.6	9.55	8.33	338	4.1	25,793	26,656	2.69	-23.2	-40.0
Total-Without Adjust.	70,146	70,537		-9.6	930	3,178		-188.8			930	11.4	71,076	73,714		-71.5	-111.0
Total Incl. Special Contracts	164,545	166,400	2.77	-54.6	2,182	7,465	9.47	500.51	0.85	9.47	2,182	30.2	166,727	173,865	3.05	-221.6	-300.0
Total Excl. Special Contracts \$M -				-53.4				432.8				26.1				-198.4	-260.0

- (A) The actual heritage and post-heritage volumes are distributed by rate class in proportion to supply needs.
- (B) The heritage consumption volume "Column (1)" is adjusted where appropriate to reflect variation in the actual loss rate in relation to that projected.
- (C) The actual post-heritage costs by rate class have the same price signal as projected post-heritage costs "Column (10)."

In the present filing, the amount of -\$10.7 M equal to the difference between the net deviation presented in filing R-3610-2006 and the actual data as of December 31, 2006, is added to supply purchases for the projected test year 2008 including interest of -\$0.8 M (HQD-9, Document 1, Section 6.2). Table 4 shows the details of the allocation of this amount by rate classes that will be included in required revenue for 2008.

TABLE 4

ADJUSTMENT OF 2006 PASS-ON ACCOUNT

(1)	(2)	(3)	(4)	(5)	(6)
Rate Class	Rate Case R-3610-2006 (\$M)	2006 Adjusted Annual Report (\$M)	Deviation (\$M)	Interest \$M	Deferral to 2008 (\$M)
Residential					
D and DM Rates	(107.9)	(112.2)	(4.3)	(0.3)	(4.7)
DH Rate	(0.0)	(0.0)	0.0	0.0	0.0
DT Rate	(4.5S)	(4.8)	(0.3)	(0.0)	(0.3)
Total	(112.4)	(117.0)	(4.6)	(0.4)	(5.0)
Small and Medium Power					
G Rate and Flat Rate	(22.4)	(23.2)	(0.7)	(0.1)	(0.8)
G-9 Rate	(1.8)	(1.9)	(0.0)	(0.0)	(0.0)
M Rate	(43.0)	(44.8)	(1.7)	(0.1)	(1.9)
Public and Sent. Lighting Rates	(0.9)	(1.0)	(0.1)	(0.0)	(0.1)
Total	(68.2)	(70.8)	(2.6)	(0.2)	(2.8)
Large Power					
Rate L	(70.4)	(73.9)	(3.5)	(0.3)	(3.8)
Rate H	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Special Contracts	-	-	-	-	-
Total	(70.4)	(73.9)	(3.5)	(0.3)	(3.8)
Total	(251.0)	(261.7)	(10.7)	(0.8)	(11.5)

4.3 Budgeted Financial Statement of 2007 Pass-On Account

The pass-on account budgeted for 2007 incorporating four months of actual deviations and eight months of projected deviations is shown in Table 5. On these bases, the deferral account for 2008 has a debit balance of \$7.5 M.⁶ Table 6 shows the details of the allocation of the balance of the deferral account for the interruptible electricity option, as described in Sections 3.3.3 and 3.3.4.

⁶ See HQD-9, Document 1, Table 8.

