RÉGIE DE L'ÉNERGIE

DEMANDE DU TRANSPORTEUR RELATIVE À LA POLITIQUE D'AJOUTS AU RÉSEAU DE TRANSPORT

DOSSIER : R-3888-2014

RÉGISSEURS : Me LISE DUQUETTE, présidente
M. LAURENT PILOTTO
Mme LOUISE PELLETIER

AUDIENCE DU 6 FÉVRIER 2015

VOLUME 6

CLAUDE MORIN
Sténographe officiel

COMPARUTIONS

Me LOUIS LEGAULT
procureur de la Régie;

DEMANDERESSE :

Me ÉRIC DUNBERRY
Me MARIE-CHRISTINE HIVON
procureurs de Hydro-Québec Transport (HQT);

INTERVENANTS :

Me STÉPHANIE LUSSIER
procureure de Association coopérative d'économie familiale de l'Outaouais (ACEFO);

Me PIERRE PELLETIER
procureur de Association québécoise des consommateurs industriels d'électricité et Conseil de l'industrie forestière du Québec (AQCIE-CIFQ);

Me PAULE HAMELIN
Me MARY-PIER MARCHETERRE
procureures de Énergie Brookfield Marketing S.E.C. (EBM);

Me STEVE CADRIN
procureur de Fédération canadienne de l'entreprise indépendante (section Québec) (FCEI);

Me ANDRÉ TURMEL
Me ÉMILIE BUNDOCK
procureurs de Newfoundland and Labrador Hydro (NLH);

Me HÉLÈNE SICARD
procureure de Union des consommateurs (UC).

TABLE DES MATIERES

LISTE DES ENGAGEMENTS

LISTE DES PIÈCES

L'AN DEUX MILLE QUINZE, ce sixième (6e) jour du mois de février :

PRÉLIMINAIRES

LA GREFFIÈRE :
Protocole d'ouverture. Audience du six (6) février deux mille quinze (2015). Dossier R-3888-2014 - Audience concernant la demande du Transporteur relative à la politique d’ajouts au réseau de transport. Poursuite de l’audience. Aussi auriez-vous l'obligeance de vous assurer que votre cellulaire est fermé durant la tenue de la rencontre préparatoire. Merci.
LA PRÉSIDENTE :
Peut-être juste avant de commencer. Maître Dunberry, l’engagement numéro 3, avez-vous d’autres nouvelles ou c’est encore en cours de préparation?
Me ÉRIC DUNBERRY :
C’est toujours en cours de préparation, Madame la Présidente. J’aurai probablement des résultats un peu plus définitifs à la pause de ce matin.
LA PRÉSIDENTE :
Je vous remercie beaucoup. Maître Pelletier, c’est à vous. En fait, c’est à maître Hamelin... Venez au

micro s'il vous plaît.

Me MARY-PIER MARCHETERRE :

Bonjour. Mary-Pier Marcheterre, Gowling Lafleur Henderson pour Énergie Brookfield Marketing en l'absence de maître Hamelin ce matin. On n'aura pas de questions.

LA PRÉSIDENTE :

Je vous remercie beaucoup.

Me MARY-PIER MARCHETERRE :

Merci. Bonne journée.

LA PRÉSIDENTE :

Le prochain sur la liste était maître Cadrin pour la FCEI. Je ne le vois pas. Il ne sera pas là. Et puis ensuite, Maître Turmel, je vous vois faire un signe non de la tête, pas de questions. Et puis donc, Maître Sicard, je vous vois debout. Alors, je crois que vous avez quelques questions. Allez-y!

L'an deux mille quinze (2015), ce sixième (6e) jour du mois de février, ONT COMPARU :

LUC BOULANGER,
PIERRE VÉZINA,
PASCAL CORMIER,
ROBERT D. KNECHT,

LESQUELS témoignent sous la même affirmation solennelle :

CONTRE-INTERROGÉS PAR Me HÉLÈNE SICARD :

Q. [1] Bonjour. Hélène Sicard pour l'Union des consommateurs. Monsieur Knecht, I have a little question for your precision, if you take your presentation, it's at the last page, where are the bullets are presented as to your recommendations.

(9 h 06)

Dr. ROBERT D. KNECHT :

A. Yes.

Q. [2] Okay. I see, on your second recommendation, you identified that it concerns native load and point-to-point customers. On your fourth one, you say,

> Customer contribution requirements should be established on a project by project basis, rather than broadly aggregated across a wide array of projects and time.

When you say "customer" here, do you have, do you mean point-to-point and native load, or do you mean only one of them, and then which one?

A. Again, I think this issue goes to trying to establish reasonably comparable policies between native load and point-to-point customers. I think the general answer to your question is that, given the existing policies of the Régie, that contribution requirements, contributions are required from native load, you need to try to establish some reasonable framework in which you treat point-to-point customers and native load customers comparably.

I spent more of my effort looking, I think, at point-to-point customers and looking at the implications of being able to aggregate contribution requirements over a very long time period and over a broad array of different kinds of projects and what the implications of those are. In terms of establishing something conceptually similar for native load, I think you need to try to do that, but it's not at all clear to me exactly how that would work.

The issue goes to, if you've decided you are going to evaluate investments on a project by project basis, the question is -- where do you draw a circle around a project? So, for example, it might be that you draw a circle for native load around all the projects within a particular year, and you might do the same kind of thing for a point-to-point customer, and then you would be very comparable. Or you might simply say that aggregating the projects for native load for a year is reasonably similar to evaluating one large point-to-point contract.

Me HÉLÈNE SICARD :

Thank you.

LA PRÉSIDENTE :

Merci, Maître Sicard. Nous sommes rendus à maître Dunberry, j'imagine que vous avez quelques questions?

CONTRE-INTERROGÉS PAR Me ÉRIC DUNBERRY :

Oui, merci, Madame la Présidente. Alors les membres du panel, bonjour, bon matin, Monsieur Boulanger, Monsieur Vézina, Monsieur Cormier, Mr. Knecht. I do have a few questions for you this morning, and perhaps I will start with monsieur Boulanger et monsieur Vézina, quelques questions très rapides.

Q. [3] Je comprends que le mémoire que vous avez déposé est le résultat d'un travail conjoint entre le conseil et l'association, n'est-ce pas?

M. PIERRE VÉZINA :

R. Oui, on travaille ensemble, effectivement.

Q. [4] Et je présume que ce mémoire, avant d'être

déposé, a été soumis au conseil et à l'association pour approbation et qu'il a été approuvé suivant le contenu qui nous est présenté aujourd'hui?
R. C'est-à-dire que oui, on présente nos conclusions à nos membres.
Q. [5] Et vos membres ont endossé les conclusions que vous présentez à la Régie?
R. Oui.
Q. [6] Monsieur Boulanger?
M. LUC BOULANGER :
R. Effectivement, c'est, il y a une résolution du conseil qui a encadré les représentations qu'on fait dans le présent dossier. Les paramètres ont été discutés avec le comité de réglementation et c'est le résultat de cet exercice-là.
Q. [7] Et je présume que l'association et le conseil ont également revu, avant son dépôt, le rapport de monsieur Knecht?
R. Non.
M. PIERRE VÉZINA :
R. Non.
Q. [8] Est-ce que vous en avez pris connaissance avant son dépôt?
R. Non.
Q. [9] Est-ce que vous en avez pris connaissance après

son dépôt?

M. LUC BOULANGER :

R. Bien, manifestement.

Q. [10] Est-ce que vous êtes d'accord avec son contenu?

R. Oui.

Q. [11] Et l'ensemble de ses conclusions?

R. Oui.

Q. [12] Et vous n'avez pas participé à l'élaboration de ce rapport?

R. Non.

M. PIERRE VÉZINA :

R. Non.

Q. [13] Ni monsieur Cormier... Monsieur Cormier?

M. PASCAL CORMIER :

R. Non.

Q. [14] Merci. Je comprends que vos membres, et je m'adresse à messieurs Boulanger et Vézina, je comprends que vos membres sont des consommateurs d'électricité et font partie de ce que nous appelons tous ici la charge locale du Québec, n'est-ce pas?

(9 h 10)

M. PIERRE VÉZINA :

R. Tout à fait.

Q. [15] Et je présume qu'un certain nombre de vos membres sont également des membres qui sont des clients haute tension raccordés directement au réseau de transport d'Hydro-Québec, n'est-ce pas?
R. Ils sont raccordés au réseau de transport mais ils sont clients d'Hydro-Québec Distribution.
Q. [16] Et je comprends que vous ne représentez pas de clients du service point à point d'Hydro-Québec Transport, TransÉnergie?
R. Absolument pas.
Q. [17] Et je comprends donc que votre intervention est au nom et dans l'intérêt de la charge locale et de vos membres, n'est-ce pas?
R. C'est ce qu'on a dit, oui.
M. LUC BOULANGER :
R. Exactement.
Q. [18] J'aimerais, Mr. Knecht, now, to ask you to take a copy of your report and a copy of the evidence filed by your clients. May I ask you whether you have received, prior to the filing of your report, a copy of the evidence filed by your clients?
Dr. ROBERT D. KNECHT:
A. To the best of my recollection, let me put it this

way: I completed my report before I received a copy of the AQCIE-CIFQ report. I may...

Q. [19] But you received... Yes?

A. I may have received, technically, I may have received a copy of the report before mine was filed but it was, I did not receive it until after I completed mine.

Q. [20] May I assume that you read the evidence filed by your clients and that you are in agreement with the contents of that evidence?

A. No.

Q. [21] No, sorry, no, you're not in agreement with the contents?

A. I'm not... You may not assume that I am in agreement with every single aspect that's in there. I did review the report but I think that my conclusions are those laid out in my evidence.

Q. [22] Are you able to identify for us positions taken by your clients that you disagree with?

A. No.

Q. [23] Because there are none or because you're not able to find them?

A. I didn't review it that carefully and tried to subject it to a rigorous analysis.

Q. [24] So, you're not in a position...

A. If I could, just to complete the report, I don't have immediate, I don't have the history of experience in Québec and, I might think, certain aspects of the report prepared by my clients go to issues that I don't have close familiarity with and, therefore, I'm not sure I can agree or disagree without having that experience.

Q. [25] So just to be clear, you're not in a position this morning to endorse the entirety of your clients' report?

A. That's correct.

Q. [26] Thank you. I would like now to ask you to go to your own report and, more specifically, to page 4, lines 18 to 22 where you say, and I quote,

> While the issue is conceptually straightforward...

The question, perhaps I should read the question "Is the development of a maximum investment level a simple calculation?" and your answer is the following,

> While the issue is conceptually straightforward, there are a number of significant issues that must be addressed as part of the calculation. In my experience, different utilities

> and different regulators take different approaches to these issues, based on their judgment and their assessment of the particular needs of the utility's service territory.

You see that, Mr. Knecht?

A. Yes, Sir.

Q. [27] Now, on page 22, if I may ask you to read a second paragraph for us. On page 22, lines 16 to 20, you say the following,

> Customer contribution policies vary widely from utility to utility and jurisdiction to jurisdiction, and it is not easy to specify a standard practice. Moreover, this variation results from the specific circumstances facing the utility and the jurisdiction, and the policies are tailored to address those concerns. So it should be in Québec.

I assume that you are still in agreement with those statements?

A. Yes.

Q. [28] Now, I take it that public policies, Mr. Knecht, in matters of energy and regulations vary

widely from jurisdictions to jurisdictions as you wrote?
A. Energy policy, both regulatory policy and government policy certainly.
Q. [29] And public policy may as well vary from utility to utility, correct?
(9 h 16)
A. When you say "public", I think I would say "regulatory policies" but within any particularly government jurisdiction, the policies of the government generally apply to all the utilities within that jurisdiction. Remember, I come from the United States, if you look at an individual state, there may be many... quite a number of electric utilities within that state and so the policy of the state would generally apply to all of the utilities within that state.
Q. [30] And you will also agree with me that differences in laws and differences in public policies between jurisdictions may well explain differences in upgrade policies. Correct?
A. Oh! Yes.
Q. [31] Someone said to me once that politics drives policies and policies drive regulations. Do you think it’s a reasonable thing to say?

A. Hard to...
Q. [32] A simple “yes” will...
A. ... hard to agree that that is always the case. But I would certainly agree that it would not be uncommon for politics to drive policies. And it would not be uncommon for policies to drive regulations.
Q. [33] Thank you.
A. I wouldn’t say that it’s always the case.
Q. [34] Now, you also state that upgrade policies should be tailored - that’s the word you used, I believe - should be tailored and designed to address particular needs, concerns and circumstances in a given jurisdiction or a given utility service territory. I assume...
A. Yes.
Q. [35] ... it’s a statement that holds true today. Correct?
A. As much as I changed my evidence yesterday, I didn’t change that.
Q. [36] And you’d also agree with me that upgrade policies should be adapted to the environment in which they’re intended to apply.
A. Yes.
Q. [37] And this is why customer contribution policies

- I call that an upgrade policy for purposes of your cross-examination - that upgrade policies vary widely from utilities to utilities and jurisdictions to jurisdictions, as you point out.

A. I think it does. My experience is that the general principle, I think that Hydro-Québec transmission has espoused in this proceeding that is that a customer contribution policy or the basic principle that a rate payer should pay the higher of incremental cost or embedded cost, as reflected in rates, is relatively common. Exactly how that gets implemented, I think, can vary widely.

Q. [38] And the design of an upgrade policy, as you suggest, is a matter of judgement.

A. Yes, I agree with that quite a bit, because you have a number of different criteria that you're trying to satisfy, some of which are in conflict and, therefore, judgement is required.

Q. [39] And given your answers to this short series of questions, Mr. Knecht, I take it that you will agree with me that TransÉnergie's upgrade policy should be adapted to the Québec legal commercial and regulatory environment. Correct?

A. Yes.

Q. [40] And it should also be adapted to the

particular needs of HQT's service utilities and territories.
A. Yes.
Q. [41] And it also should be adapted to the specific circumstances facing the Québec native load and the point-to-point customers active in Québec. Correct?
A. Yes.
Q. [42] Thank you. I'd like to refer you now to page 3 of your report; and there is a description between lines 9 and 18...
A. Yes, Sir.
Q. [43] And there's also between lines 21 and 24 that I would like... Now, once you're prepared...
A. Yes.
Q. [44] ... when I read from line 9 to 18, there's a description here of what you call a customer contribution policy or maximum investment policy, would you agree with me that this generic description reflects fairly well the maximum investment and contribution policy that we find in section E of appendix J in Québec? Correct?
A. Yes, I think so.
Q. [45] And will you agree with me again, reading this description, that HQT's maximum investment policy appears to be conceptually in line with what you

described here as a typical customer contribution policy or maximum investment policy? Correct?

A. Yes, conceptually. And, as I said, when you get down into the details of the specific parameters used in that calculation, there's and array of different things. But conceptually, I would agree that the maximum investment policy is consistent with my understanding of how these policies are usually developed.

(9 h 23)

Q. [46] Now, from line 21 to 24, it's a short description, it says that:

> FERC's "Higher-Of" policy for new transmission customers is conceptually consistent with the customer contribution policies of many different kinds of utilities. In essence, it represents a balance between the principles of economic efficiency and equity.

I take it, Mr. Knecht, that FERC's "Higher-Of" policy is a recognized tool to achieve a proper balance for the design of an upgrade policy by providing a balance between various principles, including what you refer here as to efficiency and equity. Correct?

A. Yes. Let me be careful. I don’t have a lot of... I don’t have any direct experience in front of FERC. So I’m not familiar with a lot of the specifics of how FERC, how the FERC implements those policies. Conceptually, my understanding of FERC’s “Higher-Of” policy is that it does represent a balance between the equity and economic efficiency arguments that I tried to lay out in this evidence. Again, a lot of the devil is in the details of how heavily the implementation of that policy focuses on ensuring that incremental costs are covered, and how heavily that policy focuses on ensuring that, or providing that new customers will, for some projects, contribute to the costs of the existing system.

Q. [47] I’m still just at the conceptual level.

A. Okay.

Q. [48] We’ll spend a long time with Hydro-Québec’s TransÉnergie policy.

A. I was...

Q. [49] I promise that.

A. I was afraid of that.

Q. [50] I promise that. But again, just to wrap this up, you will agree with me that the FERC’s “Higher-

Of" policy is a relevant tool, or a relevant comparison to HQT's maximum allowance policy and contribution policy.

A. Yes.

Q. [51] Thank you. Now, page 22 of your report. If you read from line 21 to, I believe 26 and... You say the following:

> However, having said that, it is my experience that customer contribution policies are generally determined at the time a new customer signs on for service, and apply to one project at a time. At that time, both incremental revenues and incremental costs are assessed, and any customer contribution determined. In general, any unused contributions are not carried forward, and levelized incremental cost tests are unnecessary.

I assume you still agree with that statement?

A. Yes. Being careful that most of my experience is not actually with thirty-five (35) or fifty (50) year transmission contracts. My experience is more with distribution utilities. But...

Q. [52] I understand that. Thank you for saying it too. But I understand that your understanding of the "Higher-Of" policy, it's applied once at the beginning of the project. Correct?
A. Yes. I think it makes much more sense that way. But it is my understanding that that's how it works, in the experience that I have, and I also think that that makes more sense to do it that way, where you evaluate a project at the time you know all of the... You can make an estimate of what the incremental revenues from that project will be, you can make an estimate of what the costs are, associated with all of the costs that will be incurred over whatever time period, in order to provide that service. And you evaluate that project as a project.
Q. [53] And FERC does not require an annual follow-up, correct?
A. I can't say that from my knowledge but I don't know that FERC does.
Q. [54] Okay. So, based on what I read in your report, when you say, you know, "carried forward tests are not necessary", I take it that, from your own experience, the annual follow-up is not part of FERC's "Higher-Of" policy. Correct?

A. Not to my knowledge.
Q. [55] Thank you. Mr. Knecht, I understand that you were informed, at some point, that since two thousand two (2002), this Board has rendered a number of decisions concerning Hydro-Québec’s higher... let’s call it upgrade policy, and that these decisions have in fact recognized certain design principles. Correct?
A. Yes.
Q. [56] Were you provided with translated copies of those decisions, including...
A. Not all.
Q. [57] Sorry?
A. Not all of them.
Q. [58] Now, I take it that you have seen D-2002-095? The first one.
A. I believe I looked at it. It was my understanding that the existing maximum investment test, the arithmetic of it was approved in that proceeding.
Q. [59] Okay. But you don’t recall being provided with translations of other decisions that this Board has rendered in the last twelve (12) years concerning Hydro’s upgrade policy?
(9 h 28)
A. I was not provided with translations of them. I’m

not sure that I requested them. I did look at some decisions, and and ran parts of them through the Google translator to try to get a general understanding of what was going on...

Q. [60] I assume that you do not read French, Mr. Knecht?

A. Not at all.

Q. [61] Okay.

A. It is my handicap.

Q. [62] Now when I look at your report, Mr. Knecht, I did not find references to these decisions, there is a reference to the D-2002-095 but no references to other decisions, is that possible, at the time of preparing your report, you were not actually in possession of all these other decisions?

A. I honestly don't recall, when I prepared this report, whether I had reviewed those decisions or not.

Q. [63] So it is safe to say that your report did not take into account the various decisions that the Board rendered over the years concerning HQT's upgrade policy, it was not drafted on the basis of those or taking into account the contents of those decisions?

A. Certainly not by reviewing those reports. And let me just be clear -- in preparing this report, well, Mr. Cormier correctly states that he did not participate in drafting this report; I certainly had some interactions with him with respect to decisions that had been taken in the context in which this report was being prepared where I did so, I tried to at least stated here that it was my understanding. So in this evidence where you see it is my understanding, and it's not cited to any particular decision...

Q. [64] But you have no recollection of which decisions you actually took into account?

A. Sitting here, no.

Q. [65] Now do you know what is a Section 73 application, Mr. Knecht, under the Act, under the Québec Régie de l'énergie Act?

A. No.

Q. [66] You don't know what that is?

A. No.

Q. [67] Have you read any decisions of this Board rendered under Section 73, that is the authorization process of an investment in excess of twenty-five million dollars ($25 M)?

A. I don't know that I read any decisions that are characterized as such. I did, I believe, attempt to

run a mechanical translation of the decision involving the Romaine...
Q. [68] Was that after or before you filed your report of December fifth (5th), two thousand...
A. I believe it was after.
Q. [69] I believe so too. Now one choice that was made by this Board in two thousand two (2002) was to subject the Québec native load to its upgrade policy, you were aware of that fact, I believe?
A. Yes.
Q. [70] And this was, and remains today, a policy decision of this Board, you understand that as well, correct?
A. Yes.
Q. [71] Now Québec is quite unique in that sense, as I believe very few jurisdictions in North America have subjected their native load to an upgrade policy, would you agree with that statement?
A. I certainly have no reason to disagree.
Q. [72] In other words, you would agree that it is quite unique to Québec?
A. I can't say that I've been in many many jurisdictions and I have direct knowledge that it is unique. However, that is certainly my understanding based on the testimony of people who

have more experience in more jurisdictions, I have no reason to disagree with it. Also, it would not be unusual for Québec to do things in a unique manner.
Q. [73] And why would that be?
A. In some of my other experience in Québec, policies have been established that are unusual.
Q. [74] And is there a problem with that?
A. No.
Q. [75] Okay.
A. To be honest, it depends on the policy, some of them are okay, some less so.
Q. [76] Now since, in Québec, the upgrade policy applies to the native load, you will agree, from a let's say conceptual perspective, that the attributes and the characteristics of the native load are therefore relevant factors in reviewing the design of an upgrade policy?
(9 h 34)
A. I'm sorry, could you just say that one more time.
Q. [77] We just understood that Québec, as you know, subjects its native load...
A. Yes, yes.
Q. [78] ... to its upgrade policy so I'm simply asking you to confirm the logical inference from there

which is to say that since the native load is covered by the upgrade policy, it would be relevant for the Board to consider the attributes and the characteristics of the native load in reviewing TransÉnergie’s upgrade policy, am I right?
A. Yes, Sir.
Q. [79] And it would also be relevant for this board to adapt HQT’s upgrade policy to take into account the native load?
A. Yes. The Board decided that a maximum or that an upgrade policy would apply to native load and, therefore, it has to do that.
Q. [80] Now, were you informed that since two thousand six (2006), for purposes of calculating the maximum allowance and the contribution of HQD - like in Distributor - an annual aggregation of the load growth upgrades was recognised as a proper tool, an aggregation on the load side was recognized, and in fact confirmed in the OATT? Were you informed of that, going back to two thousand six (2006)?
A. I was not informed that that was a specific regulatory decision. I recognized that that method of calculation is the one that is used in the proposed maximum investment test.
Q. [81] Were you provided with a copy of

TransÉnergie’s OATT, Mr. Knecht?
A. I did in fact download an English version of the OATT.
Q. [82] And I assume you read section E? That is the upgrade policy.
A. Some time ago, yes.
Q. [83] Okay. Now this aggregation is actually codified in section E where it is said that "in calculating the maximal allowance" and the page is missing, that copy, that’s unfortunate, so I’ll try to find my other copy.
M. PASCAL CORMIER :
R. Excusez-moi, Monsieur Dunberry...
Q. [84] Oui.
R. Je vais juste trouver le temps de trouver le document.
Q. [85] Oh! I have it now. I have it now.
R. Je vais juste prendre le temps de trouver le document pour que le témoin ait accès au document.
Q. [86] So, let me simply ask this in the meantime, so I have the page now. I apologize for that.
THE PRESIDENT:
If you could just...
Me ÉRIC DUNBERRY:
Yes, we’ll wait.

