Hydro-Québec Distribution's responses to the Régie's Request for Information No. 1

Comparison of the regulated income statement and authorized revenue requirement

2. **References:** (i) Exhibit HQD-2, document 3, page 5, table 2;
(ii) Exhibit HQD-2, document 2, page 6.

Preamble:

(i) The Distributor presented a comparison of the 2009 income statement ($345.9 million) and authorized revenue requirement (D-2009-016) ($240.2 million). In table 2, it also presented the composition of the main variances totalling $106 million, including a favourable variance of $24 million pertaining to other operating expenses.

(ii) The Distributor mentioned that: "[TRANSLATION] *Moreover, in the context of the integrated management of its operating expenses and based on its business context and compliance with its global budget allowance, the supplementary costs recorded early in 2009 prompted the Distributor to take ad hoc and temporary measures to mitigate their impact.*"

Requests:

2.1 Please explain in more detail the favourable variances of $24 million pertaining to the other operating expenses. Specify the nature of the related expenses and variances.

Response:

The Distributor dynamically manages all of its operating expenses, which are established for internal purposes (excluding pension expenses) based on the opportunities and development of its business context, all the while complying with the global budget allowance under its control.

Therefore, to compensate for the adverse effects of bad debt expenses accrued due to the economic context, the Distributor took the following measures:

- **adjusted the service level offered to various segments of its business clientele. Consequently, the Distributor made these service adjustments starting in 2009, namely before generating the annual recurrent gains of $6.3 million initially forecast for 2010;**

- **ad hoc and temporary reduction in network maintenance activities and vegetation control ($11.0 million) as well as a delay in the purchasing of computer material ($2.3 million) and performance of redevelopment work on its buildings ($1.7 million). The Distributor is of the opinion that these measures cannot be repeated recurrently without affecting the quality or reliability of its service;**

- **budgetary cuts altogether representing approximately $2.5 million resulting from local initiatives taken by business units. These measures are only evident if taken as a whole, and can be seen if budgetary targets are reached. Besides, given their diversity, it is difficult to make any**

pronouncement as to the ad hoc or recurrent nature of these initiatives as a whole.

All of these measures generated $24 million in gains.

2.2 Indicate and explain the ad hoc and temporary measures implemented by the Distributor to mitigate these operating costs.

Response:

See response to question 2.1.

2.3 Can these measures be repeated in 2010 and 2011? Please explain.

Response:

See response to question 2.1.