TABLE 5

PASS-ON ACCOUNT BUDGETED FOR 2007 EXCLUDING INTERRUPTIBLE

Rate Class	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
	Actual GWh ^(A) GWh ^(B)	Projected GWh	¢/kWh	\$M	Actual GWh ^(B)	Projected GWh	Projected ¢/kWh	\$M	Actual ¢/kWh ^(C)	Projected ¢/kWh	Projected GWh	\$M	Actual GWh ^(E)	Projected GWh	¢/kWh	\$M	Pass-on \$M ^(D)
Residential																	
D and DM Rates	54,671	53,973	3.21	22.4	2,267	2,471	10.10	-20.6	10.73	10.10	2,267	14.2	56,802	56,444	3.34	12.0	4.0
DH Rate	4	3	3.09	0.0	0	0	9.73	0.0	10.34	9.73	0	0.0	4	4	3.21	0.0	0.0
DT Rate	2,580	2,495	2.67	2.3	107	114	8.42	-0.6	8.94	8.42	107	0.6	2,680	2,610	2.77	2.0	0.2
Total	57,255	56,472		24.6	2,374	2,586		-21.2			2,374	14.8	59,487	59,058		13.9	4.2
Small and Medium Power																	
G Rate and Flat Rate	12,413	12,323	2.89	2.6	515	564	9.10	-4.5	9.66	9.10	515	2.9	12,897	12,888	3.01	0.3	0.7
G-9 Rate	1,015	1,065	2.79	-1.4	42	49	8.80	-0.6	9.35	8.80	42	0.2	1,054	1,114	2.92	-1.7	0.0
M Rate	26,167	26,161	2.67	0.1	1,085	1,198	8.40	-9.5	8.92	8.40	1,085	5.7	27,187	27,359	2.78	-4.8	1.1
Public and Sent. Lighting Rates	550	536	2.62	0.4	23	25	8.26	-0.1	8.77	8.26	23	0.1	572	561	2.74	0.3	0.0
Total	40,145	40,086		1.7	1,665	1,835		-14.7			1,665	8.9	41,711	41,922		-5.9	1.9
Large Power																	
L Rate	42,196	43,707	2.46	-37.1	1,750	2,001	7.74	-19.5	8.22	7.74	1,750	8.4	43,772	45,708	2.56	-49.5	1.4
H Rate	9	8	2.64	0.0	0	0	8.33	0.0	9.32	8.33	0	0.0	10	8	2.75	0.0	0.0
Special Contracts –W/O Adjust.	26,731	26,127	2.43	14.7	1,108	1,196	7.64	-6.7	8.12	7.64	1,108	5.3	27,715	27,323	2.65	10.4	2.8
Total -Without Adjust.	68,936	69,842		-22.4	2,859	3,198		-26.2			2,859	13.7	71,496	73,039		-39.1	4.2
Total Incl. Contracts Special	166,336	166,400	2.77	3.9	6,898	7,619	8.71	-62.1	9.27	8.71	6,898	37.4	172,694	174,019	2.90	-31.1	10.3
Total Excl. Contracts Special \$M				-10.7				-55.4				32.1				-41.5	7.5

- (A) The actual heritage and post-heritage volumes are allotted by rate class in proportion to supply needs.
- (B) The consumption heritage volume "Column (1)" is adjusted where appropriate to reflect variation in the actual loss rate in relation to that projected.
- (C) Actual post-heritage costs by rate class have the same price signal as projected post-heritage costs according to the hourly method "Column (10)."
- (D) Excluding the interruptible electricity program if any.
- (E) Actual sales volume excluding supply volumes from interruptions.

TABLE 6

ALLOCATION BY RATE CLASSES OF DEFERRAL ACCOUNT FOR 2007 INTERRUPTIBLE ELECTRICITY OPTION

Rate Class	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
	Heritage Volume Variance				Post-Heritage Volume Variance				Post-Heritage Price Variance				Revenue Variance				Pass-On	Cfr Interrup.
	Actual GWh (A) (B)	Projected GWh	¢/kWh	\$M	Actual GWh	Projected GWh	¢/kWh	\$M	Actual ¢/kWh	Projected ¢/kWh	Actual GWh	\$M	Actual GWh	Projected GWh	¢/kWh	\$M	\$M	\$M
Residential																		
D and DM Rates	54,671	53,973	3.21	22.4	2,267	2,471	10.10	-20.6	10.81	10.10	2,267	16.0	56,802	56,444	3.34	12.0	5.8	1.8
DH Rate	4	3	3.09	0.0	0	0	9.73	0.0	10.41	9.73	0	0.0	4	4	3.21	0.0	0.0	0.0
DT Rate	2,580	2,495	2.67	2.3	107	114	8.42	-0.6	9.01	8.42	107	0.6	2,680	2,610	2.77	2.0	0.3	0.1
Total	57,255	56,472		24.6	2,374	2,586		-21.2			2,374	16.7	59,487	59,058		13.9	6.1	1.9
Small and Medium Power																		
G Rate and Flat Rate	12,413	12,323	2.89	2.6	515	564	9.10	-4.5	9.74	9.10	515	3.3	12,897	12,888	3.01	0.3	1.1	0.4
G-9 Rate	1,015	1,065	2.79	-1.4	42	49.3	8.80	-0.6	9.42	8.80	42	0.3	1,054	1,114	2.92	-1.7	0.0	0.0
M Rate	26,167	26,161	2.67	0.1	1,085	1,198	8.40	-9.5	8.99	8.40	1,085	6.4	27,187	27,359	2.78	-4.8	1.9	0.7
Public and Sent. Lighting Rates	550	536	2.62	0.4	23	25	8.26	-0.1	8.84	8.26	23	0.1	572	561	2.74	0.3	0.1	0.0
Total	40,145	40,086		1.7	1,665	1,835		-14.7			1,665	10.1	41,711	41,922		-5.9	3.0	1.2
Large Power																		
L Rate	42,196	43,707	2.46	-37.1	1,750	2,001	7.74	-19.5	8.28	7.74	1,750	9.5	43,772	45,708	2.56	49.5	2.5	1.1
H Rate	9	8	2.64	0.0	0	0	8.33	0.0	9.39	8.33	0	0.0	10	8	2.75	0.0	0.0	0.0
Special Contracts-W/O Adjust.	26,731	26,127	2.43	14.7	1,108	1,196	7.64	-6.7	8.18	7.64	1,108	6.0	27,715	27,323	2.65	10.4	3.5	0.7
Total-Without Adjust.	68,936	69,842		-22.4	2,859	3,198		-26.2			2,859	15.5	71,496	73,039		-39.1	6.0	1.8
Total Incl. Special Contracts	166,336	166,400	2.77	3.9	6,898	7,619	8.71	-62.1	9.34	8.71	6,898	42.2	172,694	174,019	2.90	-31.1	15.1	4.9
Total Exc. Special Contracts				-10.7				-55.4				36.3				-41.5	11.6	4.2
M-\$																		