THE PRESIDENT:
... give a moment to the witness. Merci.
Me ÉRIC DUNBERRY:
I can read it...
Mme LOUISE PELLETIER :
Excusez-moi, Maître Dunberry, pour notre bénéfice, pourriez-vous nous indiquer la page, s'il vous plaît?
Me ÉRIC DUNBERRY :
Oui, c'est la page 172...
Mme LOUISE PELLETIER :
Merci.
Me ÉRIC DUNBERRY :
... dans la version en anglais, 180 de la version en français.
Mme LOUISE PELLETIER :
Merci.
Me ÉRIC DUNBERRY:
À la page 180, Madame la Régisseure Pelletier, je vais la lire en anglais néanmoins - j'avais amené la mauvaise version, c'est pour ça.
Q. [87] So, Mr. Knecht, it says the following,
> The costs related to upgrades required to meet needs arising from growth in the native load for which the

> Distributor submits annually its forecasts to the transmission provider pursuant to section 37.1 are born by the transmission provider up to a maximum amount specified in section E below, taking into account for all investments associated with projects commissioned by the transmission provider during the year, all load growth that such projects are to serve over a twenty (20) year period.

So, this notion of aggregation for the Distributor on the load side has in fact been recognized by the Board and codified in the tariff since two thousand six (2006) and for purposes of calculating the contribution and the maximum allowance; for the last nine years, the aggregation process has already been in place. I take it that you were not informed of that fact.

(9 h 39)

A. It was my understanding when I prepared this testimony that there was an annual aggregation and that the existing test had an annual aggregation, and that it had a load assumption that the load growth over the entire period would be the determinant for the maximum investment amount.

Q. [88] So, you understand that a policy decision was made in two thousand six (2006) and that the aggregation was recognized in two thousand six (2006) for purposes of calculating the maximum allowance for the Distributor. You recognize the existence of that...

A. Yes...

Q. [89] ... policy.

A. ... yes, I do.

Q. [90] Now, you understand as well that TransÉnergie has only one client for the native load, which is HQD. Correct?

A. Yes.

Q. [91] And may I suggest to you that, in this context, with the fact that there's only one client, and given the nature of the native load, that this annual aggregation that is going on since two thousand six (2006) is appropriate to deal with load growth projects for the native load and to calculate the maximum allowance?

A. It's a policy that's in place now. Policies can be reevaluated.

Q. [92] Do you think it's an appropriate policy or do you think that the Board committed an error when it adopted that policy in two thousand six (2006)?

A. With respect to this proceeding, I think we're wrestling with trying to establish policies for native load and point-to-point customers...

Q. [93] My question, Mr. Knecht...

A. ... at a reasonably comparable...

Q. [94] Let me rephrase my question. I'm not talking about the point-to-point customers. I'm not talking about the particular aggregation that is being discussed in this hearing, which is an aggregation load resource. I'm asking you whether you find it appropriate that an aggregation was ordered by this Board as of two thousand six (2006) for the Distributor in aggregation concerning the loads. Do you find that policy that's been in place since two thousand six (2006) to be appropriate?

Me PIERRE PELLETIER :

Madame la Présidente, le témoin commençait à répondre à la question. Je pense qu'il faut lui laisser l'occasion de présenter sa réponse. Manifestement, il voulait mettre en contexte la réponse qu'il allait donner, ce qui me paraît correct. Et je ne pense pas qu'il soit approprié dans le contexte de l'interrompre et de l'empêcher de s'exprimer. S'il ne répond pas à la question du procureur, je comprends qu'il reviendra à la charge. Mais tel n'était manifestement pas le chemin suivi par le témoin.

Me ÉRIC DUNBERRY :

Madame la Présidente, je retire ma seconde question et je laisse le témoin répondre à la première.

LA PRÉSIDENTE :

Je vous remercie beaucoup. Monsieur Knecht...

Mr. ROBERT D. KNECHT:

A. As a general matter, I think we're trying to work within the construct that native load will pay a contribution. We are looking at trying to balance the policies to be reasonably comparable between those of native load and point-to-point customers. There is a policy, which I think you stated, as I understand what you've told me, that applies to native load. The question then becomes: do you allow that policy to drive all other policies or do you then circle back and try to evaluate both sets of policies?

(9 h 44)

Q. [95] So let me rephrase, now, my second question. Do you, yes or no, find it appropriate to use an aggregation of the loads to calculate the maximum allowance for the native load?

A. An aggregation of the loads for one year, just aggregating the loads for the one year, I don't see as necessarily unreasonable. I don't... I would not see that as an unreasonable policy.
Q. [96] Do you think that...
A. I do...
Q. [97] Sorry. Go ahead.
A. One thing to consider is, as a standalone assessment of a maximum investment policy, as I think I lay out in my evidence, the implicit assumption that all of the load growth over twenty (20) years is assumed to appear in the first year, is, I think, something that, at least as a matter of arithmetic, serves to overstate the maximum investment amount for native load.
Q. [98] Now, you understand that the policy in place since two thousand six (2006) is a policy for an annual aggregation. You understood that, correct? No one is suggesting to do more than an annual aggregation for the native load. You understood that?
A. My understanding was that the proposal of HQT was to allow carry-forward's of unused maximum investment credits. And that implicitly results in a broader aggregation than simply evaluating it

over one year.
Q. [99] Mr. Knecht, my comment, with respect, was to the two thousand six (2006) policy. Do you understand that the two thousand six (2006) policy is an annual aggregation of the load? Do you understand that?
A. I will... I will... I don’t understand it from having reviewed the decision in detail. I will certainly accept your representation to that effect.
Q. [100] Now, do you know why this Board decided to subject the native load to an upgrade policy? Do you know why they did that?
A. No.
Q. [101] You don’t?
A. No.
Q. [102] We’ll go there. I’ll give you a copy of a decision that is quite known, 2002-095. Madame la Présidente, I have copies but I’m sure everyone has copies of that decision, but I do have additional copies if the Board... So, Mr. Knecht, this decision was rendered some time ago, but is quite relevant in the context of our proceedings.
Me ANDRÉ TURMEL :
Je m’excuse d’interrompre mon confrère. Juste parce

que, comme les intervenants, nous aimerions... On n'a pas de copie. On aimerait suivre en temps réel les travaux. Nous avons pris la peine, lorsqu'on a fait... de faire trente (30) copies en tout temps. Je demanderais à mes collègues, à nos amis de HQT, de faire de même, pour avoir le... Sinon il y a un décalage. Madame la greffière court partout. Bref, on aimerait ça avoir ça en même temps pour suivre, si c'est possible. Excusez-moi, Maître Dunberry.

Me ÉRIC DUNBERRY :

Bien noté, Madame la Présidente. J'en avais douze (12) ou quinze (15), on en aura trente (30).

Q. [103] So, Mr. Knecht, I will read...

LA PRÉSIDENTE :

Juste... Juste un instant, Maître Dunberry, juste le temps que je retrouve la décision...

Me ÉRIC DUNBERRY :

Oui. Merci, Madame la Présidente. N'hésitez jamais à me suggérer de prendre une pause pour vous permettre de retrouver des documents.

LA PRÉSIDENTE :

Je vous remercie.

Mme LOUISE PELLETIER :

Excusez. De retrouver, et d'avoir le temps, pour la greffière, de faire les copies qui sont manquantes.

Me ÉRIC DUNBERRY :

Oui.

Mme LOUISE PELLETIER :

Merci.

LA PRÉSIDENTE :

Juste un instant. C'est juste parce qu'on va donner une copie au traducteur pour... On va juste prendre deux minutes (2 min). Madame la greffière est partie faire des copies. Les copies s'en viennent, ça ne sera pas long.

(9 h 55)

LA PRÉSIDENTE :

Mr. Knecht, I will take the moment, I have received a note where some people have some difficulty to hear you at the back of the room, so if you can talk a bit louder, that will be appreciated.

Dr. ROBERT D. KNECHT :

A. And slower too, I bet.

LA PRÉSIDENTE :

That will be for the translator, yes.

Me ÉRIC DUNBERRY :

Merci beaucoup. Alors désolé pour ce contre-temps, Madame la Présidente. Avec votre permission, nous reprenons?

LA PRÉSIDENTE :

Allez-y.

Me ÉRIC DUNBERRY :

Q. [104] So, Mr. Knecht, I would like now to refer you to page 299 of that decision. The question was whether you knew why the Board decided to subject the native load to the upgrade policy, and page 299, the first paragraph says the following, and I will read it in French so you get the translation :

> Toutefois, la Régie est d'avis qu'il faut imposer le même montant maximum que dans le cas d'ajouts pour le service de point à point et de réseau intégré. Cette proposition vise à traiter tous les clients [...] de la même façon.
>
> La Régie cherche ainsi à éviter des situations où un client du service de transport de point à point, ou en réseau intégré, est dans l'obligation de supporter l'entièreté du coût des ajouts pour la charge locale, via le tarif de transport qu'il paie, en plus de devoir assumer seul l'excédent du coût des ajouts qu'il requiert sur le montant maximal supporté par le

transporteur. La Régie est d'avis qu'une telle situation serait inéquitable pour les clients des services de transport autres que celui requis pour la desserte de la charge locale.

So that was the basis for that decision that was made in two thousand two (2002). Would you agree with me that it is sound policy making to seek an equitable treatment of all clients and to avoid undue discrimination under an upgrade policy?

A. Yes, I would agree that's one of the criteria. I believe I even say that in this evidence.

Q. [105] And would you also agree that ensuring an equitable and non-discriminatory treatment is a very relevant factor in reviewing the contents of an upgrade policy?

A. I believe I say that in my evidence.

Q. [106] And would you also agree that the methodology for the calculation of the maximum allowance should result in the same maximum allowance for both the native load and the point-to-point customer?

A. It's hard to make it perfect, because the nature of native load growth is very different than the nature of point-to-point service.

Q. [107] The Board says the following, Mr. Knecht, I'm rereading the first paragraph,

> Toutefois, la Régie est d'avis qu'il faut imposer le même montant maximum...

"le même montant maximum", my question is the following -- would you agree that the Board made a sound policy decision when it decided that the same maximum allowance should be offered to both point-to-point customers and native load customers?

A. I believe that the Board's consideration of attempting to avoid undue discrimination and attempting to treat native load and point-to-point customers comparably is a very reasonable criterion and an understandable criterion for trying to develop a policy that applies to both native load and point-to-point customers. I do not know that that means you have to apply exactly the same test to both types of customers, the best you can do is to treat them reasonably comparably, I believe.

Q. [108] I understand, that was an answer to a previous question, I understand that, Mr. Knecht, my question is very specific -- do you find this bad policy when the Board decided, in two thousand two (2002), to ensure that the maximum investment, the amount itself, let's say the five ninety-eight ($598), the five ninety-eight dollars per kilowatts ($598/kW), do you think it was bad policy when the Board decided, in two thousand two (2002), and has maintained for the last fourteen years, do you think it is bad policy to ensure that the same maximum investment, in dollars per kilowatt, is offered to both native load and point-to-point customers, is that good or bad policy?

(10 h 00)

Q. [109] Mr. Knecht, is it good or bad policy?

A. In the... I guess I'm reluctant to evaluate the policy that it has to be exactly, the exact same treatment in terms of a dollar per kilowatt of incremental load has to be exactly the same. Outside... I understand trying to treat them comparably, but you also need to try to, I think, recognize the differences between native load and point to point customers and I think I would generally try to reflect the differences between the two types of customers in establishing a maximum investment policy but using comparable principles.

Q. [110] So...

A. Having said that, there is an advantage to using exactly the same number which is the advantage of simplicity.

Q. [111] The advantage of simplicity? Don't you think it would fly in the face of what the Régie has said for the last fifteen (15) years in the terms of equal treatment and non-discrimination? Do you think your clients deserve more money than Brookfield or NLH per kilowatt?

A. I'm sorry, could you ask the question again?

Q. [112] Do you think your clients deserve more money in terms of kilowatt than Brookfield and NLH? I'm looking at it from a discrimination perspective. That's the Board policy decision, the Board decided back then, and has since said in many decisions, that discrimination was an issue and that, to avoid discrimination, the same maximum investment should be available to both Brookfield, NLH and your clients. Are you suggesting, and I think that's what you are in your report, but are you suggesting that your clients should have more money per kilowatt than other customers of TransÉnergie?

A. Not, I'm not suggesting that if in fact they are evaluated on a comparable basis.

(10 h 04)

Q. [113] Now, another policy decision, Mr. Knecht,

that was made by this Board, was to entirely roll in certain categories of investments made, for instance, for purposes of reliability. Are you aware of that policy decision that was made by the Board back in two thousand two (2002)?
A. I was not aware of when it was adopted. I was aware that it was the policy.
Q. [114] Do you know how many categories of investments there are? Investments are made by TransÉnergie, and there are various categories of investments. Do you know how many of these categories have been recognized by the Board?
A. No. I don't know how many have been recognized by the Board. There are obviously thousands of categories of investments.
Q. [115] Have you been informed that there are four categories that are treated, specifically treated for purpose and objectives? Were you aware of that fact, Mr. Knecht?
A. I'm sure there are thousands of categories of investments that can be evaluated. I was not aware that they were aggregated into four. I was aware that there is a category of investments called reliability investments.
Q. [116] And you were not aware of the fact that these

categories reflect special purposes of objectives that these investments try to achieve?

A. No.

Q. [117] Do you understand that this upgrade policy only applies to load growth projects?

A. Yes.

Q. [118] Would you say that the fact that this policy only applies to load growth projects is a relevant factor in reviewing the contents of TransÉnergie's proposal?

A. Yes.

Q. [119] And you now understand that this maximum allowance is not intended for reliability improvements. You understand that, Mr. Knecht? Reliability is a different category. This is load growth. Do you understand that the maximum allowance under the policy is not intended for reliability improvements?

A. Yes, I understand that. I think that within the context of the Higher-Of policy, if you are paying more... If a customer is paying more than the incremental costs, if the tariff rate is higher than the incremental costs, then implicitly, the new customer will be contributing to other types of investment within the system.

Q. [120] Now, this Board made also policy decisions with respect to various guiding principles that should be followed. Were you informed of that?
A. No.
Q. [121] I'd like to refer you back to the two thousand two (2002) decision, Mr. Knecht, on page 298. The first decision made by the policy... by the Board back then, on page 298, it's the third paragraph, it says:

> La Régie accepte également...

Sorry. I should... Please. Third paragraph:

> La Régie accepte également la proposition du transporteur de limiter le montant qui peut être intégré à la base de tarification.

Would you agree that it was a sound policy decision by the Board to limit to the maximum allowance the amount rolled in the rate base?
A. Yes. That's how a maximum investment test works.
Q. [122] Now, in the following paragraph, the Board says, just below, the second below:

> L'application de ce maximum protège donc les clients du service de transport contre des coûts de raccordement et d'intégration qui

> seraient excessifs.

Would you agree that protecting existing clients, as the Board said, from undue or excessive cost burden associated with an upgrade, is an appropriate and reasonable objective and policy decision?

A. Yes.

Q. [123] And then, just the paragraph above, it says:

> Tel que proposé par le transporteur, le montant total qu'il aurait à assumer correspond à la valeur actualisée du tarif de transport pour une période de 20 ans en prenant en compte les frais d'entretien et d'exploitation ainsi que la taxe sur le capital. La Régie reconnaît qu'ainsi, l'impact sera, au pire, neutre pour tous les clients et, au mieux, favorable en réduisant le tarif de transport pour l'ensemble des clients.

(10 h 09)

Now, there's a reference here to a concept of rate neutrality in this paragraph. Would you agree again with me that it was a sound policy decision to recognize, through the calculation of the maximum allowance, the concept of rate neutrality for purposes of the upgrade policy?

A. I would agree that it’s a... you read it a little quickly and I’m not sure I followed the translation completely. I would agree that it’s a sound policy that a... that the introduction of new customers does not result in a negative impact on existing customers or an undue negative impact on existing customers. And I think that’s at the essence of the revenue neutrality principle that you state. As to the specific arithmetic for twenty (20) years and all of the other criteria that go in it, depending on how that test is calculated, it may be conservative, it may be aggressive, it may provide... it may implicitly result in new customers making a contribution to the existing system such that rates are being forced down or it could be a less aggressive test and it could provide thus less protection for existing customers. So, a lot of the devil is in the details of the arithmetic.

Q. [124] I’m not referring really to the actual specific calculations. Again, I’m at a conceptual level. I’m simply asking you whether you would agree with me that it was, and still is, sound policy decision to recognize, through the calculation of the maximum allowance, a concept of rate neutrality.

A. Yes, all I'm commenting on is, at least, I see a twenty-year (20) number in here such that there's some aspect of this that actually goes to the specific parameters in the test. And that's where I was a little nervous. As a general policy, yes, I think that's consistent with my evidence.

Q. [125] And the same would apply with a contribution. It's just the same logic that the payment of a contribution, when required, is also sound policy decision to embody the concept of rate neutrality by forcing the customer to pay a contribution, when required.

A. Yes.

Q. [126] Now, if you... I think I've covered that. These are all policy decisions made in Québec, Mr. Knecht; you recognize that?

A. Yes.

Q. [127] Now, are you familiar with the fact that in Québec we have what we call here a "post stamp tariff"?

A. Postage stamp tariff?

Q. [128] Yes.
A. Yes. Hmm, hmm.
Q. [129] You're aware of that fact.
A. For transmission rates in general, yes; and for other rates as well.
Q. [130] So, this means, for instance... and maybe I should refer you to your report. If you take your report on page... I believe this would be on page 2. At the bottom of page 2, you discuss briefly the notion of a "flex" rate or a "discounted" rate as being an option in certain jurisdictions. You understand that...
A. If...
Q. [131] Yes?
A. ... perhaps... speaking too quickly in saying that I...
Q. [132] Well, let me ask you the question. I'll ask...
A. I'm still on the last question.
Q. [133] Oh! Okay, well...
A. Now, if... And I apologies for not getting it in. The postage stamp rate applies to the tariff. And the tariff rate is an embedded cost generally developed on an embedded cost basis. When you have anything that's based on incremental cost, you are

no longer in the world of postage stamp rates because now you’re applying a charge in the form of a required contribution that reflects the specific circumstances of the customer who’s required to make that contribution. And that could very well reflect geographic differences. So, the tariff is a postage stamp tariff, but the customer contribution policy is not postage stamp.

(10 h 15)

Q. [134] But you understand that in Québec it would not be possible to charge a specific incremental rate to a customer living or having an upgrade in an isolated territory?

A. I'm sorry, say that again?

Q. [135] It would not be possible in Québec to charge an incremental, a special incremental rate to a customer requesting an upgrade in an isolated territory, for instance?

A. I think this would depend, I think for some projects, certainly for some projects, a customer contribution would be required. I don't know the details of service in remote areas in Québec, but when you say "remote", it would depend on the project, if a project requires an extension of the transmission system to serve a large industrial customer, I mean, yes, a contribution might be required.

Q. [136] My question really, Mr. Knecht, was -- would you agree with me that it would not be possible to charge a different tariff to a client seeking an upgrading built in an isolated area, as opposed to a client seeking an upgrade in a residential area.

A. Yes, that is my understanding of how the postage stamp rates work.

Q. [137] Now... yes?

A. But from a practical perspective, when you are requiring a contribution of a customer, the tariff rate is not, the tariff rate is not important when you require a contribution, because what you are requiring is that that customer cover his incremental costs, and you are setting the rate more based on the incremental costs, in fact you are setting it almost entirely on the incremental costs, and it is, and what the tariff rate is, is not particularly relevant.

Q. [138] Now, Mr. Knecht, on your page 7 of your report, lines 13 to 16, you refer to the actual calculation of the maximum allowance, and on line 15, you say,

This methodology was apparently

approved by the Régie in Decision 2002-095, and thus has been in place for a number of years.

So you do understand that this Board approved a methodology and has, through various project approval processes, applied and endorsed the methodology as applied by Hydro-Québec TransEnergy, correct?

A. Yes.

Q. [139] Now are you aware of any decision of the Board to the effect that this methodology was inappropriate for purposes of assessing a maximum allowance?

A. No.

Q. [140] Are you aware of any decision of this Board to the effect that this methodology was inconsistent with the language of the Tariff, Section E?

A. I am not aware of any decision of the Board to that effect.

Q. [141] Are you aware of any decisions of the Board to the effect that this methodology was conservative, overly conservative, or extremely conservative, to use three words that we find in your presentation?

A. I am not aware of any decision of the Board to that effect.

Q. [142] Now you did say, in your report, that you felt that this was either very conservative or extremely conservative, do you recall writing those words, Mr. Knecht?

A. Yes. Usually, I try to take out the word "extremely" when I edit it, but I obviously missed one.

Q. [143] You missed the word "extremely"?

A. Yes, I usually...

Q. [144] Yes.

A. ... I usually take those out in my edit process.

Q. [145] Yes. So just for your reference, it is page 14, line 15.

A. I trust you.

Q. [146] Yes, you can. Now you are not suggesting that this Board failed to understand, for the last twelve years, that the methodology it approved and applied was conservative?

A. I'm sorry, I believe that the methodology...

Q. [147] No, you are not suggesting, I assume you are not suggesting that the Board, over the last twelve years, or fifteen years, was not aware of the fact that it had approved and applied, for many many years, a conservative methodology, or let's say a prudent methodology?

(10 h 21)

A. I don’t, I obviously don’t know what the Board was aware of or not aware of with respect to the relative conservatism of this particular policy.

Q. [148] Now, we understand that you find it conservative or prudent but you’re not suggesting that it is affected by some serious substantive defect, you’re simply suggesting that the results is, in your opinion, conservative?

A. Yes, that’s correct. Then, as I said, there are a wide range of these kinds of policies out there and, again, the level of how conservative or aggressive the policy is is in details of the test and, you know, therefore, because there are a range of policies, I don’t think that the Board’s current policy is outside that range.

Q. [149] Now, we saw that this board made a number of policy decisions subjecting the native load to the upgrade policy, distinguishing various categories of investments, approving a methodology that is conservative. Now, is it possible that the Board approved a prudent methodology resulting in conservative results, as you qualify them, simply because the Board made a policy decision to adopt a methodology that would be conservative? That it was a choice made with knowledge and maintained with knowledge over the last fifteen (15) years? Could that be simply, Mr. Knecht, a policy decision to be conservative?

A. Yes, I think you would find that possibility laid out at page 9, lines 11 to 17 of my evidence.

Q. [150] Now, you did try in your report to speculate on the reason why the Board would have been conservative and, actually, on page 8, it starts, you're trying to understand, I think, why the Board, from a policy perspective, decided to be conservative and you suggest three approaches or three reasons. On page 8, you're suggesting that the Board may have adopted a policy to protect the native load from merchants. On page 9, line 1, you suggest that perhaps the Board anticipated rate decline and on page 9, line 11, as a third possibility, you are suggesting that perhaps the Board "implicitly required new loads to contribute to reliability upgrade costs". These are three reasons, you suggest, that may have driven the Board's decision to adopt a prudent methodology, correct?

