

TRANSMISSION SERVICE COSTS

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1 INTRODUCTION

The overlapping of the Transmitter's and Distributor's respective rate schedules has meant that, in rate filings over the past few years, the Distributor has not been able to reflect, within the time required, the new transmission rate subsequently authorized in its cost of service. The Distributor has thus placed the amount of any unexpected additional billings resulting from the authorization of a new transmission rate into the deferred transmission variances account provided for this purpose as authorized in accordance with decision D-2003-93. In its decision D-2007-12, the Régie sets the specific rules as well as the principles to be followed with respect to amortization of these deferred expenses. The Régie however remains concerned about this mismatch and the resulting financing costs. For this reason, in this same decision, it asks the Distributor, beginning in 2008, to reflect in its revenue requirement its assessment of the transmission cost reserve applicable to the cost of service for the test year. In another connection, in its decision D-2007-08, the Régie ordered the Transmitter, beginning in 2007, to establish an account to which deviations between projected and real point-to-point revenues will be posted, and distribute them between native load customers and long-term point-to-point customers, thus creating an impact on the transmission service cost borne by the Distributor.

2 ASSESSMENT OF TRANSMISSION SERVICE COSTS FOR 2008 AND FOLLOWING YEARS

Within the context of the present rate schedules, recourse to the deferred transmission expenses account may very well recur every year in which the Transmitter addresses a rate modification application.

In order to rectify the situation of *a posteriori* accounting of additional transmission costs following an increase in native load billings for a given test year, the Régie asked the Distributor in decision D-2007-12 (page 21) to *"include, beginning with the next (2008) rate filing, its assessment of the transmission cost reserve applicable to the cost of service for the test year. The variation between the real data and the reserve will be covered by the existing deferred transmission expenses account and will be included in the rate filing for the following year."*

In response to the Régie's request, the Distributor finds an amount of \$2 540 M in 2008 for the annual native load rate, based on the Transmitter's application for 2008 submitted to the Régie on July 11.¹ This amount was the best available assessment at the time the present rate application was prepared. If the transmission rate should be adopted before a final decision is issued with respect to its rate application, the Distributor suggests that the Régie fully reflect this first decision in its rates applicable from April 1, 2008. In this way, the Transmitter's costs attributable to the native load would be recovered in the year to which they relate. If the desired matching proves impossible because of time constraints, the deviation will be posted to the deferral account and recognized in revenue requirement for 2009, plus applicable interest.

3 DISPOSITION OF DEFERRED TRANSMISSION EXPENSES

As presented in filing R-3610-2006,² the balance of the deferred transmission expenses account relating to 2005 and 2006 was equal to \$355.4 M³ on December 31, 2006. In 2007, an amount of \$58.9 M² was added in relation to the new transmission rate authorized and applicable as of January 1, 2007 in virtue of decision D-2007-34.

With respect to the inclusion of these deferrals in the rates, the Distributor would remind the following: In its request for recognition of the principle of transmission cost transfer,⁴ the Distributor anticipated that, from then on, when a transmission cost transfer request was included in its rate application, the balance of the deferral account, covering one or more years, would be charged fully and without averaging to the service cost.

However, the complete recognition in 2007 of the retroactive billing for 2005 and 2006 would have created an impact of more than 22% on transmission costs.

Therefore, considering the substantiality of the amounts in question and, according to the terms of the Régie itself, the exceptional nature of the retroactive application of the new transmission rate, the Distributor attempted to ease its impact on customers. For this reason, it suggested deferring until 2008 the recognition of the retroactive amount of \$340 M (before interest) for 2005 and 2006 in revenue requirement, and amortizing the balance over a number of years. In filing R-3610-2006,⁵ the Distributor suggested

¹ See R-3640-2007, HQT-13, Document 1, Page 13

² HQD-9, Document 1, Section 4

³ Including interest

⁴ R-3492-2002 phase 1, HQD-3, document 3, page 5,

⁵ HQD-4S, Document 3, pages 6 and 7.

reconsidering the strategy for settlement of the deferral account in the 2008 rate filing. It considered amortizing the account balance over a maximum of three years, beginning in 2008.

However, in its decision D-2007-12, the Régie ordered the Distributor to begin in 2007 amortizing the deferral account relating to transmission costs for 2005 and 2006 in the amount of \$70 M, emphasizing the assignment of costs to the right generations of customers, rate stability and the reduction of financing costs. Following the Régie's instructions, the Distributor included in its 2007 service cost the amount of \$70 M, leaving an unamortized balance of \$285.4 M, added to the 2007 rate base.⁶ Following the addition of \$58.9 M⁷ as the deviation relating to 2007, the account balance on December 31, 2007 reached \$344 M. In its decision, the Régie also called upon the Distributor to recover as quickly as possible the deferral account balance for 2005 and 2006 in the service cost for the test year 2008. According to the terms of the decision, *"...the Distributor should, among other things, apply any credit balance from the pass-on account at the time of the submission of the 2008 filing rate as a priority to the reduction of the balance debit of the transmission costs deferral account."*