- (A) The actual heritage and post-heritage volumes are allotted by rate class in proportion to supply needs.
- (B) The heritage consumption volume "Column (1)" is adjusted where appropriate to reflect variation in the actual loss rate in relation to that expected.
- (C) Actual post-heritage costs by rate class have the same price signal as post-heritage costs projected according to the hourly method "Column (10)."
- (D) Including the interruptible electricity program.
- (E) Actual sales volume excluding the 'supply volume from interruptions.
- (F) Allocation by rate class determined by differential between "Column (17)" in Table 6 and "Column (17)" of Table 5.

The pass-on account balance as calculated in Table 5 takes the following factors into account:

- Volume deviation: a 721 GWh decrease in volume of post-heritage purchases amounting to -\$62.1 M. Despite optimizing as part of supply management in real time, a heritage electricity volume of 64 GWh is now expected to be unused, for an amount of \$3.9 M;
- Price deviation: a 0.55 ¢/kWh increase in the price paid for post-heritage electricity compared to that projected, amounting to \$37.4 M;
- Revenue deviation: a revenue loss amounting to -\$31.1 M due to 1325 GWh in reduced sales:
- An expected deduction of \$2.8 M in deferrals attributable to special contracts.

Table 6 essentially repeats the same calculations as those shown in Table 5, with the exception of the price deviation, which recognizes the amount of the deferral account for the interruptible electricity option. The balance of the pass-on account thus increases to \$11.6 M, excluding the special contract portion. For each rate class, the differential between the Table 5 and Table 6 results constitutes allocation by rate class of the deferral account for the interruptible option, as described in greater detail in section 3.3.4.

On the basis of the interest calculations approved by the Régie in its decision D-2007-12 applicable to the pass-on, no interest has been applied to the balances of \$7.5 M in the pass-on account and \$4,2 M for the deferral account for the interruptible electricity

option. The Distributor will apply interest from January 1, 2008 – once all the actual supply cost deviations for 2007 are known.

Adjustments to take into account the actual final deviations for the 2007 pass-on account and for the interruptible electricity option account will be reflected in the 2009 rate filing. Only the pass-on account adjustment for delivered/billed pertaining to sales from July 1, 2007 to December 31, 2007 will be actually reflected in the 2010 rate filing.

Considering the amounts involved, the Distributor suggests settling these balances (pertaining to 2005, 2006 and 2007) by integrating them totally and without averaging in required revenue for the test year 2008.

5 CONCLUSION

On the basis of the arguments presented in this paper, the Distributor asks the Régie to approve the proposed additional billed/delivered adjustments, the unit revenue calculation and the modalities of the interruptible electricity option deferral account.

It also asks the Régie to reflect the pass-on account credit balance of -\$10.8 M for 2005, 2006 and 2007 in its required revenue for 2008 as detailed in Table 7:

TABLE 7

DETAILS OF PASS-ON ACCOUNT BALANCE FOR THE PROJECTED TEST YEAR 2008

(IN \$M)

Year	Pass-on	Adjustment	Interest	Total
2005	-	(5.5)	(1.3)	(6.8)
2006	-	(10.7)	(0.8)	(11.5)
2007	7.5	-	-	7.5
Total	7.5	(16.2)	(2.1)	(10.8)