A. Yes, I think I anticipated you going here.
Q. [151] Now, I assume that you are suggesting at the same time that these three bases would be rational and logical bases to justify your reasonable and prudent or conservative approach, correct?
A. I think that 1 and 3, the first one and the third one would be logical bases for adopting it. I'm not sure that anticipating rate declines over time would be justified based on my review of the pattern of TransÉnergie's rates over the last five to eight years.
Q. [152] Now, I assume that you're not aware of the existence of any decisions suggesting that the Board adopted a conservative approach because it anticipated the rate decline, this is your opinion or it's a speculation, in a sense. It's not based on any decision, correct?
A. That's correct. In preparing this, I was trying to understand why the Board had adopted a relatively conservative, perhaps very conservative approach to calculating the maximum investment test and was looking at possibilities and trying to evaluate them.
Q. [153] Now, the third solution or the third reason is a reference to a contribution to reliability. I

think we've established that you are aware of the fact that reliability improvements are fully rolled in, correct?
A. Yes.
Q. [154] Now, would you agree, and the Board knew that, obviously, because that's a decision they made at the same time in two thousand two (2002), correct? Mr. Knecht?
(10 h 25)
A. Yes, yes.
Q. [155] Now, in this context would you not agree with me that it is extremely unlikely that investments for load growth were intended to finance reliability improvements? You're saying this as a possible option for conservativeness. You're saying maybe the Board was conservative because it wanted to con... it wanted to introduce a contribution to reliability upgrades. Now, you know and I know that you know, when you wrote your report, that you knew that reliability upgrades were fully rolled in. So, could you tell me why you thought that this could be a reason, since reliability improvements are fully rolled in?
A. In establishing an extremely conservative maximum investment policy, by making it extremely

conservative, you are in fact saying that you are requiring new customers to make some contribution in excess of the incremental costs that they cause, and by making those contributions in excess of those incremental costs, you are implicitly contributing to what I've been calling the existing system. You are also implicitly contributing to reliability, all of the rolled in costs.

Q. [156] And again, this is your speculation. It's not based on any decisions you may have read from the Board. Correct?

A. I'm not sure what you're saying is my speculation. I'm not speculating that if you establish a test that is very conservative and results in a maximum investment level that is actually lower than the present value of the revenues that will be produced by the new customer, you are mathematically requiring that new customer to make a contribution to the system.

Q. [157] I understand what you're saying, but my point is the following. You're trying to understand why the Board adopted a conservative methodology, and I'm suggesting to you that the Board was obviously aware of the fact that reliability improvements were fully rolled in and that therefore, it is not in the Board's decision that in addition to rolled in all the reliability improvements, the upgrade, the maximum allowance for load growth upgrades were to include an additional measure to cover reliability improvements, in addition to the policy that all reliability improvements are, in any effect, fully rolled in. Correct?

A. I don't... I don't have any reference to a Board decision that indicates... I have not reviewed a Board decision where...

Q. [158] Yes.

A. ... I understand what motivated the Board for establishing this particular test.

Q. [159] Is it possible, Mr. Knecht, that instead of speculating on why the Board adopted a methodology that is conservative, perhaps we should read in the Board's decision the reasons why it adopted that methodology? Is it possible that the reason why it adopted a methodology that you've qualified as extremely conservative or conservative, is actually in the decision?

A. Yes.

Q. [160] Is that possible?

A. That would be a reasonable approach. I would agree.

Q. [161] Okay.

LA PRÉSIDENTE :

Maître Dunberry, je m'excuse de vous interrompre...

Me ÉRIC DUNBERRY :

Oui.

LA PRÉSIDENTE :

Je ne veux pas vous interrompre dans votre ligne, mais je... Quand ça sera, peut-être, un bon temps pour faire une pause, nous faire un signe?

Me ÉRIC DUNBERRY :

Deux, trois petites questions additionnelles, Madame la Présidente.

LA PRÉSIDENTE :

Merci.

Me ÉRIC DUNBERRY:

Q. [162] Mr. Knecht, maybe the answer is in the decision 2002-095, and I read to you, a moment ago, something to the effect that... And that was, again, on page 298, that the Board wanted to protect existing customers from excessive costs associated with upgrade. Is it possible that what the Board wanted to do is what the Board wrote, and what the Board wrote was that it wanted to adopt a methodology that would protect existing customers from excessive costs associated with an upgrade? Would that be logical, as a reason to adopt that methodology?

(10 h 30)

A. No. Let me explain. Protecting existing customers from incremental costs only requires that the new customer cover all of the incremental costs. So that if you establish the maximum investment test in such a way that the present value of the revenues from the new customer exactly equal the incremental costs that the transmission administrator will, that the transmission utility will incur, then you have satisfied the goal of protecting the existing customers. However, if you establish the maximum investment arithmetic in such a way that it is requiring the new customer to pay more than the incremental cost. Then you have implicitly included in your test a requirement beyond simply protecting the existing customer, but in fact... and in fact, making a contribution beyond that to the benefit of the existing customers.

Q. [163] My question, Mr. Knecht, was trying to understand the Board's rational. I understand that you may have a different view on certain things, but my point is that you're speculating on why the Board made a decision, and I'm suggesting perhaps we should go and read that decision. And in that decision, there's the reference to the notion of protecting existing clients against excessive costs. Now, I'm simply suggesting that there is a rational connection between a conservative methodology and a willingness or desire to protect existing customers. Would you agree that there is a rational connection?

A. I would agree that the more conservative a test there is, the more protection there is for rate payers, but in some sense, you are going beyond protection and you go to a benefit to existing rate payers.

Q. [164] Now, my second and last question is again trying to understand why the Régie decided the way it decided. The Régie refers as well to a concept of rate neutrality just above... that we read you and I together. And the Board said, and we read that a moment ago that it recognizes the relevance through the calculation of the maximum allowance. It recognizes a relevance of rate neutrality. Is it possible, Mr. Knecht, that this concept of rate neutrality was for the Board a factor to be recognized through the calculation of the maximum allowance? Could that be again a rational

connection?
A. Again, I'm not sure that it is because, if in fact you are requiring the new customer to pay more than the incremental cost, both customers who make a contribution and customers who pay the regular tariff rate because that's higher, the net effect of adding that customer will in fact be to lower rates across the system.
Q. [165] I noticed, Mr. Knecht, that - maybe I missed a few words but - you do not refer in your report to the concept of rate neutrality as defined by the Board in its decisions. Correct?
A. I don't recall using the term.
Q. [166] Do you understand that the concept of rate neutrality has been used by this Board in many, many decisions concerning the design of upgrade policies?
A. I think, as you've established, I have not read many... many decisions with respect to those decisions on rate neutrality. I understand that it is a concept that the Board has used. And I understand it to mean that we need to establish policies that will not result in negative rate impacts on existing customers.
Q. [167] So, my question, which I think is the same as

I asked a moment ago, is it possible at all, Mr. Knecht, that the Board, in adopting a methodology for the calculation of the maximum allowance, did exactly what it wrote in its decision? That is to incorporate in the calculation of the maximum allowance, a concept of rate neutrality that you do not address in your report, that is in the decision.

A. Is it possible that that was the Board's intent? It's certainly possible that that was the Board's intent. I think the point that I'm making is that the implication of this methodology can either be described as proving a lot of protection to existing rate payers, or perhaps implicitly requiring all new customers to make a contribution to the existing system, thereby having a downward effect on rates.

Q. [168] Mr. Knecht, do you understand that your clients, monsieur Vézina et monsieur Boulanger, have dedicated at least twenty-five percent (25%) of their evidence on the notion of rate neutrality? Were you aware of that?

A. I understand that they used that in their evidence, yes.

Q. [169] Do you agree with your clients' position on rate neutrality?

(10 h 36)

A. I would have to look at the specifics, and I think I would prefer that my clients defend their evidence.

Q. [170] Do you understand what is your client's position on rate neutrality?

A. I have not...

Q. [171] Mr. Knecht, do you understand your client's position on rate neutrality?

A. Not completely.

Me ÉRIC DUNBERRY :

Je pense, Madame la Présidente, que nous pouvons prendre une pause.

LA PRÉSIDENTE :

Oui, je vous remercie. Juste à des fins de planification, est-ce que vous en avez toujours pour le temps annoncé?

Me ÉRIC DUNBERRY :

Nous en avons pour deux cent quarante (240) minutes, Madame la Présidente, nous en avons pour deux cent quarante (240) minutes.

LA PRÉSIDENTE :

Je vous remercie.

Me ÉRIC DUNBERRY :

Merci.

SUSPENSION DE L'AUDIENCE

REPRISE DE L'AUDIENCE

LA PRÉSIDENTE :

Alors, bonjour. Juste quelques notes, avant que vous recommenciez, sur la planification. Alors ce qu'on regardait, alors où on était rendus, on continuerait, bien sûr, avec votre contre-interrogatoire, on prendrait peut-être une heure et quart de pause-lunch et puis on terminerait avec vous, puis la Régie aujourd'hui, avec la preuve de l'AQCIE, et puis ça nous amènerait vers trois heures et quart (3 h 15), trois heures et demie (3 h 30).

Alors je doute fortement qu'on passe la preuve d'UC aujourd'hui, alors on commencerait avec UC lundi matin à ce moment-là, juste pour aviser les gens, là, s'il y a des témoins d'UC qui devaient être prêts, je doute fortement qu'on vous passe aujourd'hui, alors voilà.

Me ÉRIC DUNBERRY :

Non, tout à fait, Madame la Présidente, je pense que, je pense que ça serait ambitieux, je pense que, j'avais, j'ai regardé mes notes à la pause et j'avais annoncé entre trois et quatre heures, je vais prendre les quatre heures, là, je dois vous le dire. Alors ça va nous amener, ma consoeur, d'ailleurs, me minute, elle m'a mis en garde qu'elle me minutait, là, alors...

LA PRÉSIDENTE :

On avait calculé deux heures et quart (2 h 15), deux heures et demie (2 h 30) à peu près, la fin de votre, avec les deux cent quarante (240) minutes alors...

Me ÉRIC DUNBERRY :

Oui, ça sera quatre heures, je pense que je suis rendu à une heure et vingt minutes, je pense. Elle me suit à la trace, ma collègue.

Me HÉLÈNE SICARD :

Une heure vingt.

Me ÉRIC DUNBERRY :

Une heure vingt.

LA PRÉSIDENTE :

O.K., alors pas de problème, c'est juste pour, à ce moment-là, je pensais que c'était...

Me ÉRIC DUNBERRY :

Tout à fait.

LA PRÉSIDENTE :

... pertinent d'aviser les témoins d'UC. Voilà, merci.

Me ÉRIC DUNBERRY :

Et à la pause, Madame la Présidente, j'ai distribué une autre décision, la D-2011-039, qui a également été distribuée à tous les témoins et participants. Alors, Madame la Présidente, avec votre permission, nous poursuivons.

Q. [172] Mr. Knecht, a quick question on a issue which I think was raised earlier with other witnesses. Could you please take a copy of the decision that we just gave to all participants, which is Decision D-2011-039, and you will find paragraph 418, and we will then go to 431. At 418, the Board, in that decision, was, and you may start at 417 just for the record, the Board was presented with arguments concerning rate neutrality, and it was said, and I read, in French,

> [417] Le Transporteur soumet que le concept de neutralité tarifaire appliqué aux Ajouts n'a pas d'écho ailleurs en Amérique du Nord.

And the Board decided... and the Board decided, on page 98...

Dr. ROBERT D. KNECHT :

A. Sorry, could you... could you have that, could you

read that paragraph again...
Q. [173] Yes, I will.
A. ... more slowly and let the translator read back to me more slowly?
Q. [174] Yes, I will, I apologize. So 417, and I read again,

> [417] Le Transporteur soumet que le concept de neutralité tarifaire appliqué aux Ajouts n'a pas d'écho ailleurs en Amérique du Nord.

And the Board says, and I quote,

> [418] Cet argument n'est pas déterminant, étant donné les particularités au Québec où la tarification est territorialement uniforme et où la définition de « réseau de transport » est spécifique.

So... so the question, Mr. Knecht, is -- I think you've testified earlier that you will agree that the design of an upgrade policy should reflect the particularities of Québec?
A. Yes.
(11 h 08)
Q. [175] Now, with that in mind, I would like you to

take paragraph 431 and I will read that again in French. So, this is after deciding that the upgrade policy should continue to apply to the native load. So the Board was asked to exempt the native load from the application of the policy and the Board decided not to. But then, it said the following, paragraph 431,

> Par contre, la Régie conçoit que sur une très longue période, les besoins de transport liés à la croissance peuvent requérir des investissements par palier très coûteux ayant des répercussions ponctuelles importantes sur le niveau de la contribution du Distributeur. Dans cette perspective, une certaine souplesse pourrait être envisagée dans les modalités d'application relatives au versement des contributions du Distributeur. Le Transporteur pourrait soumettre une proposition en ce sens.

Now, I think you've testified in your report, Mr. Knecht, that you recognise native load growth is gradual over time, it's not overnight that native load materializes, correct?

A. Yes, generally.
Q. [176] And this paragraph refers to the fact that the investment pattern may be lumpy - to use the expression, I think, that was recognized yesterday in your presentation - and this lumpiness may result in fairly costly steps in the investment patters where capacity is added or investments are made to accommodate certain load growth requirements, correct?
A. Yes.
Q. [177] Now, the Board said here that some "souplesse", I would translate this by "flexibility" if that was the word that I had to use, would you agree with the Board that, in this context, after having confirmed that the upgrade policy would continue to apply to the native load, that it is appropriate for this board, as a policy decision, to inject a level of flexibility in the way the maximum allowance is calculated for the native load?
A. Yes, as one of the criteria that the Board considers, yes.
Q. [178] Monsieur Vézina, monsieur Boulanger, vous seriez d’accord tous les deux également que la façon d’établir l’allocation maximale pour le

Distributeur devrait jouir d'une certaine flexibilité, une certaine souplesse au moment du calcul? Monsieur Boulanger, Monsieur Vézina, est-ce que vous avez une réponse pour moi?

(11 h 12)

M. LUC BOULANGER :

R. Bien oui, certainement. On ne peut pas être contre la vertu, n'est-ce pas. Alors, on est certainement d'accord qu'il y a une certaine souplesse. D'autant plus qu'on a mis en preuve que la façon que le Distributeur opère par rapport au point à point, c'est une façon qui est fondamentalement différente. Et il faut avoir justement cette souplesse pour être en mesure de pouvoir avoir une politique qui est comparable entre le point à point puis entre le Distributeur. Alors oui.

Mais on maintient quand même notre position que cette souplesse, pour répondre à la question de maître Dunberry, ne vient pas affecter cependant les positions qu'on a prises dans le mémoire sur la question de l'agrégation puis sur la question d'y aller par projet, puis sur la question que ce soit fait de façon annuelle.

M. PASCAL CORMIER :

R. Excusez-moi, si je pouvais ajouter étant donné que j'ai participé activement à la rédaction du mémoire et la position de l'AQCIE. La proposition de... la notion de souplesse est bien sûr appréciée. On comprend qu'il y a une volonté d'avoir un traitement équitable entre les clients point à point et les clients de la charge locale. Accepter une méthodologie de souplesse qui impliquerait un report de soldes positifs dans le futur pour la charge locale impliquerait, en utilisant cette logique-là, qu'il y a une application identique pour les point à point, qu'il y ait aussi cette souplesse-là pour les clients point à point, ce à quoi, nous, on considère que ça cause un... ça enfreint le principe de neutralité tarifaire. Comme on l'a expliqué dans notre dossier à l'effet d'utiliser des revenus existants pour payer des nouvelles additions. Donc, ça fait... c'est la somme à peu près de... ou en fait, ça résume la position très rapide de notre mémoire.

Q. [179] Monsieur Boulanger, Monsieur Vézina, l'agrégation et le report des soldes positifs, selon le calcul effectué par Hydro-Québec, entraînent le paiement d'une contribution additionnelle de quelque quatre cent quarante et un millions de dollars (441 M$) pour le Distributeur.

Vous êtes informé de cela?

M. LUC BOULANGER :

R. Effectivement. Le problème n'est pas là. Le problème, il faut regarder qu'est-ce que ça apporte au Producteur. Alors, si on applique le même système chez le Producteur, quels sont les montants que le Producteur va bénéficier par cette politique. Et c'est là où on a une difficulté. Alors, ce n'est pas pour rien qu'on a pris la position qu'on... on ne veut pas qu'il y a d'agrégation, puis on veut que ce soit sur une base annuelle, puis on veut que ce soit projet par projet. Ce n'est pas nous qui sommes affectés par ça, c'est le Producteur. C'est notre façon de comprendre le dossier.

Q. [180] Et est-ce que vous êtes également informé du fait que, en l'absence de report des soldes positifs, la contribution du Distributeur serait de l'ordre de huit cent dix-neuf virgule neuf millions de dollars (819,9 M$)? Étiez-vous informé de ça? Autrement dit, le report des soldes positifs est à l'avantage de vos clients. Est-ce que vous étiez informé de cela?

R. Juste une minute, là. Alors, si vous permettez, monsieur Pascal Cormier va répondre à la question.

Q. [181] Mais avant que monsieur Cormier réponde à la question, juste savoir si, vous, comme le représentant de l'Association, est-ce que vous êtes informé du fait que votre opposition au report des soldes positifs entraîne une hausse de la contribution associée à la proposition du Transporteur de quatre cent quarante-quatre millions (444 M$) à huit cent dix-neuf millions (819 M$), donc un peu plus de trois cent soixante millions de dollars (360 M$)? Est-ce que vous êtes informé du fait que votre opposition a un effet contraire à l'intérêt de vos membres?

R. La façon qu'on comprend le dossier, Maître Dunberry, et la position que nous avons prise, est à l'effet qu'il est avantageux pour nos membres que la Régie décide dans le sens de nos recommandations. Alors c'est ça que je vais vous répondre là-dessus, et monsieur Cormier va compléter la réponse.

Q. [182] Mais vous étiez informé que...

R. J'ai répondu à votre question.

Q. [183] Monsieur Vézina, est-ce que vous avez, pour le Conseil, la même réponse?

M. PIERRE VÉZINA :

R. Écoutez, oui, on était informé. C'était un questionnement pour nous autres, mais je pense qu'il y a derrière ça aussi une forme d'équité, et c'est, je pense, l'orientation qui a été effectivement prise.

LA PRÉSIDENTE :

Monsieur Vézina, si vous pourriez répéter un peu plus fort. J'ai eu de la misère à entendre votre réponse. Si vous pourriez juste répéter. Je n'ai pas entendu.

M. PIERRE VÉZINA :

R. En fait, j'ai dit oui, on avait été informé. Mais je pense que, dans notre compréhension globale du dossier, effectivement, je pense que c'était l'orientation à prendre, et le complément de réponse, monsieur Cormier va venir préciser un peu le cadre.

(11 h 17)

M. PASCAL CORMIER :

R. Donc finalement. En réponse à la DDR de la Régie, questions, les deux premières questions, de mémoire, la Régie nous a demandé de spécifier notre... de clarifier notre position par rapport à ce qui arriverait avec le solde, ou enfin les montants qui ont été comme mis sur la glace depuis deux mille six (2006).

À cet effet-là, on a répondu que, compte tenu qu'il était difficilement... difficilement possible d'aller rétroactivement en baisse de tarif, comme on le propose de façon prospective, nous avons recommandé que, pour ce qui est du passé, nous adoptions la position qui a été proposée par l'ACEF de l'Outaouais, c'est-à-dire d'utiliser une méthodologie de quarante (40) ans, un calcul sur quarante (40) ans, et aussi utiliser les revenus provenant de la charge... de la hausse de la charge incrémentale réalisée qui s'est produit depuis deux mille six (2006).

De façon prospective maintenant, là ce que mes clients ont mentionné, s'applique à l'effet que s'il y a un surplus à une année précise, au même titre que s'il y a des surplus de revenus pour les clients point à point que ces surplus-là aillent en baisse de tarif et ne soient pas reportés, dans le cas des clients point à point, c'est reporté soit pour les remboursements complémentaires à court terme ou éventuellement pour aller à des nouveaux ajouts.

Pour ce qui est de la charge locale, ces surplus-là, mettons une année précise, il y a un surplus, ça irait en baisse de tarifs. Et l'allocation allouée serait basée sur les revenus réalisés à chaque année. Puis la somme des investissements, les investissements des ressources et de postes satellites seraient associés. Puis les deux, un dans l'autre, on évaluerait s'il y a un surplus ou non. Et tout ça est dans une fin de... On veut que ce soit traité équitablement.

Évidemment, il serait peut-être plus... dans l'intérêt des clients qu'on regarde ça de façon fermée, des clients de la charge locale de dire, on va garder les surplus, on va lisser à travers le temps ça. Mais on s'est dit que si on veut que les clients point à point soient traités de la même façon, on va proposer une méthode qui est juste, c'est-à-dire que s'il y a des surplus, ça va en baisse de tarifs.

J'aimerais aussi ajouter un point important. L'allocation qui est faite par le Transporteur est payée à quatre-vingt-dix pour cent (90 %) par la charge locale. Donc, il faut avoir ça en tête aussi. Quand on parle de huit cent millions (800 M$)... Quatre-vingt-dix pour cent (90 %) de huit cents millions (800 M$), c'est quatre-vingts millions (80 M$). Juste mettre en perspective les chiffres, là, aussi.

Q. [184] Quand vous dites baisse de tarif, Monsieur Cormier, vous parlez des baisses de tarif de transport, je présume, évidemment?

R. Oui, bien sûr.

Q. [185] Et, ça, c'est à l'avantage des clients point à point et, comme vous l'avez indiqué, des clients indirectement de la charge locale?

R. Comme vous l'avez mentionné, il y a un tarif timbre-poste au Québec. Donc, les clients point à point et la charge locale paient le même tarif.

Q. [186] Alors, la recommandation que vous avez faite à vos clients, c'est d'adopter une mesure qui est dans l'intérêt d'un traitement équitable du client point à point, même si, aux termes de votre recommandation, qui semble être endossée par vos clients, le résultat net, c'est que leurs membres vont voir une contribution du Distributeur additionnelle de quelque huit cents quelque millions alors qu'elle pourrait être de quatre cent quarante millions (440 M$). Est-ce que vous agissez aussi dans l'intérêt des clients point à point, comme Brookfield, ou est-ce que vous agissez dans l'intérêt des membres que vous représentez?

R. Premièrement, tous les clients paient la même chose, puis l'objectif de notre intervention, de notre proposition est que tout le monde soit traité de façon équitable. Si jamais il y a des différenciations qui doivent être apportées aux méthodes de, soit d'un type de client ou l'autre, ça ouvre la porte, comme il a été mentionné, dans la décision que vous venez de nous faire parvenir, la D-3738-2010, s'il y a une modification comme il avait été demandé à l'époque, la charge locale soit traitée différemment, ça ouvrait la porte à avoir un revenu requis différent pour chaque type de client. Puis je ne pense pas que c'est l'intention de la Régie depuis deux mille deux (2002).

Je pense que l'intention de la Régie avec l'inclusion des équipements de type « generator lead », c'est-à-dire les équipements associés aux actifs de transport, les grandes lignes qui vont au nord, ont été inclus dans le revenu requis de tous. Et je pense que c'était... mon interprétation du moins des décisions passées à l'effet que tout le monde ait le même traitement. Donc, non, je n'ai pas en tête les intérêts des clients point à point. J'ai les intérêts de la charge locale qui sont traités de la même façon.

