

**RÉPONSES DU TRANSPORTEUR
À LA DEMANDE DE RENSEIGNEMENTS NUMÉRO 1
DE NEWFOUNDLAND AND LABRADOR HYDRO
(« NLH »)**

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

3
4 **FILE R-3888-2014**
5
6

7 **Partie 1 – Questions de NLH**
8

9 **Preamble to Questions 1-2**

10 Questions related to system usage.

- 11 • Q1 - The document titled “Tarification des services de transport”, HQT-12,
12 Document 1 within Demande R-3903-2014, Table 2 indicates that a demand of
13 37,818 MW is associated with the local load. Was the 37,818 MW of demand
14 served solely through part IV of the HQT tariff?

15 **Partie 1**

16 **R1**

17 **Le Transporteur constate que le préambule de cette question fait référence**
18 **à un dossier distinct et que la valeur indiquée ne fait pas partie du présent**
19 **dossier. Cette question ne vise pas un élément de la politique d'ajouts,**
20 **La demande dépasse donc le cadre du présent dossier.**

- 21 • Q2 - Is all transmission service provided and charged for by HQT done so under
22 the HQT OATT?

23 **Partie 1**

24 **R2**

25 **Voir la réponse à la question 1.**

26 **Les services de transport offerts par le Transporteur dans le cadre de**
27 **ses Tarifs et conditions sont facturés à tous ses clients en conformité avec**
 ceux-ci.

28 **Preamble to Questions 3 - 5**

29 Section 49(11) of the Act Respecting the Régie states that the Régie shall:

30 “maintain, subject to any government order to the contrary, uniform rates
31 throughout the territory served by the electric power transmission system.”

32 In accordance with this legislation:

- 1 • Q3 - Does HQT believe that the phrase “uniform rates throughout the territory”
2 makes it impossible to charge rates which can differ based on the physical location
3 of the customer’s load or generation resource? Please comment.

4 **Partie 1**

5 **R3**

6 **La demande dépasse le cadre du présent dossier qui porte sur la politique**
7 **du Transporteur relative aux ajouts au réseau de transport et non sur la**
8 **tarification des services de transport. De plus, le Transporteur constate**
9 **que le préambule de cette question fait référence à la *Loi sur la Régie de***
10 ***l’énergie* (la « *Loi* »). Cette question recherche l’interprétation de la portée**
11 **de l’article 49 de la *Loi*. Il s’agit d’une question d’ordre juridique qui ne**
12 **peut constituer une demande de renseignements.**

13 **Voir également la réponse à la question 6.**

- 14 • Q4 - Does HQT believe that the phrase “uniform rates throughout the territory”
15 makes it impossible to charge rates which differ between transmission customer
16 classes (i.e. Point to Point customers vs Native Load)? Please comment.

17 **Partie 1**

18 **R4**

19 **Voir la réponse à la question 3.**

- 20 • Q5 - Does HQT believe that the phrase “uniform rates throughout the territory”
21 makes it impossible to charge rates which differ between new and existing
22 customers within a particular transmission customer class (i.e. existing Point to
23 Point customers vs new Point to Point Customers)? Please comment.

24 **Partie 1**

25 **R5**

26 **Voir la réponse à la question 3.**

27 **Preamble to Questions 6 - 9**

28 In R-3401-98, HQT-10, Document 1, (pages 6 and 7) HQ stated that:

29 “Hydro-Québec propose une tarification des services de transport basée sur les
30 coûts moyens. L’approche du coût moyen permet de récupérer auprès de
31 l’ensemble des clients les coûts de transport nécessaires pour répondre à leur
32 utilisation du réseau. Cette approche est également en continuité avec la pratique
33 tarifaire en usage au Québec et partout ailleurs, dans le domaine du transport et de la
34 distribution, tout comme le principe de l’uniformité territoriale des tarifs. Hydro-
35 Québec propose d’utiliser un tarif timbre-poste applicable sur tout son réseau de
36 transport. Étant établi à partir d’un seul coût de service pour l’ensemble des activités
37 de transport, ce tarif reflète le fait que le réseau est intégré et qu’il sert à rendre tous
38 les services de transport, y compris le service de point à point. En maintenant un
39 tarif de type timbre-poste applicable de façon uniforme sur l’ensemble du réseau de

1 transport d'Hydro-Québec, tous les clients du transporteur conservent leur droit à
2 un même tarif et ce, indépendamment de leur situation géographique, du parcours
3 utilisé pour se rendre d'un point à un autre ou de la distance parcourue par
4 l'électricité transitiée. En outre, la tarification proposée offre l'avantage de la
5 simplicité dans sa compréhension et sa mise en œuvre, et est conforme à ce que
6 l'on retrouve partout ailleurs dans les secteurs électrique et gazier. Les tarifs
7 applicables aux services complémentaires s'appliquent également de façon
8 uniforme sur l'ensemble du réseau, peu importe la situation géographique du
9 client qui les utilise ou du producteur qui les fournit. La proposition d'Hydro-
10 Québec est également conforme à la Loi sur la Régie de l'énergie qui stipule à
11 l'article 11, alinéa 11 que la Régie doit, lorsqu'elle fixe ou modifie un tarif de
12 transport d'électricité, « maintenir, sous réserve d'un décret du gouvernement à
13 l'effet contraire, l'uniformité territoriale de la tarification sur l'ensemble du réseau
14 de transport d'électricité ». Pour Hydro-Québec, les tarifs uniformes qu'elle
15 propose respectent le principe d'uniformité territoriale tel que spécifié dans la loi.”

