ELECTRICITY PURCHASES
AND
TRANSMISSION SERVICE

1 SUMMARY OF ELECTRICITY PURCHASES AND COST OF TRANSMISSION SERVICE(1)

	Electricity Purchases and Transmission Service ($ millions)		
	Previous Year	Base Year	Test Year
	2006	2007	2008
Electricity Purchases	**5,040.3**	**5,002.2**	**5,034.5**
Heritage Electricity	4,548.9	4,607.4	4,603.5
Post-heritage Electricity	238.1	642.8	555.9
Management Rates and Emergency Power	20.6	2.6	0.5
Adjustment of Special Contracts	(333.0)	(25.2)	(118.8)
Pass-on Account for Purchase of Post-heritage Electricity	267.2	(222.4)	(10.8)
Deferral Account for Interruptible Electricity	(1.1)	(3.0)	4.2
Transmission Service	**2,313.0**	**2,553.0**	**2,664.6**
Native Load	2,653.0	2,609.7	2,498.7
Deferred Transmission Costs	(340.0)	(56.7)	165.9
Electricity Purchases and Transmission Service	**7,353.3**	**7,555.2**	**7,699.1**

(1) Totals are calculated from unrounded data.

2 ELECTRICITY PURCHASES

This document details the costs and volumes related to electricity purchases for 2006, 2007 and 2008, as well as the costs of transmission service. The data (in ¢/kWh and GWh) of Table 2 are established according to consumption volumes, compared with those of Exhibit HQD-2, document 2, which are established according to needs. Thus, the differences are explained by the loss rates of 7.5%, 7.76% and 7.5% for years 2006, 2007 and 2008, respectively.

To ensure the energy supply of Quebec consumers, the Distributor has heritage electricity supplied by the Producer and several other means acquired on the markets. Details on the management of heritage and post-heritage supplies are presented in Exhibit HQD-2, document 2. The costs and volumes of these electricity supplies for the 2006 previous year, the 2007 base year and the 2008 test year are detailed in the following table:

	Electricity Purchases		
	Previous Year	Base Year	Test Year
	2006	2007	2008
Electricity Sales (GWh)	**167,029**	**172,613**	**172,338**
Less			
Independent Networks	(295)	(353)	(357)
Rapide des Joachims	(5)	(6)	(6)
Emergency Generators	(24)	(12)	(12)
BT Rate	(428)	-	-
LD Rate	(33)	(6)	(5)
LP Rate	(0)	-	-
LA Rate	(18)	(22)	-
Plus			
Internal Use and Site Consumption	501	478	458
Interruptions	-	127	-
Heritage Electricity			
Volume of Heritage Consumption (GWh)	164,545	165,923	166,381
Cost of Supply (¢/kWh)	2.76	2.77	2.77
Cost of Supply ($M)	4,548.9	4,607.4	4,603.5
Post-heritage Electricity			
Volume of Consumption (GWh)	2,182	6,898	6,034
Cost of Supply (¢/kWh)	10.91	9.32	9.21
Cost of Supply ($M)	238.1	642.8	555.9
Rates for the Management of Consumption and Emergency Power			
Volume of Consumption (GWh)	479	28	5
BT Rate	428	-	-
LD Rate	33	6	5
LP Rate	-	-	-
LA Rate	18	22	-
Cost of Supply (¢/kWh)			
BT Rate	3.51	-	-
LD Rate	10.91	9.32	9.66
LP Rate	10.91	-	-
LA Rate	10.91	9.32	-
Cost of Supply ($M)	20.6	2.6	0.5
DEA for Interruptible Electricity	(1.1)	(3.0)	4.2
Pass-on Account for the Purchase of Post-heritage Electricity 2007	-	(7.5)	7.5
Pass-on Account for the Purchase of Post-heritage Electricity 2006	261.7	(251.0)	(11.5)
Pass-on Account for the Purchase of Post-heritage Electricity 2005	5.5	36.0	(6.8)
Electricity Purchases			
Total Volume of Consumption (GWh)	167,206	172,848	172,421
Total Cost of Supply (¢/kWh)	3.03	2.91	2.99
Cost of Supply without Adjustment for Special Contracts ($M)	5,073.7	5,027.3	5,153.3
Cost of Supply with Adjustment for Special Contracts ($M)	5,040.3	5,002.2	5,034.5

2.1 Volumes and Costs of Heritage Electricity

The methods used to establish the volumes and costs of heritage electricity are described in Article 52.2 of the Loi sur la Régie de l'énergie. The volume of heritage electricity is determined by subtracting from the Distributor's total sales the GWh related to neighbouring networks, consumption management rates (BT and LA) and emergency power (LP and LD), the adjustment for the billed/delivered, consumption related to the supply of Rapides des Joachim, and the use of mobile generator sets. The GWh of internal use and site consumption, as well as the volumes related to the interruptible, are added subsequently.