Q. [187] On va poursuivre cette discussion-là, Mr. Knecht, I'd like to get back to your report, to make a connection between our current conversation and your report. Could you please now go to... Well, actually, maybe there is no need to go anywhere, perhaps you will be able to answer these questions fairly quickly. Now, I understand that your clients are asking that the maximum allowance for the native load be calculated using a forty (40)-year term depreciation. Correct?

(11 h 23)

MR. ROBERT D. KNECHT:

A. That is my understanding of their proposal, yes.

Q. [188] And you support that view, I assume?

A. In my evidence, my recommendation was that the arithmetic in the maximum investment test and the arithmetic in the levelized cost test both use the same economic parameters. With respect to the forty (40)-year treatment, in calculating the maximum investment, I would say that I believe that that is more consistent with the period over which you would expect to receive incremental revenues from native load customers than is the twenty (20)-year period. The use of a twenty (20)-year mechanism makes the maximum investment test more conservative.

Yesterday, what I recommended was that the

Régie reconsider, in light of the evidence that's presented in this proceeding, whether or not the existing maximum investment test is too conservative. I also recom... I retained my recommendation that the mechanics, the economic parameters that are built into the levelized cost test and the maximum investment test be consistent. My understanding of the levelized cost test is that revenues are considered for the duration of the contract, which can be longer than twenty (20) years, in supporting incremental investment.

One way to harmonize the economic parameters would be to extend the duration of the maximum investment test to forty (40) years. The other way would be to modify the levelized cost test such that revenues beyond twenty (20) years from point-to-point customers are not used to justify incremental rolled-in investments by the transmission administrator.

Q. [189] Okay. Let me try again, Mr. Knecht, and I refer you to paragraph 23 of your report. And while you go there, I will ask your client a fairly simple question. Monsieur Boulanger, Monsieur Vézina, est-ce que, oui ou non, vous demandez à la Régie d'utiliser un terme de quarante (40) ans pour calculer l'allocation maximale? Oui ou non?

M. LUC BOULANGER :

R. Bien, en fait, c'est la recommandation qui nous a été faite. C'est dans ce sens-là qu'on s'est orienté, oui.

Q. [190] Écoutez, vous êtes le client, Monsieur Boulanger, est-ce que c'est ce que vous demandez, oui ou non, au nom de vos membres? C'est vos membres qui vont payer, là. Alors je vous demande, est-ce que vous, Monsieur Vézina, Monsieur Boulanger, est-ce que vous demandez à la Régie... Monsieur Cormier peut avoir ses demandes et ses exigences, mais vous, le client, est-ce que vous demandez à la Régie d'utiliser, oui ou non, un terme de quarante (40) ans pour le calcul de l'allocation maximale pour la charge locale?

M. PIERRE VÉZINA :

R. C'est ce qui est inscrit dans notre recommandation.

Q. [191] Monsieur Boulanger?

M. LUC BOULANGER :

R. Bien, même chose.

Q. [192] Et vous recommandez également le quarante (40) ans pour le calcul de l'allocation maximale pour les clients point à point. N'est-ce pas?

R. Bien, je pense que notre position, c'est l'équité

entre les deux. Le point à point et la charge locale.
Q. [193] Alors c'est quarante (40) ans pour le point à point et la charge locale, c'est ce que vous demandez à la Régie.
R. C'est ma compréhension. Hein? Voilà.
Q. [194] Bon. Monsieur Knecht. Page... Page 33 of your report. This is what I read. Lines 10 and 11:

> HQT's calculation of the maximum investment credit for native load should be based on a 40-year term.

So, again, my understanding is that you are recommending to the Board that the native load maximum allowance be based on a forty (40)-year term. Is that correct, based on what I just read?
MR. ROBERT D. KNECHT:
A. As I said yesterday, I've updated my recommendations based on the information that I've gained since then, and the recommendations that I presented yesterday are my current recommen... are my recommendations at this... are my recommendations.
Q. [195] So you are no longer recommending a forty (40)-term. It's an option among others.
A. Correct.

Q. [196] Thank you. I'd like to refer you now to page... term, it is an option among others?
A. Correct.
Q. [197] Thank you. I would like to refer you now to page 8 of your report, where there is a calculation of the maximum allowance. And I understand from your report, Mr. Knecht, that you are also recommending that the maximum allowance be calculated not using a revenue requirement but using a flat tariff rate over the period of twenty years in that table, and there is a second table later that we will see over forty years.
But I understand that you are using here, in this table, a levelized revenue corresponding to a flat tariff over twenty years, correct, this is the value of seventy-four sixty-five ($74.65) that we see twenty times, correct?
A. Let me make a couple of points, because again, this goes to the modification that I made in my recommendations yesterday. This calculation, that is shown here on this table, is based on, as you say, a levelized cost methodology; it is economically consistent with the levelized cost methodology that, I understand, Hydro-Québec Transmission is proposing with respect to the

revenue sufficiency test for point-to-point customers.

Also, based on my reading of Ms. Chang's evidence, this approach is conceptually consistent with the way the annual rates would be calculated in an incremental cost methodology in the United States.

Q. [198] Now...

A. Please. My concern in drafting this evidence was that there appeared to be different treatment embedded in the economic parameters of customers subject to the maximum investment test, which I understood to be the controlling mechanism for native load, and the economic parameters in the levelized cost test, which I understood to be the controlling test for point-to-point customers, and that the key aspect of my recommendation was that those tests be consistent.

I suggested that the easiest way to do that would be to adopt a forty-year period for the maximum investment test, that is fix the maximum investment test so that it is the same as the levelized cost test. You could do it the other way, you could go to the levelized cost test and change those parameters such that they are consistent with

the maximum investment test. Either approach would address the concern I had in my evidence.
Q. [199] Okay. That is very useful, thank you, Mr. Knecht. We will come back to this in a moment but again, just to establish the basis for our conversation...
A. I was afraid of that.
Q. [200] Yes. So when I look at Table 8, you and I will confirm that the actual allowance that you would be offering to a potential client would be seven hundred and forty dollars a kilowatt ($740/kW), correct, after O&M and taxes, correct, according to this calculation?
A. All other factors being equal. If the only change you made...
Q. [201] Yes.
A. ... to the existing mechanism was to switch from a first-year approach to a levelized approach, yes.
Q. [202] And that would be an increase in the maximum allowance, and we see this number on the top of the table of twenty-three point seven percent (23.7%), correct, as opposed to five ninety-eight (598)?
A. Yes.
Q. [203] Okay. Now you are also suggesting, in the report, subject to the comments you made yesterday,

but you are also suggesting in the report that the maximum investment could be established using a forty-year recovery term as opposed to a twenty-year recovery term, and in that case, the maximum allowance would again be increased, correct, if you keep everything else equal, that's correct?

A. Yes, yes, yes.

Q. [204] Now if you combine these two measures, and I believe we see this in one of your schedules, if you combine these two measures, you, and this is Schedule 1 of your report, there is a table there that we see the calculation for a maximum allowance using a forty-year term, and using a flat tariff rate, this is at the end of your report, under Schedule 1; we see that the maximum allowance using a combination of these two factors...

(11 h 34)

Me ÉRIC DUNBERRY :

Madame la Présidente, c'est presqu'à la toute fin, c'est une table, c’est schedule 1, it says schedule 1 but it’s schedule 2.

THE PRESIDENT:

It’s schedule 1.

Me ÉRIC DUNBERRY :

Elle a l’air de ceci, Madame la Présidente.

LA PRÉSIDENTE :

Après le cv, O.K., c'est beau.

Me ÉRIC DUNBERRY :

Oui.

LA PRÉSIDENTE :

C'est beau. Merci.

Me ÉRIC DUNBERRY :

C'est à la toute fin.

Q. [205] So, Mr. Knecht, if I look at that table, we see two things: we see a flat tariff rate of seventy-four sixty-five (74.65), we see forty (40) years going by and, at the bottom right corner, we see nine sixty-nine (969), correct?

A. Yes, you also actually see it right there at the top.

Q. [206] That's right. And we also understand that this would be an increase from five ninety-eight (598) based on a revenue requirement over twenty (20) years to nine sixty-nine (969) would be a flat rate over forty (40) years which, the sum of which would, combined, give you an allowance of nine sixty-nine (969) all else being equal, correct?

A. Yes. You've changed two parameters and that would have that effect.

Q. [207] And that, according to my calculator, is a sixty-two percent (62%) increase or about three hundred and seventy-one dollar per kilowatt ($371/KW), correct?

A. Yes. Just to be clear, because you've introduced, I haven't checked that percentage and I will take your percentage calculation subject to check. I believe the twenty-five point six percent (25.6%) increase that's reported here on the top of that table compares to the, if I recall this table correctly, compares to the Hydro-Québec calculation at forty (40) years so I was more comparing apples to apples.

Q. [208] Okay. But Hydro-Québec's proposal is five hundred and ninety-eight dollars a kilowatt ($598/KW), your proposal, assuming that, at the end of the day you maintain that proposal, is nine sixty-nine (969), that's an increase of sixty-two percent (62%) of the maximal allowance. This is pure maths, we agree on that?

A. Yes.

Q. [209] Okay. Now, you would agree that if the word "conservative" describes a few realities, this is quite a significant raise in the maximum allowance of sixty-two percent (62%), correct?

A. Yes.

Q. [210] Okay. Now, this would have the effect, if I understand, of considerably reducing the contribution that the Distributor would have to pay, all else being equal, for a given project. He would actually raise his allowance by sixty-two percent (62%) and he would reduce its contribution for the same project, all else being equal, correct?
A. Yes, it would have that effect for anyone subject to the maximum investment test.
Q. [211] And obviously, that would be in the interest of your clients' clients or members?
A. Well, yes, it would. As I think Mr. Cormier pointed out, the native load picks up the vast majority of rolled in costs as well so while there's a big effect on the maximum contribution reducing the Distributor's contribution, you end up rolling all of those costs back into regular rates, most of which get assigned to native loads so...
Q. [212] But you get some assistance from the point to point customers up to, let's say, ten percent (10%), correct?
A. I'm not disputing that there would be some net reduction to the native load, I would agree.
Q. [213] Let's say ten percent (10%), for purposes of

our conversation, this would allow your clients to save more or less ten percent (10%), all else being equal, correct?

A. Ten percent (10%)?

Q. [214] Five or ten percent (10%). I don't want to...

A. Ten (10) relative to what? On their bills?

Q. [215] Overall payment of tariffs. Okay, it's...

A. I have not done those calculations.

Q. [216] Okay.

A. I don't know.

Q. [217] That's alright. That's alright. You and I agree that there would be a difference?

A. Yes.

Q. [218] Okay.

A. I agree that there would be a reduction in the direct contribution from the Distributor. There would be an increase in the investment required from the Transporter and that the increase in the investment from the Transporter would be split between the Distributor and the point to point customers.

Q. [219] Now, just to illustrate the point, Mr. Knecht, there is some, and obviously I didn't want to introduce new evidence so I went back to the exhibit HQT-3, Document 1.1.1 and this is just an

illustrative numerical example. What you have here is using data that we have on the file, that under the current methodology, for a project costing about one point eight billion dollars ($1.8 B) to which is associated one point five five megawatt (1.55 MW) over twenty (20) years using - and these are two thousand ten (2010) numbers because you’re going back two thousand ten (2010) - in this case it was five ninety-six (596) but that’s close enough to five ninety-eight (598). You have a rolled in amount of nine twenty-three point eight million dollars ($923.8 M) and a contribution of nine hundred and eighteen million dollars ($918 M).
(11 h 39)

Under your proposal, for the same load and the same cost for a project using a forty year (40) with a flat rate, net present value, at nine sixty-nine (969), which is not exactly the right number because again, it’s derived from five ninety-eight (598) and not five ninety-six (596), we see essentially a split of sixty-two percent (62%) going one way, and the other sixty-two percent (62%) going in the other direction. That is, in that case, the point-to-point client would have contributed only three hundred and forty-two million dollars ($342 M) as opposed to one point five billion (1.5 B). As opposed to nine hundred and eighteen million dollars ($918 M). Correct? This just illustrates the order of magnitude of your suggestion. Correct, Mr. Knecht? This is pure math. There is nothing more than math.

A. That is, I believe, what this appears to be, which is...

Q. [220] So, what this...

A. I'm sorry. Let me state what my understanding is.

Q. [221] Yes.

A. Is that what you have taken is you have taken a one thousand five hundred and fifty megawatts (1,550 MW), or one point five five million kilowatts (1.55 M kW), multiplied it by five hundred and ninety-six dollars per kW ($596/kW), got a maximum allowance of nine hundred and twenty-three point eight million (923.8 M), subtracted that from the long number, one point eight four two million (1.842 M), and got nine hundred and eighteen million (918 M).

Q. [222] Yes. It's all in the file. These numbers are...

A. And then, and you did a similar calculation. And just using those two parameters and limiting it only to those factors, subject to not having a calculator and not trusting my head to do math, or not to do arithmetic, I understand this table.

Q. [223] Okay. Now, all this to say that if your approach had been in place in two thousand ten (2010), or at the time this was calculated exactly, the net result would have been an increased, or a differential increase in TransÉnergie's rate base of five hundred and seventy-six million dollars ($576 M). Correct?

A. Yes. For these... For these numbers.

Q. [224] Do you know what that situation is? Do you know what this is?

A. My understanding, just looking at the numbers and having been here for the past few days, is that this appears to be the numbers related to La Romaine, and it's assuming that the one point five five gigawatts (1.55 GW) of Romaine capacity is revenue-generating. And therefore should be allowed... should be given the full credit for the generating capacity in the maximum allowance.

Q. [225] Now, Mr. Knecht, coming back to your table 8... Je vais tout coter les pièces à la toute fin. Oui. Mr. Knecht, I'd like to bring you back to your table on page 8 of the report, and I'd like to just

really look at what it represents in terms of calculation. Now, you understand that the last approved tariff is seventy-four sixty-five dollars a kilowatt ($74.65/kW), correct?
A. Yes.
Q. [226] Now, looking at column 8, which is the revenue requirement, the revenue requirement is the revenue required to pay back the unit investment of, in this case, seven hundred and forty dollars ($740). Correct? On a twenty year (20) year basis, on a twenty year (20) period.
A. I’m sorry, the... the revenue requirement is ninety-two dollars and thirty-six cents ($92.36), is...
Q. [227] And it’s going down?
A. Yes.
Q. [228] To zero, and the concept here is to calculate the revenue required to cover a unit investment of seven hundred and forty dollars ($740) over twenty (20) years. Correct?
A. Yes.
Q. [229] Okay. Now, we see that for the first seven or eight years, from two thousand fourteen (2014) and two thousand twenty-one (2021), the tariff, or the revenue requirement to cover your seven hundred and

eighty dollars a kilowatt ($780/kW) investment is actually above the last approved tariff. If you look at the column, it starts at ninety-two point thirty-something, and year two thousand twenty-one (2021), it is at seventy-six point twenty-seven (76.27). So, for the first eight years, from two thousand fourteen (2014) to two thousand twenty-one (2021), the revenue requirement to cover the unit investment of seven hundred and forty dollars ($740) is actually above the current tariff of seventy-five sixty... seventy-four sixty-five (74.65). Correct?

A. Yes. This phenomenon would occur in any... for any utility that... or almost any utility, most utilities that would use this kind of a mechanism. It's a nature of the difference between the rates, which tend to be flat, and the utility revenue requirement, which tends to be declining. So that in order to meet the requirement that the net present value of revenues equals the costs upfront, you need to have some years, when you're paying flat revenues, in which the revenues are below the revenue requirement, and some years in which they are above.

(11 h 44)

Q. [230] So what...

A. It's simply... It is an aspect to this that is recognized by utilities who use this kind of mechanism.

Q. [231] I understand your...

A. That it will have, that it can have an upfront, for the first year or first set of years, a negative impact on rates, after which it has a positive impact on rates. Such that overall, the effect is neutral.

Q. [232] I understand that. And actually, this is... this is probably driven by your software, and the Excel software that is being used, but mathematically, what this means is that in order to recover, in order to recover the seven hundred and forty dollars ($740) over twenty (20) years, you have to allow - and this is just math - you have to allow the revenue requirement to go above the tariff for the first eight years. You have to allow, to recover seven forty (740), pure math, you have to allow for an actual revenue requirement, you have to allow it to go above the seventy-four sixty-five (74.65), at least for eight years. Correct?

A. That’s... That’s what I just said, yes.

Q. [233] Okay.

(11 h 46)

M. PASCAL CORMIER :

R. Excusez-moi, Maître Dunberry. Étant donné qu’on est en panel, je vais en profiter pour... Par rapport à la pièce que vous avez déposée, premièrement, c’est difficile pour nous de faire des analyses à brûle-pourpoint. Ça ressemble plus à une DDR, mais... Concernant les montants de contribution qu’on voit à la droite du tableau, selon notre proposition, il y avait un nouveau Romaine, parce que la Romaine, c’est déjà une décision qui a été rendue. On comprend. La contribution serait de zéro s’il n’y a pas de revenus supplémentaires. Juste pour mettre ça en perspective. Et aussi...

Me ÉRIC DUNBERRY :

C’est que...

M. PASCAL CORMIER :

... juste ajouter aussi que la méthodologie ou les allocations demandées pour les projets du Distributeur auraient la même méthodologie aussi.

Me ÉRIC DUNBERRY :

Q. [234] So, Mr. Knecht, back to you. All else being equal - and I know you know what that means - it appears that because of the revenue requirement is above the current tariff for the first eight years, the tariff for all clients in these early years is likely to increase once the upgrade is rolled in. Correct?

A. Yes, when you're only looking at the one project. Obviously, as time goes on, you start to have a set of different projects such that a project that was done ten (10) or twelve (12) years ago would be having a positive impact on rates and it might be offset by the new project which is having a negative impact on rates. And over the course of the entire period that is studied, the effect is neutral. But, yes, some years will be different. I mean, it will have a year-by-year effect; some years positive, some years negative.

Q. [235] But you agree that when this rate neutrality, in your case, is to be achieved withing a twenty-year (20) period; it's not achieved in the early years. It requires an actual use of the full period of twenty (20) years. Correct?

A. Yes.

Q. [236] Okay. Now, would you also agree that under HQT's proposal, there's an increased likelihood that the rate will go down, as opposed to your methodology which does not allow the rate to go down mathematically? It's a breakeven over twenty (20) years, there's no likelihood of the rate going down when it's compared to HQT's approach which only sets the tariff at the amount of the actual revenue requirement for the first year, and all the other years, the revenue requirement is below the tariff.

A. Yes, I think that's what we discussed for quite some time this morning, which is that the first-year method essentially requires a customer who is making a contribution to contribute to the existing system and will have a depressing effect on rates.

Q. [237] Now, do you think that this is consistent with the notion of rate neutrality that was introduced by the Board in two thousand two (2002)?

A. I don't want to take a position on what the Board meant by rate neutrality. Personally, in evaluating one of these, I would try to evaluate whether it's rate neutral over the period that's being evaluated rather than requiring it to be rate neutral every year. However, you know, if the standard is that it needs to be, you know, that it... And remember, rate neutrality, I think, could be interpreted as not... either not reducing or not increasing rates.

I don’t know what neutrality means but my understanding would be, you have no impact on rates at all, and that’s just not possible for every year within this kind of a mechanism.

Q. [238] But you and I will agree that rate neutrality doesn’t mean an obligation to reduce rates. It could be neutral.

A. Yes. Yes, I would agree with that.

Q. [239] And you also agree that it’s not a year business. It’s an annual... it’s an exercise over twenty (20) years. Correct? That’s what you’re doing.

A. Yes.

Q. [240] Now, if you go to your report on page 9, lines 5 to 7, you have a reference here to the actual rates from two thousand... over fourteen (14) years. Line 5, it starts and you say:

> However, HQT’s evidence in the R-3903-2014 proceeding shows that the per-kW charge has been reasonably constant [...] over the past 14 years, starting at $72.91 in 2001 and proposed at $74.82 for 2015.

Is it possible that this stability in rates is in fact, at least in part - but I suggest it’s probably more than just in part but - at least in part, directly related to the fact that this Board, for the last fourteen (14) years has adopted a methodology that is consistent with rate neutrality as defined in the D-2002-095 and that the fact that what you observed as being fairly stable and constant rates is the direct result of the fact that this board adopted a methodology that is prudent and conservative. The result of the adoption of what is being described as a conservative methodology, would you agree with me?

(11 h 29)

A. I would certainly agree that it's possible. I would also agree that directionally, to the extent that the policy has been implemented and has had a significant effect on investments, that the net effect would be to have rates be lower than they otherwise would. How much of that has contributed to the pattern, obviously, I don't know the answer to because it would involve a significant quantitative assessment and there are so many other factors going on. But, directionally, it's been my position all morning that the more conservative the test, the bigger the contribution of new customers and the lower the rates would be, all other factors being equal.

Q. [241] Now, to be honest, I'm not sure exactly what you are now, today, recommending to the Board - we'll come to that in a second - but your clients, your clients are recommending that we use a nine sixty-nine dollar per kilowatt ($969/KW) allowance for the native load and the point to point customers, which is the result of a forty (40) year depreciation term with a levelized flat revenue calculation.

Now, I'm asking you the following question: if your clients' request had been granted in two thousand two (2002) and that for the last fourteen (14) years, instead of whatever the amount was up to five ninety-eight (598), the amounts used for the maximum allowance had been sixty-two percent (62%) above the amounts that the Board authorised, would you not agree with me that the rates would probably have been higher than what we observed today conceptually, directionally, all else being equal?

A. I would agree with you, yes.

Q. [242] Now, sixty-two percent (62%) is quite a sudden and drastic change in an approach. You know, from twenty (20) to forty (40), from levelized to, from a declining rate to a flat rate, are you aware... Let me ask you the question: do we find anything in your evidence or anything in your clients’ evidence as to the existence of a change in the environment that would - well, a change in the electricity markets, a change in the commercial environment, a change in the regulatory environment - that would justify a drastic and sudden change in methodology? You understand my question? You’re suggesting a drastic and fairly sudden change in methodology - is there anything in the evidence that suggests that something somewhere has changed in the last fourteen (14) years that would justify that change today? As opposed to having a different view on things.

A. Speaking for myself, I have not tried to identify anything that would justify such a change but, again, remember what my recommendation is, is that I think that the different tests that apply to different kinds of customers should be based on the same economic parameters.

