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Hydro-Québec Distribution

2012 Annual Report

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# **Comparison of Regulatory Statements and Recognized Revenue Requirements for 2012**

### 2.1.3 Operating Expenses

The following tables list the Distributor's operating expenses based on a global approach as well as details on specific elements for 2012.

**Table 6**  
**GLOBAL APPROACH FOR 2012 OPERATING EXPENSES (in millions of dollars)**

Components	2012 test year	Decision-related adjustments	D-2012-024	D-2012-024 adjusted*	Actual 2012	Actual variance vs D-2012-024 adjusted*
Distributor's core activities	1,199.1	(9.2)	1,189.9	1,189.6	1,166.4	923.2)
Specific elements	182.9	(33.4)	149.5	149.5	169.0	19.5
<b>Total</b>	<b>1,382.0</b>	<b>(42.6)</b>	<b>1,339.4</b>	<b>1,339.1</b>	<b>1,335.4</b>	<b>(3.7)</b>

\* Decision D-2012-024, including the impact of organizational adjustment and reclassifications associated with the remote readers.

**Table 7**  
**COMPONENTS OF THE SPECIFIC ELEMENTS FOR 2012 (in millions of dollars)**

Components	2012 test year	Decision-related adjustments	D-2012-024	D-2012-024 adjusted*	Actual 2012	Actual variants vs D-2012-024 adjusted*
Pension cost	12.7		12.7	12.7	12.7	-
Strategy for low-income clientele	11.5	(3.0)	8.5	8.5	10.9	2.4
Cybernetic security measures	8.4		8.4	8.4	8.4	-
Special program to prevent energy theft	5.0		5.0	5.0	5.5	0.5
Inspection and reprocessing of wood poles	16.0		16.0	16.0	11.4	(4.6)
Increase in bad debt expenses	21.0		21.0	21.0	27.5	6.5
Energy efficiency plan (EEP)	51.9	(7.8)	44.1	44.1	30.6	(13.5)
Bureau de l'efficacité et de l'innovation énergétique (BEIE)						
Electrification of mass transit	1.4		-	-	37.3	37.3
Network automation	8.8		1.4	1.4	0.3	(1.1)
Optimisation of client systems (major migration of CISs)	23.6		8.8	8.8	7.0	(1.8)
VOLT And VAR Control	3.9	(3.9)	23.6	23.6	17.4	(6.2)
Remote reading – Phase 1	18.7	(18.7)		-	-	-
<b>Total</b>	<b>182.9</b>	<b>(33.4)</b>	<b>149.5</b>	<b>149.5</b>	<b>169.0</b>	<b>19.5</b>

The \$23.2M F variance associated with core activities can be explained by the following elements:

- Global efficiency (\$25.4 million F):

The Distributor globally and dynamically manages its loads while staying within the budget envelope recognized by the Régie.

Therefore, to stay within the load allowance recognized by the Régie for 2012, the Distributor had to make certain decisions early in the year to compensate for the unfavorable variance of \$52.6 million, an amount corresponding to the BEIE's assessment for the year and which, no longer qualifying as an intangible asset under IAS 38, was accounted for as a load pursuant to decision D-2012-021. Moreover, order-

in-council 846-2012 issued by the Québec government on August 1, 2012 prompted the Distributor that autumn to review its forecast of the BEIE's share for 2012 to \$37.3 million, thus reducing the unfavorable variance to \$37.3 million compared to the recognized amount.

Efforts to compensate for these unforeseen BEIE-related costs resulted, among other things, in the following:

- Abandonment or delay of certain projects and work in order to generate a favorable variance on external services and other expenses;
- More retirements than anticipated when the rate case was being prepared; these departures allowed the Distributor to optimize the organization of its activities even further.

The Distributor emphasized that the implementation of certain staff efficiency measures is a complex process the rate of deployment of which depends on factors that are not entirely under its control, such as the number of retirements and dates of departure. These measures must therefore be accounted for prudently with a view to the organizational stakes and in keeping with collective agreements, all while continuing to provide services to clients.