In accordance with Decision D-2003-93 of the Régie, the cost of the provision of heritage electricity (in $M) is established by adding the results of the multiplication of the volumes of each consumer category by the costs distributed respectively to these categories. The costs by category of consumer are determined using the average cost of supply of 2.79 ¢/kWh adjusted for the loss rates and distributed according to the formula approved by the Régie from 2000 to 2007. For the 2008 year, in accordance with paragraph iii), clause 2 of article 52.2, the cost distributed to each consumer category is equal to the cost that will be established by the Government in its upcoming decree.

Due to the fact that supplies are managed in real time, it is expected that it will be impossible to use a certain volume of heritage electricity in the 2007 base year. This volume is currently estimated at 64 GWh.

For the 2008 year, just as was the case of the projected test years of previous rate cases, the management of supplies will be carried out on the basis of the full use of the volume of heritage electricity, that is a volume of 166,381 GWh, given the loss rate of 7.5%.

2.2 Volumes of Post-heritage Electricity

For the 2007 base year, the volume of purchases of post-heritage electricity is estimated at 6,898 GWh, at an average cost of 9.32 ¢/kWh (including a loss rate of 7.76%) for a total of $642.8 million, excluding management rates and including the variance on the fixed and variable credits paid to the deferral account for the interruptible electricity option. It should be noted that the post-heritage purchases for the year 2007 include 4 months actual and 8 months projected, with the latter based on the April, 2007 revision. For the projected 2008 test year, the volume of electricity exceeding the volume of heritage electricity is 6,034 GWh, excluding the supply of the management rates. The purchase costs related to post-heritage electricity are estimated at $555.9 million for an average provision unit cost of 9.21 ¢/kWh (including the loss rate of 7.5%). In 2008, the fixed credits for the interruptible electricity option amount to $5.3 million for 525 MW and are included in the post-heritage costs. Since very short term energy needs are negligible for 2008, the Distributor did not integrate any cost attributable to variable credits for the projected test year.

2.3 Management Rates

The supply costs related to the supply of the management rates and emergency power are established according to market prices. For 2006 and 2007, the volume of all these rates is supplied directly from the procurement of post-heritage electricity for total costs of $20.6 million and $2.6 million respectively.

For the year 2008, the forecast total costs of $556.4, presented in Exhibit HQD-2, document 2, include an amount of $555.9 million for the electricity that exceeds the volume of heritage electricity and $0.5 million related to the management rates.

As for the price of rate BT for the year 2006, it is equal to the price established by the Régie in its previous decisions. It should be noted that this rate was

abrogated on March 31, 2006. The differential between the average post-heritage cost and the price of power of this rate is recorded in the deferral account granted by the Régie. The deficit related to the supply costs of the BT rate paid into the deferral account amounts to $66.5 million in 2006 (see Exhibit HQD-4, document 3, of the Distributor's annual report for 2006).

2.4 Adjustment for Special Contracts

In accordance with the Loi sur la Régie de l'énergie, the cost of providing special contracts is equal to the revenue established in the contract, after deducting applicable transmission and distribution costs using the Distributor's service costs allocation method, as described in Exhibit HQD-11, document 3. An adjustment of the cost of provision allocated to special contracts is thus made since the shortfall or the surplus, between the revenue requirement of special contracts and the revenue they generate, is borne by the shareholder. For the 2008 test year, this adjustment amounts to -$118.8 million, which decreases by the same amount the costs related to the purchase of electricity.

2.5 Deferral account regarding post-heritage supply costs and the interruptible electricity option

An adjustment of the deferral (*pass-on*) accounts relative to the purchases of post-heritage electricity for the years 2005 and 2006 is paid into the Distributor's service cost of the 2008 test year. For 2005, the amount of -$6.8 million is equal to the adjustment of the billed/delivered plus interests. For 2006, the adjustment amounts to -$11.5 million, which represents the difference between the *pass-on* for the year 2006, based on 9 months actual and 3 months projected, of the case R-3610-2006 and the actual *pass-on* as at December 31, 2006, plus interests. For the base year 2007, the projected *pass-on* (4 months actual, 8 months projected) is integrated into the required revenue of year 2008 to an amount of $7.5 million. The details of the adjustments for the years 2005 and 2006 as well as the calculation of the *pass-on* account for 2007 are presented in exhibits

HQD-4, document 2, and HQD-9, document 1. The balance of the deferral account for the interruptible electricity option is also taken into account in the revenue requirement for 2008, to an amount of $4.2 million (see also exhibits HQD-4, document 2, and HQD-9, document 1).

3 TRANSMISSION SERVICE

The Distributor has integrated, in its cost of service for 2008, the provision of $2,540 million for the cost of the transmission service of the native load which is credited by an amount of $41.3 million relative to the point-to-point variance account. To this amount is added the amortization charge of the deferral account for 2005-2006 and for 2007, respectively $107 million and $58.9 million, for a total of $165.9 million. These components total $2,664.6 million for the year 2008 (see exhibits HQD-4, document 3, and HQD-9, document 1).