However, the pass-on account developed very differently in 2007 than in 2006. On an assessment basis including four months of real data, the Distributor estimated at \$7.5 M the debit amount to be posted to the pass-on account for 2007. Considering the adjustments to the pass-on account relating to 2005 and 2006,⁸ a net credit balance of \$10.8 M is available to be applied to reduce the balance of the deferred transmission expenses. However, considering the Régie's desire to amortize the balance of the deferred transmission expenses as quickly as possible in 2008, the Distributor suggests not limiting the reduction of deferred transmission expenses to the pass-on credit balance. The Distributor proposes amortizing an amount of \$107.0 M in 2008 from the unamortized balance for 2005 and 2006, and recognizing the complete balance of \$58.9 M of deferred expenses for 2007 in the transmission service cost. This amount will not be added to the rate base since it is fully paid in the Distributor's revenue requirement for the year following its observation, leaving no unamortized residual balance. The residual balance of the 2005-2006 deferred transmission expenses in the 2008 rate base will therefore amount to \$178.4 M. The Distributor suggests amortizing this balance over two years. The Distributor is confident that this scenario can satisfy the Régie's desire to amortize the balances of deferred transmission expenses as

⁶ R-3610-2006, HQD-20, Document 1, page 11.

⁷ Including \$2 M interest.

⁸ See HQD-9, Document 1, Section 6.

quickly as possible in order to associate costs with the right generations of customers and to minimize financing costs, while avoiding undue pressure on rates. Over the period 2006-2010, interest charges will amount to roughly \$61 M, compared with \$79 M under the scenario set out in the previous rate filing.

4 ADJUSTMENT TO THE TRANSMITTER'S REAL POINT-TO-POINT REVENUES

Considering the AQCIE/CIFQ's* proposal⁹ to create an account that would make it possible to accrue deviations between projected point-to-point revenues and real revenues, the Régie recognized that short-term point-to-point service reservations are subject to many uncertainties, such as market and hydraulicity conditions. The Régie also recognized that the Distributor's surplus electricity sales activities were also subject to significant uncertainty. As these various uncertainties are beyond the control of the Transmitter and its customers, there could be a significant impact on short-term point-to-point revenues. The Régie also extended the scope of these considerations to revenue from long-term point-to-point services, since significant transfers of revenue between long-term and short-term point-to-point services have been observed in the past and may occur in the future. Thus, in decision D-2007-08, the Régie orders the Transmitter to establish in 2007 a deviation account relating to revenues from long-term and short-term point-to-point transmission services. Any deviation between forecasts of point-to-point revenues recognized by the Régie and real revenues are to be posted to this account. Deviations will be distributed between native load customers and long-term point-to-point service customers.

In virtue of this order, the Transmitter has carried out an assessment of deviation relating to point-to-point sales for 2007. The portion attributable to the Distributor amounts to \$41.3 M.¹⁰ In order to have its clientele benefit from this credit after 2008, the Distributor suggests now making a reduction in its 2008 service cost by that portion of the estimated deviation that is attributed to it. The Distributor also asks that any residual deviation that remains at the end of the year on the basis of 2007 real data for

*[Association québécoise des consommateurs industriels d'électricité (Quebec Association of Industrial Consumers of Electricity) and Conseil de l'industrie forestière du Québec (Forest Industry Council of Quebec) – Trans.]

⁹ Filing R-3605-2006

¹⁰ R-3640-2007S, HQT-4, Document 3, pages 11.

be posted to the existing deferral account and included in revenue requirement for 2009. In order to generalize the scope of the proposals, the Distributor asks the Régie to recognize the principle of including in revenue requirement for a given test year, the adjustment to the point-to-point revenues for the preceding year, on the basis of an assessment by the Transmitter including part of the real data (four months in the present case). This principle is related to the recognition of the pass-on as requested by the Distributor in its request R-3610-2006. The Distributor also asks that any deviation between the adjustment estimated on this real/projected basis and the adjustment calculated on the basis of the real data for the target be posted in the deferred transmission expenses account, and that it bear interest at the authorized rate applicable to the rate base and be fully recognized in the revenue requirement for the second subsequent financial year.

5 COMPONENTS OF 2008 TRANSMISSION SERVICE COSTS

The result of the previous sections is that the cost of transmission service will include the following:

- The assessment of the native load transmission billing;
- The portion of the deferred transmission expenses account reflected in the rate, including any amount corresponding to the credit balance of the pass-on account;
- The assessment of the deviation account on the Transmitter's point-to-point revenues.

The following table shows the various components of the projected transmission service cost for 2008.

TABLE 1

COMPONENTS OF 2008 TRANSMISSION SERVICE COSTS

Estimated transmission rate for 2008	\$2,540.0 M
Amortizations of deferred expenses from 2005 and 2006	\$107.0 M
Recognition of deferred expenses from 2007	\$58.9 M
Adjustment – Transmitter's short-term point-to-point revenues for 2007	-\$41.3 M
Cost of transmission service for 2008	\$2,664.6 M