Q. [243] We’ll get to there, I promise, Mr. Knecht, we’ll get to that main point. But my...

A. And let me say in general, I would certainly agree with you that substantial changes all at once are

not something that regulators do very often.
Q. [244] You agree with that? Especially when there is no evidence of a different environment, correct?
A. Well...
Q. [245] Usually, sudden changes react to sudden change of events, drastic changes is a reaction to a drastic change of an event. I'm suggesting to you that nothing has changed and, therefore, a change of methodology is baseless at this point. Would you agree with that, looking at your evidence and your clients' evidence, Mr. Knecht?
A. I did not identify anything that would justify, that there is a change in the overall environment for electricity service in Québec that would say this change should be made. What I was basing my recommendation on was attempting to use comparable calculations for different sets of customers.
(11 h 57)
Q. [246] Often regulators are asked to fix problems, Mr. Knecht, was there something wrong in the last twelve (12) years that we all missed?
A. My concern with - and I guess I've said it too many times now - with the file proposal that triggered my recommendations in my evidence was that it appeared to me, it was my understanding that

different kinds of economic tests were being applied to different kinds of customers.
Q. [247] Now...
A. And that that was and should be a concern to the Régie.
Q. [248] We'll come to that, Mr. Knecht. Again, my understanding is that the forty (40) years would apply to both native load and point-to-point customers.
A. And on the principle of avoiding undue discrimination, yes.
Q. [249] And the same maximum allowance would be calculated for both native load and point-to-point customers.
A. If you keep the basic mechanism, yes.
Q. [250] Now, if we keep a forty year (40) term for point-to-point customers, would that mean clients, such as Brookfield or NLH, would be essentially forced to enter into longer term contracts? I just want to know... understand if you make a connection between the direction of their service agreements and the forty year (40) term... If, for instance, for the calculation...
A. I understand. I understand the question.
Q. [251] Point-to-point customers would be provided an

allowance based on a forty year (40) recovery term. Do you think that would incentivize or require that point-to-point customers enter into longer term contracts?

A. It would not require it. But I believe, as the Chairman raised, one of the other days of the hearings, that point-to-point customers under the maximum allowance policy have an economic incentive to enter into longer term contracts because the longer the term of the contract, the higher the maximum investment level that the transmission... the Transmitter would be willing to make on behalf of that customer because there are more years of revenues. If now you extend the maximum term, then yes, it does in fact extend the benefit of a longer term contract out beyond twenty (20) years.

Q. [252] Now, monsieur...

A. All other things...

Q. [253] Yes?

A. ... again all other things being equal.

Q. [254] Now, monsieur Clermont and, I believe, monsieur Verret said earlier this week that it is in and of itself, aside from the financial consideration, that it is in and of itself beneficial to all clients that the... that

TransÉnergie benefits from stability in rates and revenues and foreseeability in flows of income. And that should be also a design factor for the upgrade policy, that the upgrade policy should contain elements of the nature of an incentive to enter into longer term contracts on the basis that it provides stable, foreseeable revenues. I guess from your answers that you would not be opposed to that notion.

A. My answer was that there is an incentive there now for longer term contracts. And I don't think that there's anything wrong with that particular incentive because that one makes sense. It's sending the right signals to new customers. If they are willing to enter into longer term agreements and provide assurance to the Transmitter that they will be providing revenues for a longer period of time on which the Transmitter can rely, then that's a good thing. And that they should... and that the maximum investment should reflect that.

Q. [255] And the upgrade policy should continue to contain this incentive. That would be good policy making. Because it provides stability.

A. I don't know how it would not contain that kind of feature. That probably wasn't clear.

Q. [256] No.
A. The... I think a sensible contribution policy will reflect that customers who commit to longer terms should be allowed to have a greater amount of investment made on their behalf by the transmission utility.

(12 h 02)

Me ÉRIC DUNBERRY :

Madame la Présidente, je vois l'heure. J'allais changer de sujet. Nous pourrons peut-être nous revoir après la pause si vous êtes disposée à prendre la pause maintenant. Je peux, par ailleurs, continuer. Nous avons encore du travail. Mais les choses progressent correctement, je dirais.

LA PRÉSIDENTE :

Je prendrais la pause lunch maintenant. On la prendrait pour un heure et quart. On reviendrait donc à une heure et quart (13 h 15). Cependant, avant de partir à la pause, les difficultés de bilinguisme peut-être. Dans votre pièce où vous indiquez dans la pièce qui n'est pas encore cotée...

Me ÉRIC DUNBERRY :

Oui.

LA PRÉSIDENTE :

... vous indiquez que vous avez pris ces chiffres-là à la pièce HQT-3, Document 1.1.1 page 36. Pour moi, HQT-3, c'est la pièce B-11, donc la preuve complémentaire, et ça arrête à la page 28. Alors, si vous pouviez juste m'indiquer là où ces chiffres-là ont été pris.

Me ÉRIC DUNBERRY :

HQT-4.

LA PRÉSIDENTE :

HQT-4. D'accord.

Me ÉRIC DUNBERRY :

Une petite coquille s'est glissée. Désolé!

LA PRÉSIDENTE :

Il n'y a pas de problème. Ça va juste nous permettre de faire la recherche. Vous allez coter, j'imagine, le tout à la fin?

Me ÉRIC DUNBERRY :

Oui, pour ne pas interrompre le rythme.

LA PRÉSIDENTE :

Pas de problème.

Me ÉRIC DUNBERRY :

Lorsqu'on aura terminé, Madame la Présidente, si vous êtes à l'aise, on va prendre trois secondes et on cotera tout d'un coup.

LA PRÉSIDENTE :

Pas de problème. Alors on va suspendre pour l'instant, puis on reviendra en fait à une heure et vingt (13 h 20).

Me ÉRIC DUNBERRY :

Merci. Bon lunch.

LA PRÉSIDENTE :

Merci. Au revoir.

SUSPENSION DE L'AUDIENCE

REPRISE DE L'AUDIENCE

(13 h 20)

LA PRÉSIDENTE :

Alors, Maître Dunberry, bonjour.

Me ÉRIC DUNBERRY :

Rebonjour, Madame la Présidente.

LA PRÉSIDENTE :

Alors, juste pour vous dire, je ne doute pas des capacités de maître Hivon de vous ramener à l'ordre si...

Me ÉRIC DUNBERRY :

Deux heures quinze (2 h 15). Elle m'a donné mon chronomètre.

LA PRÉSIDENTE :

O.K. Moi j'avais calculé quatorze heures quarante (14 h 40), il faudrait que ça soit terminé.

Alors...

Me ÉRIC DUNBERRY :

J'ai... Madame Hivon m'a dit que j'avais deux heures quinze (2 h 15), alors techniquement, je pourrais continuer pendant une heure quarante-cinq (1 h 45), selon nos calculs, Madame la Présidente.

LA PRÉSIDENTE :

O.K.

Me ÉRIC DUNBERRY :

Pour essayer d'être aussi efficace que possible, on va tenter de le faire, là. Alors, je vais tenter de terminer aujourd'hui, ça c'est sûr. Mais, peut-être passé trois heures (15 h 00), mais on va tenter de terminer aujourd'hui.

LA PRÉSIDENTE :

Bien, il faudrait vraiment tenter, parce que... Ceux qui me connaissent savent que j'ai une fixation sur le respect des échéances, et puis je ne voudrais pas avoir à faire revenir monsieur Knecht lundi matin pour quelques questions de la Régie, et on a, évidemment, des contraintes avec les sténographes. Alors, avec mes calculs, vous aviez déjà pris cent soixante minutes (160 min), il vous en restait quatre-vingts (80). Alors voilà. Mais, écoutez, on va y aller, puis...

Me ÉRIC DUNBERRY :

Nous avons... Je dois vous dire qu'on a exclu la pause. On a exclu la pause dans nos calculs.

LA PRÉSIDENTE :

Alors...

Me ÉRIC DUNBERRY :

C'est peut-être la différence. À tout événement, je voulais simplement vous dire, Madame la Présidente, que nous avons... que j'ai commis une petite erreur lorsque j'ai identifié le document qui a été produit ce matin, pas encore produit mais identifié ce matin. La pièce, c'est bien exhibit HQT-4.

LA PRÉSIDENTE :

O.K.

Me ÉRIC DUNBERRY :

Document 1.2.1, et non pas 1.1.1. Alors HQT-4, document 1.2.1.

LA PRÉSIDENTE :

Merci.

Me ÉRIC DUNBERRY:

Q. [257] So, just a quick question, Mr. Knecht. There has been a lot of discussion about FERC Order 1000. Mr. Knecht?

A. Yes Sir.

Q. [258] Yes. There has been a discussion this

morning... Well, not this morning but earlier this week about FERC Order 1000. Maybe I missed something, but is it right that I didn't find any reference in your report to FERC Order 1000? Is that correct?
A. I was going to say I was trying to stay out of that debate.
Q. [259] And stay out of this because, as far as you're concerned, it's irrelevant.
A. I don't know that it's irrelevant. I don't have a detailed familiarity with that order. And therefore, what I've put in my evidence, or based on my experience in the utilities that I've worked with, and... and my understanding. So...
Q. [260] Just reviewing your CV, I think I've seen that you're more often involved in distribution cases than in transmission cases. Is that correct?
A. That's very... Yes, that's correct.
Q. [261] Your area of expertise is more focused on distribution-related issues.
A. I don't know my area of expertise, but my experience, yes.
Q. [262] I have provided you and the Board with two things at the extreme spectre. But I have a very simple question. At one extreme, you have an

article published in June twenty-seven (27), two thousand eight (2008) in an American newspaper about a decision of the Supreme Court of the United States, and at the other extreme you have the actual decision of the Supreme Court of the United States. And the topic is sanctity of contracts. And in the article that was published, there is a quote, and you have the decision as well, but we don't need to go there. I just have one quick question for you on this, based on your experience. And if you read the quote, it says:

> FERC's refusal to void the contracts years ago stemmed from what the agency called a "long-standing policy to recognize the sanctity of contracts". The commission held to that position throughout the six-year court battle over the energy contracts and it appears unwilling to change its tune now. "The court recognized the importance of contract certainty to both buyers and sellers in competitive wholesale power and gas markets." FERC Chairman, Joseph Kelliher, said in a statement, "The Court has directed the

> commission to amplify or clarify its findings on two specific points, so the commission will have further work to do in reviewing these contracts.” A second member of the commission, Philip Moeller, also applauded the court’s decision, noting that, “contract uncertainty can have a chilling effect on needed investment in the energy industry and may deter parties from entering into long-term arrangements.”

Now, I’m not trying to have you confirm that this is a proper code, I’m not trying to confirm that this article says anything but what I’ve read. You have also a reference to the Supreme Court of the United States where we may go if there is a need to that, but my question is simple. Based on your experience before FERC and other regulatory tribunals, would you agree that there is, in the United States - and that’s why I’m asking you the question, because you are from the United States - would you agree that there is, in the United States, a policy that FERC has enforced, to the effect that it sees contracts as something to be respected, and refers to this notion as the sanctity of contracts because instability in contractual relationships, in the wholesale markets in this case is not in the interest of buyers or sellers or other entities. Would you agree with this based on your experience?

(13 h 24)

LA PRÉSIDENTE :

Je m’excuse de vous interrompre, mais c’est parce que je remarque, puis je n’avais pas remarqué avant, que maître Pelletier n’est pas là.

Me ÉRIC DUNBERRY :

Ah! Moi non plus, Madame la Présidente.

LA PRÉSIDENTE :

Alors, évidemment, quand son client se fait interroger, c’est un petit peu délicat de procéder sans le procureur au dossier.

Me ÉRIC DUNBERRY :

Je n’avais pas noté...

LA PRÉSIDENTE :

Non, moi non plus. Je viens de remarquer. Alors, est-ce que... je ne sais... je suis...

M. LUC BOULANGER ;

Alors, Madame la Présidente, si vous permettez...

LA PRÉSIDENTE :

Oui?

M. LUC BOULANGER :

... eu égard aux questions que maître Dunberry s'apprête à poser, maître Pelletier va nous joindre probablement dans quelques... dans une minute ou deux, alors...

LA PRÉSIDENTE :

Oui.

M. LUC BOULANGER :

... nous, ça ne nous dérangerait pas que maître Dunberry procède si ça... mais si c'est complètement contraire à l'ouvrage...

LA PRÉSIDENTE :

C'est parce que je... Oui, c'est ça. Alors, je...

Me ÉRIC DUNBERRY :

Un droit fondamental sous la charte.

LA PRÉSIDENTE :

Oui. Je serais... c'est parce qu'il y a une opinion... surtout que dans votre question, vous posez des commentaires sur une opinion juridique. Alors, je...

Me ÉRIC DUNBERRY :

Vous voulez une objection, Madame la Présidente.

LA PRÉSIDENTE :

Bien, pas que je la veux mais... pas que je la veux mais s'il y en avait une, je ne voudrais pas me faire reprocher plus tard de dire, « Bien, vous avez procédé sans moi. Je me serais objecté. » Alors, il y en a potentiellement une.

Me PIERRE PELLETIER :

Tous les moyens sont bons pour attirer l'attention.

LA PRÉSIDENTE :

Alors, allez-y. Est-ce que vous pouvez reprendre...

Me ÉRIC DUNBERRY :

Q. [263] Alors, Maître Pelletier, I was... I gave your client a copy of an article that was published as well as a copy of a Supreme Court decision, simply as backup information. And my question to him was not - and I may rephrase it if there was any issue there but - I'm not asking you for a legal opinion, but I'm simply asking you whether, based on your experience in the United States, having been involved in a number of cases before various regulatory tribunals, it is in fact a fact that there is this policy - let's put it that way, as opposed to an opinion - that there is this policy in the United States that it is good for the market, it is good for the sellers and the buyers that their contracts, subject to, I'm sure, certain exceptions in various jurisdictions, but as a policy principle that it is a good thing that contracts entered into, you know, normal course of business are recognized and given sanctity, which is the word, I think, is used in the United States? In terms of a policy issue.

A. Yes, as... I don’t know that it’s an established policy but... and I will, of course, answer as a non-lawyer, I think in general, there is significant respect for existing contracts. I certainly agree that in general, the last statement here:

> Contract uncertainty can have a chilling effect on needed investment in the energy industry and may deter parties from entering into long-term arrangements.

That’s a sound policy and I would agree with that statement. When you get into specific circumstances, I hesitate to comment because I’m not a lawyer but I don’t think conceptually, you would want to be in a position where two parties could get together and enter into a contract and constrain a regulator from doing what it needs to do if the regulator has not approved the contracts. So, I think, in that respect, you want to make sure that contract certainty comes with regulatory approval of the contract.

Q. [264] I'm obviously not referring to issues which would raise all sorts of... no, I'm saying just as a policy principle, I think you've answered my question.

A. Yes.

Q. [265] I'd like now to turn to... Well, maybe just a quick last question. "Undue discrimination", you referred this morning, and I think monsieur Cormier as well, to undue discrimination and the fact that it is important to have comparable standards. And this would apply, obviously, to both the native load and the point-to-point customers. Correct?

A. Yes. I think it applies to native load... between native load and point-to-point customers and from affiliated point-to-point customers...

Q. [266] Yes.

A. ... and non-affiliated point-to-point customers.

Q. [267] And it would be as bad to discriminate against the Distributor that it would be to discriminate against HQP Production. Correct?

A. Both would be bad.

Q. [268] Thank you.

A. It... and discriminate... by discrimination, you mean undue... avoid some undue discrimination meaning, you know, discriminating, you know, on... when you don’t have any basis for such discrimination.

Q. [269] The same standard would apply to HQP that it would apply to your clients. Correct?

A. That is certainly a principal that I have... that I try to follow in preparing this evidence.

Q. [270] Thank you. I’d like now to refer to you page 17 of your report, there's a table there. Maybe just a couple of very quick questions, to make sure that we have the same understanding. If you look at that table, line D says:

> Total maximum allowance for resource related project: 59.8.

That is a calculation that we're all familiar with now, and then, at line F, there is a rolled-in portion of the upgrade cost of 59.8. Is it your understanding that Hydro-Québec's proposal would allow the rolled in amount to exceed the actual cost, which is, in this case, fifty million dollars ($50 M), which is line A? My question is as follows: line A is the actual cost of fifty million dollars ($50 M). You’re rolling in the allowance, in this case, in excess of fifty million dollars

($50 M); is it your proposal that we're asking the Board to allow us to roll more than the actual costs, or it's a simple mistake in the table?

(13 h 30)

A. It may very well be a mistake in the table, and I would need to go back and look at this carefully.

Q. [271] It should read fifty (50), right?

A. But let me... let me... let me make clear what I was proposing and what I was not proposing, and what I understood and what I did not understand. Scenario 1A is not my proposal. It was an attempt to illustrate the difference between two very similar scenarios, in my understanding of Hydro, HQT's proposal. What I had identified in going through the arithmetic and this table, was that it appeared that if you looked at all of these together, if you looked at all these projects together, that it was, the projects were providing sufficient revenue in order that, based on the company's maximum investment test, that no contribution should be required. And that, in the mechanism that the company was proposing, there was a distinction between the way resource related projects were being considered, and the way that substation related projects were being considered.

I identified this difference, I believe, in my evidence, I said : « I don't really understand why this occurring and this doesn't seem right to me. » I've listened for five days. To be honest, I still don't really understand what's going on here. In the recommendations I made yesterday, I did not say anything about this arbitrary distinction. I don't... I think I can only conclude that I don't understand this proposal well enough to offer a recommendation in this respect.

Q. [272] You mean you don't understand HQT's proposal enough to make a recommendation?

A. That's what I say, yes.

Q. [273] O.K. But you're certainly not suggesting that we are proposing to include more cost than the actual cost in the rate base?

A. I was trying to interpret your proposal, and to the extent I interpreted it incorrectly, I think, contributes to the evidence that I don't understand this perfectly.

Q. [274] Perfectly. Now, but you do say in your report that, as far as you're concerned, under your own analogies and assumptions, you would allow the entire cost of a resource to be covered by what you call the excess credits, right? You would allow the entire costs to be covered by available credits, following a calculation that's, you know, on the load side.

A. If you have a project that covers both resource related and load related, as you defined project, and it recovers both of those, it would seem to make sense to me that you would allow that.

Q. [275] All right. Now, Hydro-Québec has taken the position that its aggregation process include a step one and a step two. You're familiar with these two different steps? There is a step one where there is an initial calculation of an initial contribution, and there is a step two, where's there's the actual aggregation process. Are you, have you been able to understand step one and step two? Are you not clear on how that works.

A. I'm not clear on how that works.

Q. [276] O.K. Now, let me try a few questions and then we'll stop if that is not possible. But under step one, there's a calculation for a minimal contribution, which can not be covered by excess credit, for the Distributor. You're familiar with that?

A. That certainly seems to be how the arithmetic works in this table.

Q. [277] That is for the Distributor. Now, for the point to point customers, there is the similar calculation for resource that would be the calculation of an initial contribution if required. Correct?
A. I'm not sure I saw a corresponding table for point to point customers.
Q. [278] But you're familiar with the fact that, for any project, there would be the calculation of an allowance, and if the allowance is not enough to cover the cost of the project, there would be a contribution to be paid.
A. Yes. Yes.
(13 h 35)
Q. [279] O.K. Now, in the aggregation world for the Distributor, you would allow the entire cost, even the costs in excess of the allowance, to be covered by, you know, the aggregate level of credit. For the point-to-point customer, that would not take place. There would always be, if the calculation justifies it, the payment of an initial contribution. So, coming back to this issue of discrimination, how can you justify, on the basis of a non-discrimination policy, that for the Distributor, the entire cost would be covered,

while for the point-to-point customers there would be a contribution if the cost is in excess of the allowance. Would that not be actually a fairly significant difference between the treatment of the native load and the point-to-point customer? If you're not comfortable...

A. As I... Let me ask... answer... Let me answer generically. And the answer is it was certainly not my intention to support a mechanism that treated native load and point-to-point customers differently. If what I proposed in my evidence but did not include in my opening statement yesterday and I'm uncomfortable with, would result in that, then...

Q. [280] You would withdraw.

A. I would withdraw that proposal.

Q. [281] Okay. I think we could end there. I think it's a fair answer. Now on page 15 of your report... On page 15 of your report, I think... And the reference would be lines 19 to... 19 to 23, actually. And you're saying:

> Based on my understanding at this time, it is not.

Well, the question was, "Is this a logical approach?", so the answer is no.

> Resource-related projects only generate incremental revenue for HQT if they are associated with load growth. Thus, in those cases where HQT is integrating a new generator that has no associated load growth, the responsibility for the investment case should lie with the generator.

I'd like to explore with you this link, this connection that you want to make between resources and load. Are you familiar with the concept, in Quebec, that is called the "Point HQT"?

A. I have heard of it. But do I have a detailed understanding of it? No.

Q. [282] Do you know what it is and what it serves?

A. Not... Not that I could explain in words.

Q. [283] Do you know whether there are posted paths between load and resources within the Point HQT?

A. I don't know.

Q. [284] Okay. You never heard about the bathtub analogy, I assume.

A. That would be correct.

Q. [285] Now monsieur Clermont, in his presentation, said a few things - if you want to take a copy of that - he said a few things about certain realities that do exist in Quebec. This is on slide 22 of his presentation. That was the presentation of monsieur Clermont, HQT-5, document 2.1. Now, monsieur Clermont said there that there was some particular characteristics of our... Okay, it's page... All right. It's page 22 of the presentation, which is at page 11 of the document. If you have that. It refers to Part IV of our OATT... Are you familiar, Mr. Knecht, with Part IV of the OATT? Do you know what it is?

A. I don't recall what is Part IV of the OATT. I have looked through the OATT, I can't say I've studied every single section of it, but...

Q. [286] But Part IV is a fairly unique part to Quebec dealing with native load. Do you... Do you know that? If you do I have questions, if you don't I'll skip.

A. Why don't you skip?

Q. [287] Okay.

A. I don't have a detailed understanding of it, so...

Q. [288] Okay. So, anyway. Part IV deals with native load in Quebec, and there is this notion here that monsieur Clermont was using to justify the proposal made by HQT to say, and that's the second bullet, and I will read it in French:

> Absence d’association directe et spécifique entre les charges et les ressources.

So, I think what monsieur Clermont was suggesting here is that within the Point HQT in Quebec, there is no direct way of connecting specifically a load and a generation source. So in your proposal, you're trying to suggest that we should associate directly loads and resources. But the way it's been constructed in Quebec within this point HQT which is a single node, there is no such way of associating loads and resources. Electrons, to use the expression of a witness from Hydro-Québec, have no colour. And therefore, it is not possible. Would that change in any way your comment about how this notion would apply to the upgrade policy?

(13 h 40)

A. The problem... I don't think it would, because the upgrade policy, the investment made by Hydro-Québec Transmission for any particular project, is based on the revenue that that project will generate. And if there is no revenue, because attaching a generator doesn't produce any revenue, it's not clear to me why the transmitter would make a contribution, because that would not increase revenues, but it would increase costs, and therefore, would be imposing an excess cost of the new project on customers.

Q. [289] But you're not suggesting that the cost of an upgrade be associated with any specific loads physically?

A. No. I was not suggesting that.

Q. [290] Okay.

A. What I was suggesting was that you should only apply a maximum contribution where there is something producing revenue for the transmission utility.

Q. [291] On an aggregated basis for all the load?

R. Well, again, it's... You come to this question which is difficult for each of this things, is when you do an evaluation, where do you draw the circle, around what defines the project that you're evaluating. So if you have a project that has a new generator being attached and a new load or a new contract that will produce revenues for the transmission utility, then, you can combine those things, and you can use the revenues from whatever is producing the revenue, the service agreement, whatever is there, to justify the transmission utility making an investment in the generation integration facilities.

Q. [292] I understand what you meant. I'd like now to move to a question that was asked to you by the Board. So, that would be the first, IR, the first Information Request, the only, actually, Information Request from the Board to your client. It is, I believe, C-AQCIE-0020, and I believe that you prepared an answer to a question dealing with the carry-forward feature of the aggregation for the Distributor. It's question 3. So this is on page 5 of 9, and page 5 of 9 presents a fairly long answer with numericals, on this illustration of the effect of the carry-forward feature. You recall providing that answer, Mr. Knecht?

A. Yes.

Q. [293] O.K. Now, for purposes of your examination and simplifying matters, I have prepared this table that's been provided with -- Madame la Présidente, nous avons distribué ce document -- and the question that was addressed to you, I believe...

A. I'm sorry. Which table are...

Q. [294] This one.

A. This one. Okay.

Q. [295] I think the purpose of your answer was to show that, as a result of the carry-forward, there is no...

(13 h 45)

Me PIERRE PELLETIER :

Je ne veux pas déranger le contre-interrogatoire de mon confrère, mais la façon qu'il a choisie de présenter à la Régie les pièces qu'il invoque dans ses questions, au début, quand il y en avait une ou deux, ça allait bien, mais il me paraît devoir poser un problème lorsqu'on voudra référer ultérieurement aux pièces en relisant les notes sténographiques, particulièrement vous autres lorsque vous aurez à délibérer, parce qu'on se retrouve à référer à différentes pièces, mais on ne sait pas que c'est la pièce numéro 5 ou la numéro 8, ou la numéro 9. Ça me paraît de nature à compliquer singulièrement votre tâche éventuellement. Ce n'est pas un problème au moment où on se place. On a le document devant les yeux.

Mais lorsque, ensuite, vous prendrez connaissance des notes sténographiques d'un contre-interrogatoire qui dure quatre heures de temps, et puis qu'à un moment donné, vous constaterez que là on commence à parler d'un document, mais on ne sait pas lequel, puis on ne peut pas le savoir parce qu'il n'est pas identifié, ça me paraît de nature à causer un problème. Moi, je suggérerais, puis encore une fois, je ne veux surtout pas mettre des bâtons dans les roues, mais il me semble que ça faciliterait le travail pour tout le monde, particulièrement pour vous autres, si on les numérotait au fur et à mesure qu'elles se présentent.

Me ÉRIC DUNBERRY :

Alors, Madame la Greffière, le premier document intitulé « Combined impact... » qui a été distribué ce matin. Alors cote 55 pour un document intitulé « Combined impact of a « 40 year » « flat-rate » calculation of the Maximum Allowance ».

LA PRÉSIDENTE :

Juste un instant. Je veux juste qu'on retrouve l'ensemble des pièces. C'est bon. Je vous remercie.

B-0055 : Combined impact of a « 40 year » « flat-rate » calculation of the Maximum Allowance

Me ÉRIC DUNBERRY :

Deuxième document, Madame la Présidente, est un article publié dans le Los Angeles Times en date du vingt-sept (27) juin deux mille huit (2008). B-

0056.

B-0056 : Los Angeles Times - States are dealt blow on power

Le troisième document est une décision de la Cour suprême des États-Unis, datée du dix-neuf (19) février... pardon, du vingt-six (26) juin deux mille huit (2008). B-0057.

B-0057 : Décision de la Cour suprême des États-Unis du 26 juin 2008

Et ce dernier document que nous allons intituler « Tableau comparatif relatif à la question 3.1 de la première demande de renseignements de la Régie à l'AQCIE-CIFQ ». Document C-AQCIE-CIFQ-0020 qui portera donc la cote B-0058, sauf erreur.

B-0058 : Tableau comparatif relatif à la question 3.1 de la première demande de renseignements de la Régie à l'AQCIE-CIFQ

Merci, Monsieur Pelletier. Merci, Maître Pelletier.

(13 h 48)

Mr. Knecht, with the Board's permission, I will now as you the question I had in mind. So, the Board provided you with a question; you provided an answer. The answer is reproduced in the left part of that table. So, for instance, for the native load growth you provided... and this is your example, a one hundred-megawatt (100 MW) project on year one, and one hundred-megawatt (100 MW) on year two. The upgrade costs were fifty million dollars ($50 M) on year 1 and one hundred million ($100 M) on year 2. And these numbers are exactly the same for the right side of the table under HQT. The maximum allowance calculated was seventy-four million dollars ($74 M) for both years. I assume that this is your maximum allowance established in table 8 of your report which is not the five ninety-eight (598) but the seven hundred and forty (740) using the levelized flat rate calculation. Correct?

A. Yes.

Q. [296] Okay, and there's a line there which is "Revenue", which is the tariff rounded to seventy-four dollars ($74), so for one hundred megawatt (100 MW) that will have generated seventy-four million dollars ($74 M). Correct? And that is true for year number 2 as well. So, for year 1, you have a maximum allowance of seventy-four million (74 M) for an upgrade cost of fifty million (50 M). So, you have no contribution and a surplus of twenty-four million dollars ($24 M) that is available. Correct? Mr. Knecht?

A. Yes.

Q. [297] Okay. And for year 2, you have again a maximum allowance of seventy-four million dollars ($74 M), but you have costs of one hundred million dollars ($100 M). So, you have a difference of twenty-six million dollars ($26 M) which would be the required contribution. But because of the roll over feature, the carryover feature, you have a credit available of twenty-four million dollars ($24 M), so therefore your actual net contribution is only two million dollars ($2 M). And you conclude that exercise by saying to the Board... Well, you see in this case, because of the carryover feature, there revenue of one hundred and fifty million (150 M) simply covers the costs. You have one hundred and fifty million dollars ($150 M) of costs for these two projects and you have, in terms of revenues, seventy-four million (74 M) year

1, seventy-four million (74 M) year 2, and a net contribution of two million dollars ($2 M).

So, you say, and that is your conclusion that this carryforward feature actually illustrates the point that combining these two years, this client only paid the actual costs that you qualify as being the incremental cost. Okay. That was the object of your answer. And I think the math is exactly what you have in mind. What you have on the right side is the exact same exercise but using not your maximum allowance of seven forty (740) but the current methodology which yields a revenue or an allowance of fifty-nine point eight (59.8). So, if you go to year number 1, same data, you have an allowance of fifty-nine point eight (59.8), your project costs fifty (50), so you have a difference of nine point eight (9.8). So, you have a credit or a surplus of nine point eight (9.8). And in year two, again the same approach, except for the maximum allowance which yields that a contribution of forty-nine point two (49.2) should be paid, forty-nine point two (49.2) being the difference between one hundred (100) and fifty-nine point eight (59.8), but then you only have a credit of nine point eight (9.8). So, you have to pay a contribution of thirty point four (30.4). And when you do the same exercise, again with the carryforward feature, in this case, the client is paying one hundred and seventy-eight point four million dollars ($178.4 M). That is seventy-four million (74 M) your first year, seventy-four million (74 M) the second year, and a contribution of ten point four million dollars ($10.4 M).

And in that case, well, the client is not only paying the incremental cost, but it also is making a contribution to the fixed cost of twenty-eight point four million dollars ($28.4 M). So, my question to you, Mr. Knecht, is you chose an example, you chose one example that illustrates your objective, which is to... that yes, there is no contribution to the incremental cost. But if you use the actual methodology that Hydro-Québec is proposing, which has been in effect for many years, there is a contribution to the fixed cost. And there is a carryforward feature. And this is just using the same examples that you've used.

So, would you agree with me that by reducing the amount of the maximum allowance, you will in fact generate a contribution and that there is no inconsistency between a carryforward feature

and the possibility in cases where a contribution needs to be made to actually make a contribution, not only to the incremental cost, but to the entire cost of the system?
(13 h 54)
R. To be honest, Mr. Dunberry, I would need to take this aside and spend some time going through it carefully to understand what's going on. I'm sorry, I'm just...
Q. [298] It's the same...
A. ... I'm just not...
Q. [299] Mr. Knecht, it's the...
A. ... you've asserted that; I believe you but I would need to go aside and check somehow and make sure I understand what the parameters are, and how this is working. I'm just not following it. That would...
Q. [300] Okay. Mr. Knecht, I just want... I don't want to mislead you. This is exactly the logic you followed in answering the Board's question. This is not my logic, it's your logic. What you have on the left is very detailed in your answer 3.1. I've simply followed the same approach. The only difference is that I'm not using your seven forty (740) maximum allowance, I'm using the current fifty-nine point eight (59.8) maximum allowance.

The calculation, the logic is exactly the same.
A. Okay. I think I understand what's going on here. And in the example I used, it starts with a credit that can be carried forward. And the credit being carried forward allows it to be offset in the next year, which is why the revenues appear to work out to be... in my example, you start with a surplus in the first year. And...
Q. [301] It's the same thing in my example.
A. It is the same thing in your example. Like I said, I need to put... to go aside and make sure I understand this.
Q. [302] If the numbers are right, and you can certainly check that, and your counsel could confirm this on Monday, if the numbers are right, you will agree with me that this simple example shows that there is an actual contribution, not only to the incremental cost, but to the system's cost.
A. I would agree that, if your numbers are right and reasonable, that that would be correct. And I certainly will... I can certainly undertake to respond to this example. I like to think I'm an honest guy, and will present...
Q. [303] No doubt.

A. ... will present an honest response.

Q. [304] No doubt. You can certainly complete your answers after verifications. If there are mistakes in the table, that would be, you know, absolutely unfortunate. We tried to he as faithful to the answer to the question, but if there are mistakes in the table, I'm sure the witness will want to correct and that's fine with us.

(13 h 56)

Me PIERRE PELLETIER :

Je pense que, dans le contexte, même si c'est assez inhabituel que ça se produise comme ça, dans le fond, ce qu'on demanderait au témoin, c'est de prendre un engagement de répondre à cette question-là après avoir eu le temps d'examiner comme il faut le tableau, dans quelle mesure il correspond avec ce qui est écrit à la réponse, à la très longue réponse 3.1. Alors, monsieur Knecht se chargerait de me faire parvenir la réponse que je communiquerais à la Régie. Ça convient à tout le monde?

Me ÉRIC DUNBERRY :

Bien, je pense qu'il a répondu sous réserve de vérifier les chiffres. Alors tout à fait. Si les chiffres s'avèrent erronés, Madame la Présidente, on nous le dira. On nous le dira en début de semaine.

Me PIERRE PELLETIER :

Oui, mais de même si monsieur Knecht, en plus de vérifier l'exactitude des chiffres, a des commentaires à formuler après avoir eu quand même le temps de prendre connaissance. C'est un tableau, il y a beaucoup de chiffres. Qu'il puisse être autorisé à communiquer sa réponse à la Régie. Il me la communiquera par écrit. Je vous la communiquerai.

Me ÉRIC DUNBERRY :

Madame la Présidente, chacun réserve ses droits. C'est de bonne tradition. Alors, mon collègue réserve ses droits et je réserverai les miens si la question suscite des questions... si la réponse suscite des questions additionnelles, on aura tous réservé nos droits. Alors, s'il doit y avoir des compléments de réponse, nous lirons les compléments de réponse. Je pense que la réponse, sujet à vérification, a été donnée, sauf erreur. Et je m'arrêterais là sur le sujet personnellement.

LA PRÉSIDENTE :

C'est juste que, évidemment, sa réponse pourrait être modifiée, sauf erreur. Ou s'il voulait peut-être nuancer sa réponse à une lecture. Parce que là, je dois vous avouer, Maître Dunberry, puis je suis absolument convaincue que vous avez fait tous les efforts possibles pour reprendre exactement ce qu'il y a dans les réponses. Mais c'est sûr que là, vous lui soumettez un tableau, et puis il a à peu près trente-deux secondes et quart pour analyser et mettre ça dans le contexte de la question. Alors, je pense que c'est équitable pour le client... pour le client! pour le témoin de prendre le temps d'examiner dans quel contexte ces chiffres-là...

Me ÉRIC DUNBERRY :

Absolument, Madame, on ne dispute absolument pas, Madame la Présidente, le droit du témoin de revenir. Je faisais simplement une réserve quant à nos droits. C'est tout simplement ça.

LA PRÉSIDENTE :

Pas de problème. Est-ce qu'on doit... Engagement 1 de l'AQCIE à ce moment-là... C'est l'engagement 4.

Me ÉRIC DUNBERRY :

L'engagement souscrit, sauf erreur, est de vérifier les données contenues au tableau et de nous faire part de l'existence d'erreurs dans les données contenues au tableau. Et il y a une réserve quant au droit du témoin de compléter sa réponse assortie d’une réserve du droit d’HQT de réagir à cette réponse.

E-4 (AQCIE-CIFQ) Vérifier les données contenues au tableau B-0058 et de nous faire part de l’existence d’erreurs dans les données contenues au tableau (demandé par HQT)

(13 h 59)

Q. [305] Mister Knecht, I’d like know to move to a point which I believe was made in your report on page 5. I believe... I believe that you felt that the use of the native load forecasts over twenty (20) years, as applied for purposes of the calculation... as applied to the purposes of the calculation of the maximum allowance, may be less conservative than it would otherwise be, because the native load grows gradually, and doesn’t appear the first year. Correct? This is one area where you believe that there might be an overstatement of the revenues because of the gradual growth of the native load. Correct?

A. Yes. The revenues only reflect the actual growth in the load, whereas the maximum investment test implicitly assumes that all of the revenues for all of the growth that is included assumes that they appear in the first year.

Q. [306] So, there is a calculation in your report, and it is at the end of your report. It's schedule 2, so it's after your CV, right after the page we saw earlier, which is schedule 1. It's at the end of your report, it's called "Exhibit IEc-2, Schedule 2". It's a calculation, again, over forty (40) years. Madame la Présidente, vous l'avez, oui? So, what we have here is a table that is assuming a few things. First of all it's over forty (40) years, correct?

A. Yes.

Q. [307] It's also using a... Well, I'll come back to this, but there is a load growth factor that you call incremental load starting in year two thousand fourteen (2014) at zero point one (0.1), and load growth has fully materialized by year twenty thirty-one (2031), where you go to a full factor of one (1). And for the remaining twenty-two (22) or some odd years, you use one (1) as an incremental load factor. Correct? This is column 8a. You see this? It's a form of a ratio to...

A. Yes, no. No. I do... I do see it. I'm looking at...

I’m looking at something. I have, in this table, the load phase-in appears to be over twenty (20) years, whereas the table... the title says phase-in over ten (10) years.

Q. [308] Yes.

A. So I think the title is... If you’re going to ask me whether this was a phase-in over ten (10) years, it certainly appears to be over twenty (20) years.

Q. [309] We have a great connection now, Mr. Knecht, 'cause you read my questions and you give... It's good.

A. I missed...

Q. [310] So, this is...

A. I missed it. That's incorrect. It should...

Q. [311] So, but that...

A. It is over twenty (20) years.

Q. [312] But that's okay. But that's not really the purpose of my question. So what you have here is a combination of multiple things. You have forty (40) years, you have the flat rate approach, which is seventy-four point sixty-five (74.65) for some twenty-two (22) or twenty-one (21) years, and you've introduced a third variable, which is a proxy for the growth of the native load over some, let's say eighteen (18) years, and you simply divide this by point 0 five (.05) increment, and you've reached full growth by the year two thousand thirty-two (2032). Correct?

A. You have described it better than I could.

Q. [313] Okay. Now, when you factor all this in your Excel spreadsheet, you arrive at a maximum allowance of five ninety-three (593).

A. Yes.

Q. [314] Correct? So, when I calculate all this, I have a very simple question for you, Mr. Knecht. We use twenty (20) years revenue requirements, and we end up at five ninety-eight (598). Your approach is to change all of this, to use a forty (40)-year depreciation recovery term, a flat rate, net present value based on seventy-four point sixty-five (74.65), and you introduce a third variable which is the, I would call this the incremental load ratio, and all this to come back to exactly more or less the same point, five ninety-eight (598).

So my question is the following. If, at the end of all this, the result is essentially the same, could it be that the Board, in its wisdom, over the last twenty (20) years, has actually adopted a fairly balanced approach, including a shorter term, a declining revenue requirement, and a tolerance, a tolerance for the fact that the gradual... the load progresses gradually, to exactly arrive at the point where you say we should be, which is around five ninety-three (593). So is it possible that this Board has actually, in its wisdom, factored all this into a balance approach which does the job?

(14 h 05)

A. Yes. It's possible. And in fact, that's why I did... I mean, I did in fact recognize that in putting this table in my evidence, which I didn't have to do. I mean, I did in fact put this table in. I did consider that one aspect of the Board's policy with respect to native load was that it was being less conservative with respect to when the revenues from the load growth appear in the maximum investment test and therefore that should be considered. The fact that they balance out, you know, is something of the specific numbers and the phase in and how long it takes and how long you consider all of that but, yes, I agree that in those two examples, that adding the additional complexity for this particular example doesn't have a major impact in terms of the difference between the company’s proposal and what I would describe as a more analytically accurate assessment of the present value of the revenues.

Q. [315] So, I think it was a very useful exercise because you and I, more or less, have been in a full circle. At the end of the day, using your approach or using our approach, which we like to think is the Board’s approach, we come to the same point using, at least, these examples as proxies.

A. Within this example, I would agree.

Q. [316] But this is your example, Mr. Knecht. You understand that.

A. Yes. And... but I could... I can... Excel is... Microsoft Excel is a wonderful thing. I can generate lots of examples.

Q. [317] I’m sure you picked the one that you felt was reasonable.

A. I did, in fact, pick one that was reasonable, although I put the wrong title on. So...

Q. [318] Thank you. Now, we’re arriving at, I think, what you wanted to talk as much as possible, which is the levelized follow-up, annual follow-up test. So, we will go there now. I was going to ask you a question later but let me ask you right now. This five ninety-three (593) calculation is dedicated to

the native load, obviously because there is this load growth factor which is directly connected to the native load characteristics. Correct?
A. Yes.
Q. [319] Bon. We've talked about discrimination and I know monsieur Cormier is... feels strongly about it, if on the native load side, you have a number of five ninety-three (593) and on the point-to-point customer side, you have a number of nine sixty-nine (969), which is the equivalent of a forty year (40) flat rate, net present value... So, you have five ninety-three (593) on one hand, because the load materializes gradually. On the other hand, you have nine sixty-nine (969). Would you have conceptually a discrimination issue here? Would you think that it is appropriate for your clients to recommend a difference... maybe they're not recommending it but if that was the end result of the evidence, would you think it would be appropriate that the native load, your clients, would only get five ninety-three (593), but the point-to-point customers, such as Brookfield or NLH or the Producer, would get nine sixty-nine (969)?
A. It's problematic from a rate making standpoint to have very different numbers like that. And there's

certainly a simplicity advantage in setting a maximum investment level that is the same for both native load and point-to-point customers. I... you know... and as I said, you know, my recommendation really was to try to make the parameters in the maximum investment test consistent with the parameters in the levelized cost.

Q. [320] And given the fact that the maximum allowance is driven by notions of protecting existing customers and rate neutrality, would you agree with me that if one is to accept a similar treatment to avoid discrimination issues, you would err on the lower number, you would err on the side of prudence and...

A. Yes.

Q. [321] ... conservativeness and pick five ninety-three (593) for both. Correct?

A. Yes.

Q. [322] Alright, back to this levelized cost test, Mr. Knecht, and I would ask you to take a copy...

M. PASCAL CORMIER :

Excusez-moi, Monsieur Duneberry, vous avez fait référence à ce qui avait été marqué dans le rapport monsieur Cormier. Il n’a jamais été dans l’intention du rapport d’avoir des chiffres différents pour le point à point et la charge locale. Juste pour clarifier ça. Le neuf cents (900) et le cinq cents (500) que vous êtes arrivé, vous êtes arrivé avec ces chiffres-là, ce n'est jamais les chiffres que j'ai proposés.

Me ÉRIC DUNBERRY :

Vous, personnellement, Monsieur Cormier, je ne peux pas vraiment identifier les éléments qui vous sont attribuables personnellement. Je référais au rapport de monsieur Knecht, et au mémoire de vos clients.

M. PASCAL CORMIER :

Vous faisiez mention à ce que les clients prenaient les chiffres du mémoire ou les chiffres de monsieur Knecht, alors...

(14 h 10)

Me ÉRIC DUNBERRY :

Q. [323] Je vais poursuivre mon interrogatoire, Madame la Présidente, je ne suis pas sûr de pouvoir... je ne suis pas sûr de pouvoir réagir à ce commentaire. Mr. Knecht, I'd like to go back to your opening statement. And keep it on your right side, and please take a copy of your report, not far from where we were.

I'd like to discuss two issues that I think have to be distinguished. So I'd like you to bear with me. I make a distinction between the carry-forward feature that you referred to in your report, in the context of the point to point annual follow-up, and what you call the complementary reimbursement. So I will make a distinction between these two components. And my first question is as follows, and I want to be as precise as possible: leaving aside the complementary reimbursement issue, leaving that aside, on a going forward basis, is it your understanding that my client, HQT, is proposing a carry-forward feature for its annual follow-up, leaving aside the complementary reimbursement issue, which is a contract issue that we'll discuss at length. Is it your understanding that, in the annual follow-up proposal, there is, like there is one for the aggregation for the native load, that there is a carry-forward feature in that proposal? Do you think there is one or none?

A. I believe, yesterday, I said that I wasn't completely clear on what the proposal was. As I heard mister Verret’s testimony, if you look at page 22 of my evidence, this was a note that I made...

Q. [324] Yes.
A. ... during the rebuttal phase of the proceeding, that lines 21 to 26, that I believe that mister Verret said that what I'm suggesting here is, in fact, what the company is proposing on a going forward basis. And if that's true, then, with respect to going forward issues, I don't have an objection.
Q. [325] If there is no carry-forward feature in the annual follow-up, you're fine with it?
A. If, for all future projects, the project is evaluated by itself, when the project is introduced, the project is evaluated by itself, the revenues associated with the projects are reflected in the maximum investment test, a maximum investment approach is used, the same as it is applied to native load, and the costs, the known costs at the time the project is undertaken are reflected, are the costs that are considered in the evaluation, I have no objection. If that is what is being proposed, there isn't any need to do a revenue sufficiency calculation, because you've evaluated it up front, you have established on a conservative basis what contribution needs to be, and you have solved the problem.

Q. [326] Okay.

A. You don't, then, you don't need an annual follow-up with respect to those projects.

Q. [327] Okay.

A. However, if, on a going forward basis, you enter into one of those projects, and you then start looking at and comparing what the revenues are in each year, with what the levelized costs are in each year for that project, odds are you are going to show some extra revenues associated with that project.

Q. [328] What is your...

A. By carry-forward... I'm sorry, I'm speaking slowly or trying to. If there are those excess revenues, the concern that I had was that those revenues are essentially there because you have used different economic parameters, in your levelized cost test than you used in the maximum investment test. And if you can then say : « Oh, I'm generating these extra revenues from this project. I can use them as part of my calculation for the next project. »; then, I have a concern.

Q. [329] Okay. And if you can not... You understand, the annual follow-up is an annual exercise, correct?

A. Yes.
Q. [330] And at the end of that annual exercise, you have all the cost, you have all the revenues, and you say there is an excess, a surplus. If that surplus is not carried forward to the next year or to other projects, you don't have a problem?
A. No. No. By carrying forward, and in fact, I think carry forward may not have been the best expression; it's the aggregation, it's saying that you can use the excess revenues from one project to justify the investment by the transmitter in some future project.
Q. [331] In the same year?
A. No. In some future years.
Q. [332] Okay.
A. Some distinct.
(14 h 15)
Q. [333] But if it's in the same year, you don't have a problem. You have excess revenues, excess expense or increase expenses in the same year? If you're in the same column, the same vertical column, within the same year, you don't have a problem with that approach.
A. I don't have a problem if, for future projects, the revenues are compared to the costs on a project by

project basis. As I said, the annual review is done on an aggregate basis. And there isn't a matching of revenues for a project with the cost for a project and the net for the project. What there is is an aggregation across everything. And what I'm suggesting is that it ought to be done on a project by project basis, at least on a going forward basis.

Q. [334] Okay. You understand that for the native load, there is an aggregation, and that aggregation has a purpose, which is to calculate the maximum allowance. Correct?

A. Yes.

Q. [335] Is it your understanding that the annual follow-up has the same purpose, that it serves to calculate the maximum allowance, or is it a follow-up after the allowance has been calculated and put in a contract years before?

A. I understand that the annual follow-up is a follow-up. However, I also understand that at least in the past, the interpretation has been there are revenues in excess of costs, and I don’t know exactly how those are calculated, but that there are some revenues in excess of costs that are being allowed to be applied to future projects, and

thereby reduce the contribution for those future projects.
Q. [336] Okay.
A. For those subsequent projects.
Q. [337] Is your report and your answer based on the understanding that the annual follow-up will change the amount of the contribution and the maximum allowance that was the basis for the approval of the process?
A. My concern is...
Q. [338] Please answer the question, 'cause that's very critical. Is it your understanding that the annual follow-up will retroactively change the amount of the maximum allowance?
A. No.
Q. [339] For any project?
A. No. Not retroactively.
Q. [340] Okay. That's a good...
A. My understanding is that the annual follow-up gives you some indication, for the particular customer or the particular project that's being evaluated, how revenues from that project compare to levelized costs for that project, and while I'm not sure what the details are, are certainly sending a signal, saying that if there are excess revenues, maybe,

that those excess revenues may be being applied as part of future maximum investment tests for future projects.

Q. [341] Okay. And if these... Let's take a year where... One year. Two thousand seventeen (2017). Three sources of revenues, three projects. Annually. Annualized cost. Annuities. Three sources of revenues on an annual basis, and three annuities.

A. New projects?

Q. [342] Projects. On the books.

A. Existing projects.

Q. [343] Existing projects.

A. Okay.

Q. [344] You calculate the sources of revenues, you total the annuities, and you have an excess. You have more revenues than you have annuities. Let's say you have two hundred dollars ($200) of revenue, one hundred dollars ($100) of costs. There is a surplus of one hundred dollars ($100). If that one hundred dollars ($100) is not used for a following year or for a subsequent project, are you happy with the approach? In other words, my client keeps the money. The one hundred dollars ($100) stays with us. I'm not talking about a complementary

reimbursement. One hundred dollars ($100) is left at the end of the year, you have three sources of revenues, three projects with annuities, you have one hundred dollars ($100) left. That money is kept by TransÉnergie. Not carried forward...
A. I understand...
Q. [345] ... to future years or future projects.
A. Yes.
Q. [346] My understanding is that you're fine with that.
A. No. No. Because those projects go, let's say they're twenty (20) year projects. So that one hundred dollars ($100) is there every year. And that, if that project... And if we just said it was one project that was generating one hundred dollars ($100), is that project was evaluated on its own. When you... The concern I have is, then, that you can use those hundred dollars ($100) per year in any year, to then, as a justification, provide revenues that would allow additional investments, and then that one hundred dollars ($100) would have gone away. It would have existed for the set of years until the new project comes along, but then, going forward, it is no longer making any contribution to the existing system.

(14 h 20)
Q. [347] Now you understand, Mr. Knecht, that the complementary reimbursement only applies to six projects that have already been approved.
A. I understand that now.
Q. [348] Okay. So it will not apply to other projects, other future projects; it would only apply to the six projects until it's exhausted, and then, there is a permanent approach, which is the one that you've discussed...
A. I understand, but I did indicate that I think I have a problem with the permanent approach, at least as you described it.
Q. [349] Okay. But you don't have the problem because of the complementary...
A. It's not related to the...
Q. [350] It's a temporary issue.
A. Yes.
Q. [351] Okay.
A. The complementary repayment issue is another issue.
Q. [352] Okay. That complementary repayment issue is what I would call a contract issue, a fairness issue, or I would call this a legal issue. But you heard that, during the previous days of this week.
A. I did. And again, as I said, and I'd certainly be

very concerned with it on a going forward basis, if it were applied to future projects. I don't know all the details...
Q. [353] Okay.
A. ... about the existing contracts, or what was expected at the time, when those contracts were...
Q. [354] Okay.
A. ... entered into, or what the regulatory environment was. However, even, you know, even the fact that this is only a transition measure, it would seem to me that you would need to demonstrate, and I don't doubt that you will make the case, but you will need to demonstrate that it was the understanding of all of the parties, and I assume the Régie approved these contracts, that the customer, if he produced revenues in excess of levelized cost in any period, could essentially carry those amounts forward, for use at some future time, to apply against different projects.
Q. [355] Now, in preparing your report, I assume you were under the understanding, which has changed now, that this complementary reimbursement would be a permanent feature?
A. Yes. And...
Q. [356] And I assume that the language used in your

report reflected that understanding, and that, with the current understanding, some of the language used in your report would have been different, I assume.
A. Yes. I think so.
Q. [357] Okay. And you were not provided with, by your client, with any of the historical information, going back to how these six projects were approved, on what basis, and the kind of decisions are arguments that were raised. You're not familiar with any of this, I would call, commercial/legal/regulatory environment?
A. Yes.
Q. [358] You're not familiar?
A. That's correct. Yes. That is correct. I am not familiar.
Q. [359] So you have not any informed opinion or view on whether this is appropriate or not? You simply are not familiar with...
A. I'm not familiar with the details, and I certainly will not render a legal opinion in that respect. As I said, it is a mechanism, however, allowing excess revenues to be carried forward and applied to future projects would strike me as relatively unusual. But it's Québec. The good and the bad.

Q. [360] Je regarde mes notes, Madame la Présidente. One quick question, Mr. Knecht. You heard, probably, monsieur Verret, say that the ability of a customer, the ability or the faculty, or the ability of a customer to use all revenues generated under a contract to cover cost of multiple projects, is something that may be of commercial interest to their client, at the time of entering into a contract, and could impact the duration of that contract. You heard evidence about that I assume.

A. Yes. Yes.

Q. [361] You did?

A. I did hear that.

(14 h 25)

Q. [362] Now, again, I know that you've not been involved in any of these historical issues but putting yourself again in this context, from a regulatory or policy perspective, would you agree that the ability to use this feature would be of commercial interest?

A. I would agree it would be of commercial interest. I would also be concerned about it, I think, for the reasons I lay out in my evidence, particularly for these really long-term contracts that it has

these... it could send the wrong price signals for future investments when you're looking at investments that were not contemplated at all when the contract was entered into. I mean...
Q. [363] Now...
A. ... if we're going to continue to have thirty-five year (35) and fifty-year (50) contracts, then you're twenty (20) years in, whatever investments were contemplated at the beginning have been entered into, possibly... and paid off, if those revenues remain available to be used to fund additional resources... as I said, they look like a free resource to a customer who has entered into the contract and could induce that customer to make economically inefficient... what overall are... what are economically efficient... economically attractive decisions for the customer, but are economically inefficient overall.
Q. [364] And are you also in agreement that it may lead that customer to enter into a longer term contract than it would otherwise?
A. The ability to use...
Q. [365] Yes.
A. ... the revenues to...
Q. [366] It would be an incentive to enter into longer

term contract all else being equal.
A. All else being equal, I think I would agree with that, yes.
Q. [367] Thank you. There was an argument made in your report that the calculation of the maximum allowance is inconsistent with the actual language of the tariff. Correct? You made that...
A. As I read the language of the tariff...
Q. [368] Yes.
A. ... yes, I did make that comment.
Q. [369] Mr. Le Régisseur Pilotto, yesterday made a suggestion to correct that, is to simply adjust the language of the tariff to reflect the methodology that has been in place for many years. Would you think that would be a solution...
A. If the...
Q. [370] ... to avoid...
A. ... if the Régie, if the Régie determines that the twenty year (20) mechanism and the first... the mechanism that is in place, that is based on a first year approach and is based on a twenty year (20) approach, if that is retained, then I would think that the language of the tariff should be modified.
Q. [371] As opposed to raising the allowance to nine

sixty-nine (969), using your interpretation of the language, another approach is simply to keep the five ninety-eight (598) and tweak whatever language issue you may have. It’s another approach.

A. I disagree with that. The reason I disagree with that is that you want to adopt the mechanism that you think is the correct mechanism, whether it’s a levelized mechanism or a first year mechanism, and whether it’s a twenty year (20) mechanism, or a forty year (40) mechanism, you want to adopt the mechanism that you think is appropriate for Québec and then write the tariff to be consistent with it.

Q. [372] I agree. So...

A. But you don’t...

Q. [373] ... what you’re suggesting is that...

A. ... but simply changing the tariff doesn’t necessarily address the problem. You address the problem substantively and then you write the tariff.

Q. [374] Okay, so the language issue is an accessory to the real issue which is looking at the methodology and picking the right methodology.

A. I agree with that.

Q. [375] Okay. Madame la Présidente, avec votre permission, je prendrais quelques minutes pour parler à mes clients, aux représentants d'Hydro-Québec, voir s'il y a autre chose. J'aurais peut-être une dernière ou deux questions, mais je veux vérifier avec mes clients pour m'assurer de...

LA PRÉSIDENTE :

Pas de problème.

Me ÉRIC DUNBERRY :

Je vous reviens rapidement.

SUSPENSION DE L'AUDIENCE

REPRISE DE L'AUDIENCE

LA PRÉSIDENTE :

Maître Dunberry.

Me ÉRIC DUNBERRY :

Alors, bonjour, Madame la Présidente. D'abord, je dois m'excuser, nous avons quitter la pièce sans vous demander la permission. Nous voulions nous parler et nous étiez plusieurs et on voulait se parler entre nous, pour des raisons évidentes. Alors, nous aurions dû demander votre permission avant de quitter. Alors, désolé. C'est...

LA PRÉSIDENTE :

C'est beau.

(14 h 35)

Me ÉRIC DUNBERRY :

... j'en prends la pleine responsabilité, d'abord.

Deuxièmement la bonne nouvelle, c'est...

LA PRÉSIDENTE :

Faites-vous en pas, il y a eu un mouvement de troupeau...

Me ÉRIC DUNBERRY :

Oui, oui.

LA PRÉSIDENTE :

... qui a suivi.

Me ÉRIC DUNBERRY :

Oui, je pense qu'il y avait, c'est vendredi après-midi, alors il y a eu cet effet-là. Madame la Présidente, j'ai compris qu'il n'était pas utile de coter les décisions de la Régie, je pense que...

LA PRÉSIDENTE :

C'est correct.

Me ÉRIC DUNBERRY :

... ça va de soir que la Régie les a. Par ailleurs, simplement vous confirmer que nous avons terminé avec le contre-interrogatoire, dans des délais qui nous semblent, somme toute, assez raisonnables alors nous vous laissons le champ libre, Madame la Présidente, pour que la Formation puisse interroger.

LA PRÉSIDENTE :

Je vais vous garder juste une seconde, pendant que vous êtes debout, l'engagement 3?

Me ÉRIC DUNBERRY :

Ah! La moitié de la réponse est toujours en cours de préparation, l'autre moitié, c'est quand ça va être prêt, puis ça, je peux comprendre, je pense que les fouets vont... lundi matin, Madame la Présidente.

LA PRÉSIDENTE :

Lundi matin?

Me ÉRIC DUNBERRY :

Oui.

LA PRÉSIDENTE :

D'accord. Si jamais c'est prêt auparavant, juste comme ça, si vous pourriez avoir la gentillesse peut-être de l'envoyer par...

Me ÉRIC DUNBERRY :

Courriel.

LA PRÉSIDENTE :

... courriel au procureur, pour qu'on puisse...

Me ÉRIC DUNBERRY :

Oui, tout à fait, dès que ça sera prêt.

LA PRÉSIDENTE :

... pour qu'il puisse en prendre connaissance. Je vous remercie beaucoup.

Me ÉRIC DUNBERRY :
C'est moi qui vous remercie, Madame la Présidente, alors nous laissons la place au procureur de la Régie.

LA PRÉSIDENTE :
Je vous remercie. Maître Legault?

INTERROGÉS PAR Me LOUIS LEGAULT :
Merci. Bonjour, Madame la Présidente. Bonjour aux membres du panel. Monsieur Knecht, j'aurai certaines questions pour vous, and I will switch in English, I think it will make things easier so there will be less translation.

Q. [376] We have entered this period of cross-examination, and at the end of your testimony, we were talking about, Mr. Dunberry was questioning you on the incentive for long-term conventions, or for a transmission client or customer to enter into long-term conventions or contracts, and you said, "Sure, there is a commercial incentive, or interest, or benefit", that is my understanding of what you were saying.

And you also said that there was an economic benefit, or interest, for a customer to enter into long-term contracts, but overall, the economic benefit, not so, that's how I read your testimony. I would like to dab a little more into the incentive of entering into long-term contracts for transmission customers.

In your answer to Request for Information No. 4 of the Régie, AQCIE-CIFQ-0020, you mentioned, in answering Question 4, and there was a preamble to that question, and I will read it out to you :

> However, having said that, it is my experience that customer contribution policies are generally determined at the time a new customer signs on for service, and apply to one project at a time. At that time, both incremental revenues and incremental costs are assessed, and any customer contribution determined. In general, any unused contributions are not carried forward, and levelized incremental cost tests are unnecessary.

And the question was, from the Régie, I'll paraphrase in English : "Please indicate, under your experience, that contribution from customers to the... les ajouts au réseau... are reevaluated and paid for at the moment that the project is put into service." And we asked you then to elaborate on that. And your answer was,

> 4.1 [...] no direct experience with the specific timing for determining the magnitude of the contribution required from a new customer.
>
> As a conceptual matter...

you observed,

> ... that the advantage of an actual cost "true-up" to the required customer contribution provides the maximum protection to existing loads, since no variances between actual and forecast system expansion costs will be absorbed by the total cost pool.

You went on, saying that,

> The corresponding disadvantage to applying such a true-up mechanism is that it will likely serve to discourage incremental loads (that require a contribution) from non-HQ entities. The true-up mechanism imposes relatively high risks on non-HQ entities for at least two reasons. First, the customer would assume the

risk for all construction cost variances and overruns, but would have no control over the construction project because it would be managed by HQ. Second, the customer would recognize that HQ would have little incentive to control its costs, since overruns could be passed on to the customer in the form of higher-than-expected contribution requirements. With respect to projects involving an HQ affiliate, the risks are different. First, HQ has control over the management of the incremental investment. Second, as an integrated entity, HQ has an economic incentive to control its costs, particularly for HQP PTP projects. Thus, there is less of a disadvantage in applying a true-up mechanism to projects required by HQ affiliates than to projects required by non-HQ customers.

And I would like to say sorry to the translators, because I think I read fast, and it was probably hard for them to translate in French.

(14 h 46)

In its presentation, the Transmitter, HQT, insisted on the importance of an incentive regarding long-term conventions, entering into long-term contracts. In the record, les notes sténographiques of February second (2nd), at page 28, line 6 and forward, we can read,

> J'aimerais aussi attirer votre attention au fait qu'il est grandement souhaitable que le cadre réglementaire incite les clients des services de transport de point à point à signer des conventions de service à long terme. Et que ces clients ne soient pas pénalisés par la suite pour la non-concomitance du moment de la signature de leur convention de service avec le moment des ajouts au réseau pour le raccordement d'une centrale. L'un ne va pas sans l'autre. Le cadre réglementaire actuel contient cet incitatif et il est essentiel, à notre avis, de le préserver. Car, en plus d'être équitable envers les signataires des conventions de service

> à long terme, les clients existants bénéficient de la présence de ces réservations à long terme sur le réseau par des baisses de tarif.

Further in the records of February the fourth (4th), page 175, 176, line 22 and following, and I'll cut short to this, again, the Transmitter witnesses state,

> Puis de l'incitatif qui, selon nous, doit demeurer dans les tarifs et conditions pour les clients de long terme, comme madame Chang l'a mentionné tout à l'heure, c'est quelque chose de souhaitable, pour un Transporteur, que d'avoir des clients qui s'engagent à long terme sur son réseau. Alors, prenons quelques minutes, là, pour bien asseoir les concepts puis bien expliquer cette situation-là.

Mr. Cormier, when he testified yesterday, also referred to the benefits and the incentive of entering into long-term contracts, and I'll refer you to yesterday's records, page 207 and following. Mr. Cormier stated that, at line 14 and following, for today's record so that when, you can follow me when you read this another day,

> La raison principale pourquoi les gens, les clients point à point achètent du service de transport point à point, c'est pour l'utiliser et accéder. Le service il part d'un point A, il va à un point B, soit au marché.

And page 208, line 1 and following,

> ... juste les ajouts au réseau. Il y a un service qui provient avec ça, il y a un accès, il y a une garantie d'accès. [...] Autrement dit, avant qu'il y ait un renouvellement [...] c'est au moment du renouvellement qu'il peut y avoir un compétiteur qui peut dire : « Moi aussi j'aimerais accéder à ça, donc je vais accoter ta demande de renouvellement. » Évidemment, quand c'est trente-cinq (35) ans, ça prend du temps. Donc, je veux juste vous mettre ça en tête, qu'il y a une valeur au transport puis ce transport-là c'est pour accéder au marché.

That's where I'm stopping citing the evidence from the following day, the previous days. What is your take, your opinion, on the incentives for long-term conventions, as stated by the Transmitter, for option i) of Section 12A.2 i) of the Tariffs and Conditions?

Me ÉRIC DUNBERRY :

Alors, Madame la Présidente, évidemment, le préambule a été très très long, il concentre l'ensemble d'éléments de preuve choisis par le procureur pour présenter, à titre de préambule, une question, et la question réfère directement au contexte relatif à l'article 12A.2 i).

Et je ne suis pas sûr d'avoir bien saisi la portée de la question mais s'il s'agit de demander au témoin d'établir un lien entre l'interprétation légale de cette disposition-là et les bénéfices qui pourraient en découler, c'est une question de droit, évidemment, parce que ça implique une interprétation d'un texte pour ensuite en déduire des bénéfices commerciaux.

Alors je ne voudrais juste pas que la réponse, sous réserve évidemment de cette objection, soit interprétée comme étant une réponse qui présume d'une compréhension appropriée du sens à donner à cette disposition-là, parce que le sens à donner à cette disposition-là a fait l'objet de décisions que le témoin a dit ne pas avoir lues. Alors si on doit présumer qu'il donnera à cette disposition-là un sens, qui est une opinion juridique et de là fournir une réponse sur la nature des bénéfices. Il y a à l’origine même une difficulté au plan juridique.

(14 h 48)

LA PRÉSIDENTE :

Écoutez, Maître Dunberry, je pense que le long préambule voulait tout simplement faire l’état des avantages qui avaient été énumérés à des contrats de long terme, soit l’incitatif à avoir des contrats pour le Transporteur. Et monsieur Cormier aussi qui avait dit également qu’il y avait l’avantage pour accès aux marchés extérieurs, avec priorité. Je pense que la question de maître Legault est tout simplement d’avoir une opinion pas juridique, mais une opinion du témoin sur les conséquences de ces contrats.

Me LOUIS LEGAULT :

Madame la Présidente, effectivement, je ne demande pas une opinion juridique, certainement pas. Je demande au témoin comme spécialiste en allocation de coût, qui s'est prononcé à la lumière des dispositions et de la proposition du Transporteur et notamment quant à l'option i) de la section 12A ii), puis je ne lui demande pas d'interpréter légalement, à la lumière du contexte de la preuve au dossier de cette disposition-là, pour lui, quels sont les avantages ou les « incentives ».

Me ÉRIC DUNBERRY :

Si la question est à l'effet quels sont les avantages des contrats à long terme, j'ai posé cette question-là, je n'ai aucune difficulté à ce qu'il la repose. Si la question est : Quels sont les avantages à long terme de l'article 12A.2 i), ce qui est une différente question, j'ai ma position juridique qui sera plaidée la semaine prochaine, et le témoin n'est pas ici pour plaider. Alors, quels sont les avantages de contrats à long terme? Aucune difficulté. Quels sont les avantages de l'article 12A.2 i)? C'est autre chose.

LA PRÉSIDENTE :

En fait je pense qu'on peut le diviser en plusieurs morceaux que monsieur Knecht pourra répondre. Donc, en premier, quels sont les avantages d'un contrat à long terme? Et puis ensuite, il pourra commenter, si monsieur Legault lui pose les questions, quels sont les avantages de votre proposition sur votre interprétation de l’article 12A.2 ii) qui fait en sorte que les revenus, on va dire les revenus disponibles, pour reprendre la terminologie de monsieur Clermont, sont reportés pour de nouvelles installations. Je pense que c’est tout à fait à l’intérieur des capacités du témoin que de répondre sur ces questions-là.

Me ÉRIC DUNBERRY :

Je note votre décision, Madame la Présidente.

LA PRÉSIDENTE :

Merci.

(14 h 51)

Me LOUIS LEGAULT :

Q. [377] Do you want me to repeat the question?

Dr. ROBERT D. KNECHT :

A. The question, yes, the...

Q. [378] It's the usual strategy.

A. ... the preamble, no. But if you would repeat the question, and I think to, just so that, to try to be clearer about whether you're asking about the benefits of long-term contracts or whether you're asking about the incentives created to enter into long-term contracts, and those are two different things. So if you would repeat the question with...

Q. [379] So what is your opinion on the incentives for long-term contracts as stated by the Transmitter, and again, I am not asking for a legal opinion, it was longly discussed yesterday, following the panel, the Board's questions to the panel from Hydro-Québec, relating to 12A.i), ii), and everybody gave what they thought from Hydro, and that's why I went...

A. Yes.

Q. [380] ... into the evidence to say -- this is what they were saying, my question to you is what is your opinion on that?

A. I believe, I did actually address that issue earlier today with Mr. Dunberry, essentially agreeing, as I understood it with Madam Chair, that in the context of a policy which compares the revenues generated under the contract with the costs, and that that results in a maximum investment, the higher the revenues, the greater the investment that the Transmitter is willing to make, and therefore the longer the term of the contract, the higher the maximum investment.

So if you have a project, a specific project that involves a specific set of costs, as we say, all other things being equal, you would be, you as a customer would have a greater interest in signing a ten-year contract and getting a higher maximum investment and having a lower contribution than in a five-year contract.

So I think, and 12A.2 i) goes to the issue of long-term contracts and addresses this issue of present value, and again, the longer, from the kind of simplest perspective, the longer the term, the better, from the customer's perspective.

Q. [381] I'll come to the word "now", you said a bit earlier today that there's things you knew "now" that you probably didn't know when you wrote your primary evidence, but I'll come back to another "now" that you used this morning. You said this morning that there is an incentive "now", what are you referring to when you use the word "now" for customers to go into, or to enter into long-term contracts?

A. I'm sorry, I'm not sure that I'm following the question.

Q. [382] Well, there is a proposal on the table that is in front of the Régie...

A. That's right, yes.

Q. [383] ... this Board will have to deal with, but you put it in the context in the present time,

there is already an incentive now...
A. Now, there is...
Q. [384] ... so this is what I am asking you.
A. Yes, my understanding is that there is, that in the context of the tariff in place now, the existing tariff, there is an incentive, and I believe that stays in, that remains in the Transmitter's proposal.
Q. [385] What is that incentive?
A. It is just, it's just what I described, which is, you get a larger maximum investment the longer the term of the contract.
Q. [386] And are there other incentives, according to you?
A. Oh! yes.
Q. [387] Which are?
A. Well, you have all kinds of business incentives that are there, and many factors that everyone has to consider in making an investment project. And then, to be honest, Mr. Dunberry raised a number of them, I mean, when you're entering into a contract like this is, you know, do you have the opportunity to use those revenues to fund additional projects, or should those revenues be dedicated to native load customers.

I would certainly agree with Mr. Dunberry that that is an incentive that is created, and that is a, you know, very different set of incentives between what the company has proposed and what I propose, which is that those, the ability to use those additional revenues be limited to the assessment of the project at the beginning.

Q. [388] And, in your opinion, would you say that the bulk of these incentives are sufficient for customers to be incited or, incentived to enter into long-term contracts?

A. I don't think there is any way to know for certain, and any such incentive is so sensitive to the specific parameters of the project being evaluated that there's too many factors going on to say whether that incentive is going to work or not, or change the decision with respect to the term of the contract.

(14 h 56)

Q. [389] Ma question s'adressera, la prochaine, à monsieur Cormier. Monsieur Cormier, en termes de principe, vous avez mentionné dans votre mémoire, puis je n’irai pas à un endroit spécifique, puis aussi dans votre présentation hier, de la notion d’équité intergénérationnelle. Pouvez-vous nous en dire un peu plus là-dessus, clarifier votre pensée? À quoi vous référiez quand vous parliez d'équité intergénérationnelle dans le cadre du présent dossier?

M. PASCAL CORMIER :

R. Je faisais référence spécifiquement au report, aux surplus qu'il pourrait y avoir, surplus de revenus à une année précise qui peuvent être transférés à une année ultérieure. Donc, les bénéfices de ces surplus-là bénéficieraient aux clients de l'année ultérieure. Donc, c'était à ça que je faisais référence. Donc, il y avait des surplus une année à un temps T, puis le bénéfice allait à un temps T plus 1, par exemple, aux clients du temps T plus 1 qui n'étaient pas nécessairement les mêmes clients.

Q. [390] Une dernière question. Je vous ai cité tantôt en posant la question à monsieur Knecht, là, en fin d'ouverture ou de préparation, la notion de priorité de réservation, l'article 2.2 des Tarifs et conditions. Je me demandais si, quand vous disiez hier dans votre témoignage, et je vous relis, c'était dans les notes sténographiques du cinq (5) février à la page 208 aux lignes 7 et suivantes, vous nous disiez :

> Autrement dit, avant qu'il y ait un

renouvellement, renouvellement... c’est au moment du renouvellement qu’il peut y avoir un compétiteur qui peut dire : « Moi aussi j’aimerais accéder à ça, donc je vais accoter ta demande de renouvellement. » Évidemment, quand c’est trente-cinq (35) ans, ça prend du temps. Donc, je veux juste vous mettre ça en tête, qu’il y a une valeur au transport puis ce transport-là c’est pour accéder au marché.

Est-ce que vous référez à l’article 2.2 des Tarifs et conditions quand vous mentionnez ça?

R. Je faisais référence à ma mémoire corporative ou, enfin, professionnelle. C’est arrivé dans le passé que, avec l’expérience que j’ai, qu’on a eu à affronter tel renouvellement. J’ai été impliqué dans des transactions de la sorte. Ma compréhension, c’est que c’est au moment du renouvellement. Il y a un droit de premier... je ne sais pas c’est quoi le terme exact, puis je n’ai pas le numéro d’article exact.

Mais c’est quand, mettons un client réserve cinq ans, il fait un renouvellement de... un autre terme de cinq ans, qui est le minimum depuis la décision R-3969 Phase 2, qu'à ce moment-là, au niveau du renouvellement, il pourrait y avoir un compétiteur qui dit, bien moi, je suis prêt à prendre dix ans au lieu de cinq ans. Puis le détenteur du droit a la possibilité d'accoter, dire, moi, je vais prendre dix ans moi aussi pour garder mon droit de renouvellement.

Q. [391] Ce qu'on appellerait essentiellement un droit de premier refus.

R. Exactement.

Q. [392] Puis je ne vous demande pas un terme juridique. Mais dans le langage...

R. Je ne suis malheureusement pas avocat, mais ça me semble être le terme.

Me LOUIS LEGAULT :

Alors, Madame la Présidente, ce sera tout en ce qui concerne mes questions.

(15 h 00)

LA PRÉSIDENTE :

Je vous remercie beaucoup, Maître Legault. Monsieur Pilotto.

(15 h 00)

EXAMINED BY THE BOARD

MR. LAURENT PILOTTO:

Q. [393] Good afternoon Mr. Knecht. I have a very simple question. I just want to be sure. I refer to your presentation of yesterday. You begin, at page 3, you said that you have two concerns with the proposal of carrying forward. And I go on beginning of page 4, at the top of the page you said:

> Thus, this approach may induce PTP customers to invest in projects which would otherwise be uneconomic...

So you are referring there to economic inefficiency. And I just want to be sure that what you are referring to is to PTP customers to invest themselves in inefficiency projects or ask HQT to make some upgrades that will be inefficiency for all the users.

A. Yes. I understand the question. In a long-term contract, a point-to-point customer is paying a tariff rate. And it's locked into the contract. It has to make those payments. So, say the customer is paying twenty million dollars ($20 M) a year in tariff rates, and it's committed, twenty (20) years into the contract, it's committed to paying those for another twenty (20) years. And it's going to pay them whether it uses those revenues or not to invest in future projects. So when that customer, who is paying twenty million dollars ($20 M) a year, is evaluating a project from his internal standpoint, he says, if, in fact, you allow aggregation, that twenty million dollars ($20 M) in revenue, could be used to say, "I'm generating this twenty million dollars ($20 M) in revenue, I've paid off all of the earlier investments, I can use that twenty million dollars ($20 M) in revenue to go to the Transmitter and say, put this twenty million (20 M) as revenues in your maximum investment test, and tell me how much you will spend on a new project. Say, on the rough order of two hundred million (200 M), associated with the twenty million (20 M) in revenues."

So that if, in fact, that customer can use those revenues to justify to be used in the evaluation of a future project, the Transmitter will therefore invest two hundred million (200 M) on behalf of that customer. But from the customer's perspective, that costs nothing. So that if the customer is making, say, a hundred million dollars ($100 M) in profit on his project without the investment, the overall project would not be cost-effective on a total basis, because the profits are a hundred million (100 M) and the costs of the... The profits before the transmission investment are a hundred million (100 M), the Transmitter is spending two hundred million (200 M) on behalf of the customer.

The problem essentially is, is that from the customer's perspective, the customer makes a very rational decision and says, "This investment costs me nothing, so I am going to evaluate the project without considering the cost of transmission." But if you draw the circle of analysis to include the costs and revenues for everyone, the project may not be economic. Because then you have to count the investment made by the Transmitter. Was that clear?

Q. [394] Yes.

A. It's because there is a free resource that the customer can use, and the customer doesn't include that cost in his calculation, but from the perspective of everyone, from the perspective of overall economic efficiency, that cost is incurred.

Q. [395] Okay, it's clear. Thanks. My second question is almost at the very end of your presentation, at page 6. Just before your wrap-up of recommendation. The paragraph before there, you said:

> And, rather than allow revenues to be used for the life of the contract, revenues would be limited to the first 20-year of the contract...

In your view, is that solution apply to both native load and PTP customers, or you were focussing on one of them?

(15 h 06)

A. Okay. What I was trying to get at here is there are two types of tests that we're looking at under Hydro-Québec's proposal. There is the maximum investment test, which you're familiar with, which is a twenty year (20) test based on the first year arithmetic. There is the levelized cost test that is in the famous annex 2, that the company is proposing as the annual follow-up. And what I'm trying to do is make sure that both of those tests are using consistent economic parameters.

So, if the maximum investment test uses a twenty year (20) period, then I think the levelized cost test that's in the revenue sufficiency test should also use twenty year (20) parameters. And the way you would then do that within the context of that test would be for any project that's being evaluated, you would only count the revenues for the first twenty (20) years. And in that way, you would have modified the levelized cost test to exclude revenues past twenty (20) years in the same way that you implicitly exclude revenues past twenty (20) years in the maximum investment test. In effect, I believe it would be consistent with one of the proposals on the table in this proceeding to insure that revenues beyond... if you have a twenty year (20) maximum investment test, it would be to insure that revenues from a point-to-point customer, after the first twenty (20) years are only used to offset the cost of the existing system and cannot be used to justify any additional investment by the Transmitter on the... for the benefit of the customer.

M. LAURENT PILOTTO:

Okay, thank you. Merci aux autres témoins.

(15 h 09)

Mme LOUISE PELLETIER :

Louise Pelletier pour la formation. Monsieur Cormier, je vous référerais à votre présentation d’hier lorsque votre procureur vous a présenté, il a été indiqué que vous aviez participé à la rédaction du mémoire de l’AQCIE-CIFQ de même, si j’ai bien compris, il en était le cas pour messieurs Boulanger et Vézina. Dans votre présentation, je vous amène à la page 8 et c'est sous le thème « Ajouts au réseau pour les clients de point à point ». Le dernier élément de cette page, vous indiquez :

> Contrairement aux clients de point à point, le Distributeur ne peut utiliser les revenus après vingt (20) ans.

Pourriez-vous élaborer un peu plus, je ne suis pas certaine d'avoir saisi exactement ce que vous vouliez dire à ce compte-là.

M. PASCAL CORMIER :

R. C'est un petit peu ce que monsieur Knecht vient d'expliquer à l'effet que, pour les clients point à point, la proposition qui est faite c'est que, mettons qu'il y a la, on va prendre l'exemple simple de la réservation de l'Ontario mille deux cent cinquante mégawatts (1250 MW) qui est pour cinquante (50) ans, elle a été signée en deux mille six (2006), si je ne m'abuse, enfin, ça dure très, très longtemps.

Donc, avec la proposition qui est faite avec la comptabilité annuelle, il pourrait très bien se trouver en deux mille trente (2030), par exemple, où il y a toujours des revenus qui vont provenir de la convention de service associée à l'interconnexion Ontario qui pourrait être utilisée par le Producteur pour, à cette année-là, en deux mille trente (2030), payer pour le branchement d'une nouvelle centrale qui n'apporte pas de revenu supplémentaire, pas nécessairement de revenu supplémentaire, je dois dire. Tandis que ma compréhension du mode de traitement pour les ajouts du Distributeur c'est que le test est fait sur vingt (20) ans et que les hypothèses de revenu sont faites sur les ajouts aux postes satellites pour une période de vingt (20) ans.

Ils regardent la capacité qui a été - je vais parler plus lentement, on m'a dit tantôt de parler plus lentement - pour s'assurer que la capacité aux postes satellites pour une durée de vingt (20) ans, c'est vingt (20) ans de revenu associé à capacité ajoutée à ces postes satellites là qui est utilisée. Donc, c'est à ça que je faisais référence, en espérant que vous comprenez mon explication. À ma connaissance, après vingt et un (21) ans, on ne peut plus utiliser ces revenus-là.

Q. [396] O.K. Deuxième question qui s'adresserait peut-être aussi à monsieur Boulanger, et c'est un point de clarification. À la page 4 de votre présentation, hier, sous le titre ou sous le thème « Ajouts au réseau pour le Distributeur », le dernier point est essentiellement un sommaire de la recommandation de l'AQCIE-CIFQ qui recommande « que le calcul de l'allocation du Transporteur soit basé sur une période de quarante (40) ans. ».

On parle bien de, et je répète, le thème il est « Ajouts au réseau pour le Distributeur ». Dans le mémoire, c'est aussi ce qu'on y lit. Si monsieur Vézina nous a dit hier avec conviction qu'il était inconfortable d'être ici parce qu'il représente, en fait, la charge locale, le Distributeur, et je voudrais clarifier, par rapport à la réponse de monsieur Boulanger ce matin, donnée peut-être dans le feu de l'action suite à des questions, est-ce que la recommandation de l'AQCIE-CIFQ, que la contribution maximale soit calculée sur quarante (40) ans et s'applique uniquement sur les projets du Distributeur ou pour le point à point? La charge locale ou point à point? Monsieur Boulanger nous a laissé entendre que ça s'appliquait aux deux mais je voulais juste le clarifier parce que, du mémoire, j'en retiens que ça s'applique surtout à la charge locale. Alors, peut-être me clarifier cet élément-là s’il vous plaît.

M. LUC BOULANGER :

R. Dans la recommandation du mémoire de l’AQCIE et du CIFQ ça s’applique aux deux côtés.

Q. [397] Parfait. Merci Monsieur Boulanger. Alors, je n’ai pas d’autres questions. Merci.

Mr. ROBERT D. KNECHT:

A. I would...

(15 h 12)

Mme LOUISE PELLETIER :

Q. [398] Oui? Monsieur Knecht?

A. Just, I think...

Q. [399] With pleasure.

A. ... as a clarification to that, that you would apply and up to a forty year period for point-to-point customers if they signed that long a term contract. It's, if they've only signed a twenty-year contract, you would only apply the test over twenty years, because that is the period over which the revenues are being committed to. Is that correct?

M. LUC BOULANGER :

R. Oui.

Mme LOUISE PELLETIER :

Q. [400] Okay, and then, Mr. Knecht, I would come back to what you said, I'm not quite sure if it's earlier today or if it was yesterday, a question with regards with the forty years, I believe the question was, "Should it require that service agreements should also be forty years?" And your answer was, "Not necessarily." Is it that if we calculate it on a forty year basis, it does require a service agreement of forty years, is that what I understand?

A. For a point-to-point customer, in terms of doing the economic evaluation, you would use the term of the contract for doing the economic evaluation. So if it's a twenty year contract, you would do the evaluation over twenty years; if it's a five year contract, you would do the evaluation over five years.

If, in fact, you modify your policy such that you allow native load to use a forty year period for doing the evaluation, then, as a matter of avoiding undue discrimination, you would like to do the same thing to at least allow point-to-point customers to have the opportunity to do that as well, if they enter into a contract that is that long.

Q. [401] Okay, very good. Thank you very much for your clarification, and I don't have further questions, unless, Monsieur Cormier, vous avez quelque chose à ajouter, là, à titre de membre de panel?

M. PASCAL CORMIER :

R. Juste pour ajouter avec, à ce qui a été mentionné par monsieur Knecht, présentement, le test pour les, c'est vingt (20) ans pour les ajouts point à point. Selon ma compréhension, si un client veut uniquement signer une convention de dix (10) ans, évidemment, il va apporter deux fois moins de revenus, là, évidemment, je n'actualise pas, là, mais alors sa contribution va être plus importante. Donc si on passe le test à quarante (40) ans, s'il signe pour vingt (20) ans, il va avoir une contribution plus grande que s'il avait signé un contrat de quarante (40) ans apportant des revenus pendant quarante (40) ans.

Mme LOUISE PELLETIER :

Parfait, merci. Alors merci aux membres du panel, je n'ai pas d'autres questions. Madame?

LA PRÉSIDENTE :

Merci, Madame Pelletier. Deux questions.

Q. [402] La première question, en fait, les deux questions sont pour monsieur Knecht, so I'll switch, I'll try to switch in English and you'll see. UC, Me Sicard asked Ms. Chang what was the appropriate factor to consider in calculating the maximal allowance for variable resources, and she said, Ms. Chang said that the capacity at its maximum should be taking into account its maximum output for the Transmitter. For planning purposes, when you have variable resources, you should take the maximum output from a planning perspective.

I would like to have your view on this, and in your experience in the United Stated, how is, we know for the planification purposes but on the allocation on the rates, how does it, how do you include it, do you go for the revenue, because variable resources often times, with the wind power, you have thirty to thirty-five percent (30-35%) of here, it's revenue, and, or do you go for the maximum power, maximum output -- sorry -- for planification purposes? I don't know if I'm clear.

(15 h 17)

A. I remember the question and answer, and I understand the issue that you're getting at. I'm not sure I can tell you what the policy is in the United States with respect to those, those kinds of things, but I have kind of a simple, a simple view of costs related to what they call "generation integration", that is integrating a new generator into the system, it's that unless there is some revenue associated with that, there is no maximum investment, because it's only revenue to the Transmitter that provides, that gives the, that is essentially used to pay for the costs, the incremental costs incurred by the Transmitter.

If it's a generator attachment, and there is no service agreement, and there is no agreement that there is going to be any payments, then it doesn't matter what the capacity of the resource is, or that it is variable resource, or firm resource, or anything else. The only thing that matters is, what is in the agreement, for how much revenue the Transmitter is going to earn related to that project.

So, you know, whether you are using the upgraded capacity of the unit, or you are using the thirty-five percent (35%) capacity factor of the unit, what is important in the evaluation is what kind of revenue is being generated. So that if there were an agreement between the Transmitter and the generator to, for the generator to pay rates, to enter into an agreement to pay rates, then the correct kW to use in the maximum investment calculation is the same kW that was used in the service agreement to figure out how much the customer is paying.

Q. [403] So you...

A. Now this gets, this may get into some of the subtleties of HQT's proposal that I may not fully understand, but from a conceptual economic standpoint...

Q. [404] You would attach the maximum allowance to the revenue that the Transmitter would get?

A. That's right. So that if there was an agreement with it from the generator that said that, "I'm going to pay you seventy-four dollars and sixty-five cents ($74.65) per kW for three hundred (300) kW", then three hundred (300) is the kw you use for the maximum investment credit.

Q. [405] Thank you. And the last question is mostly just to come back a bit to what you said, the discussion you had with Mr. Pilotto. You talked about economic efficiency and the incentive for a customer to have a long-term contract. As you know, we have to do a balance between everyone, in everyone's interest, what would be your take on the right balance between the economic efficiency and the incentive for a customer to go on a long-term contract, a twenty year contract or, let's say?

She is telling me that "trade-off" may be the better word in English, what would be the trade-off?

A. Yes, there is a trade-off, there is a trade-off I think, and there is some value to longer term contracts, both from the perspective of the Transmitter and the Transmitter's ratepayers, because the longer term contract will provide more stability in revenues. And so, the advantage of perhaps having a longer term contract gives you more certainty about what the revenue requirement is going to look like, it will give you more stable rates over time.

I think you heard Hydro-Québec say it also provides a greater benefit, a longer term point-to-point contract may provide a greater benefit to native load or to all the customers on the system, and I would agree with that but only, only if the point-to-point customer is paying more than incremental costs. If in fact the mechanism is structured such that the point-to-point customer is only paying the incremental costs, then there is no net benefit to the rest of the system.

(15 h 24)

So I think the trade-off, the advantages of the longer term contracts are essentially in certainty, and revenue stability, and those kind of issues. The economic efficiency arguments are very hard to judge, and they go somewhat beyond even just looking at the impact on the Transmitter, but the essential risk there is that by allowing you to use the revenues to invest in future projects at essentially no cost to yourself may mean that you are implicitly requiring all customers on the system to fund a project that is not economic, to invest in an overall project that is a money loser and it's very hard to put a number on that because any such evaluation will be specific to the project. So the trade-off is rate stability and certainty against possibly investing in projects at the expense of ratepayers that are uneconomic.

Q. [406] Thank you. Monsieur Cormier, je vous vois...

M. PASCAL CORMIER :

R. Oui, j'ai, par rapport aux incitatifs, je vais aller dans un autre angle. Avec la proposition qui est faite par le Transporteur, le Producteur - c'est lui qui est concerné principalement par la proposition - pourrait très bien, s'il a une année précise des excédents de revenu, financer ou, enfin, aller voir le Transporteur, dire « Branche ma centrale puis socialise une partie des coûts étant donné que je t'apporte des revenus supplémentaires dans le calcul annuel. »

Ça, c'est l'incitatif qu'il a à avoir des réservations long terme. C'est certainement un des incitatifs. Je vais vous donner l'exemple : le même producteur, il y a une nouvelle interconnexion qui se construit, pourrait très bien utiliser les surplus disponibles pour payer le, pour la construction de l'interconnexion.

Par contre, il fait ça, il ne prend pas de réservations long terme sur cette nouvelle interconnexion là, un compétiteur pourrait très bien arriver, dire « Moi, je prends vingt (20) ans pour accéder à la Nouvelle-Angleterre. » donc, juste avoir ça en tête qu'il y a des incitatifs autres que l'incitatif à utiliser des conventions long terme pour financer les branchements des centrales qui n'apportent pas nécessairement de nouveaux revenus. Il y a les incitatifs, comme je viens de mentionner, pour accéder au marché. Je l'ai dit hier, mais je pense que ça clarifie un peu la réflexion à savoir qu'il n'y a pas juste un incitatif, c'est plus complexe que ça. Merci.

Q. [407] Je vous remercie beaucoup. En fait, ça termine mes questions, ma période de questions. Avez-vous un réinterrogatoire?

Me PIERRE PELLETIER :

Je vais juste vérifier.

LA PRÉSIDENTE :

Merci.

Me PIERRE PELLETIER :

C'est un exercice périlleux que de me rendre jusqu'à mes clients et en revenir.

LA PRÉSIDENTE :

À plus d'un égard.

Me PIERRE PELLETIER :

Un seul élément additionnel, Mr. Knecht would like to add a word about neutrality. There were questions this morning with respect to tariff neutrality and he would like to add...

THE PRESIDENT:

So your question to him is about neutrality?

Me PIERRE PELLETIER:

I beg your pardon?

THE PRESIDENT:

Your question... Excusez-moi, j'ai oublié. Alors, votre question à monsieur Knecht c'est à propos de la neutralité?

(15 h 27)

Me PIERRE PELLETIER:

Yes.

THE PRESIDENT:

Thank you.

Dr. ROBERT D. KNECHT:

R. There is just one point I wanted to add from the perspective of native load and my clients. When we were looking earlier, Mr. Dunberry was carrying me through the history of the transmission rates and was pointing out, I think, quite correctly that they have been relatively stable and that that's a good thing and that maybe that stability resulted from a conservative maximum investment policy.

And that is, there is an attractive feature of that but I think you have to remember that from the perspective of the customers, it's not just the transmission rate that they see when you talk about rate stability because they are going to have to pay not only the transmission rates but I'm quite sure that when the Distributor makes a contribution, the Distributor is going to want to recover those funds from its customers so that, from their perspective, rate stability involves both what the transmission rate is and what the contribution of the Distributor is.

THE PRESIDENT:

Thank you. Avez-vous d'autres questions pour vos témoins?

Me PIERRE PELLETIER :

Non, ça clôt notre preuve, je vous remercie.

LA PRÉSIDENTE :

Alors, je vous remercie beaucoup. Je vais libérer les témoins. Merci beaucoup. Il est trois heures trente (15 h 30), on va terminer avec ça aujourd'hui, vendredi. Alors, on va se revoir lundi prochain à neuf heures (9 h 00) avec la preuve de UC. Alors là-dessus, je vous remercie, je vous souhaite une très bonne fin de semaine.

AJOURNEMENT DE L'AUDIENCE

SERMENT D'OFFICE :

Je soussigné, Claude Morin, sténographe officiel, certifie sous mon serment d'office, que les pages qui précèdent sont et contiennent la transcription exacte et fidèle des notes recueillies par moi au moyen du sténomasque, le tout conformément à la Loi.

ET J'AI SIGNE:

Sténographe officiel. 200569-7