16 In FERC Order 110 FERC 61,373 the commission stated its pricing policy when it said:

17 “Under higher of” pricing, when a transmission owner would be required
18 to add transmission assets in order to respond to a request for new or
19 expanded transmission service, the Commission allows the transmission
20 owner to charge transmission customers the higher of either the rolled-in
21 embedded cost for the system as expanded (i.e., a rolled-in rate, which
22 includes expansion costs) or the incremental expansion cost (i.e., a rate
23 based on only expansion costs), but not the sum of the two.”

24 In HQT-2 Document 1, page 31, line 11 Ms. Chang stated HQT's pricing intentions
25 when stating:

26 “HQT's proposed Network Upgrade Policy is consistent with the
27 principles associated with FERC's “higher of” transmission pricing
28 policy.”

- 29 • Q6 - Is HQT seeking permission to charge a rate that is NOT based on the average
30 of the embedded costs of all the transmission system assets? Please comment.

31 **Partie 1**

32 **R6**

33 **La présente demande du Transporteur concerne la politique d'ajouts au**
34 **réseau de transport, comme il l'indique aux documents déposés. Elle traite**
35 **des sujets identifiés par la Régie dans la décision procédurale D-2014-117.**
36 **La modification et la fixation des tarifs de transport par la Régie ne fait**
37 **partie de ces sujets. D'ailleurs, dans le cadre de cette demande, le**
38 **Transporteur n'a pas déposé de proposition de modification des tarifs**
39 **de transport.**

- 1 • Q7 - Please explain how HQT's Network upgrade policy is consistent with
2 FERC's "higher of" policy, in particular explain how the embedded cost and
3 incremental methodology alternatives are both incorporated into HQT's policy

4 Partie 1

5 **R7**

6 **HQT's application of the maximum allowance is consistent with FERC's**
7 **"higher of" policy. As with the FERC's "higher of" policy, the requesting**
8 **customer either pays a) the embedded system rate if the cost of the**
9 **upgrade is at or below the embedded cost or b) the incremental cost of the**
10 **upgrade if the cost of the upgrade is above the embedded cost. The**
11 **maximum allowance relates to the "embedded cost." Therefore, if the cost**
12 **of the upgrade is less than or equal to the maximum allowance, the**
13 **customer does not make any contribution but covers the cost of the**
14 **upgrade by paying HQT's transmission tariff. Similarly, if the cost of the**
15 **upgrade is greater than the maximum allowance, the customer makes a**
16 **contribution for the amount above the maximum allowance and pays**
17 **HQT's transmission tariff to cover the cost of the rolled-in portion of the**
18 **upgrade costs.**

- 19 • Q8 - If an upgrade cost is higher than the maximum allowance, which
20 methodology is being used? Incremental expansion cost or other, if other, please
21 explain?

22 Partie 1

23 **R8**

24 **If an upgrade cost is greater than the maximum allowance, the**
25 **transmission customer who induced network upgrades is required to pay a**
26 **contribution for the portion of the cost of the upgrade that is greater than**
27 **the maximum allowance. This is consistent with the concept of**
28 **"incremental" approach because that particular transmission customer**
29 **would pay a rate that includes the amount rolled-in and the amount above**
30 **the rolled-in portion.**

- 31 • Q9 - Is it possible under HQT's network upgrade policy that certain transmission
32 customers could be charged a rolled-in rate which includes both expansion and
33 embedded costs while other transmission customers are charged a rolled-in rate
34 based on only embedded costs?

1 **Partie 1**

2 **R9**

3 **Transmission customers would not be charged transmission tariff that**
4 **includes both the embedded cost and the network upgrade cost above the**
5 **maximum allowance. The transmission tariff is set by all transmission**
6 **costs that are rolled in with embedded costs. If a certain transmission**
7 **customer requests service that requires a network upgrade, the network**
8 **upgrade cost is compared to the maximum allowance to determine how**
9 **much of the network upgrade costs would be allowed to be rolled-in and**
10 **how much would need to be paid with a contribution from the transmission**
11 **customer who induced the upgrade.**

12 **Preamble to Question 10 - 13**

13 Section IV of the document referenced by Ms. Chang in footnote 3 of HQT-2,
14 Document 1, (page 4), Policy Statement, FERC Docket No. RM93-19-000, October 26,
15 1994, states the following:

16 “As the industry considers possible pricing reform, the following three
17 attributes of any transmission pricing method should be specified to
18 provide a common framework for analysis:

19 Attribute 1 - The method for measuring cost for purposes of rate
20 design: embedded cost, incremental cost, the Commission's current
21 “or” policy, long-run marginal cost, or short-run marginal cost;

22 Attribute 2 - The method for treating power flows: contract path or
23 flow-based approach;

24 Attribute 3 - The method for grouping transmission facilities: corporate
25 postage stamp versus more disaggregated approaches, such as zones, or
26 line-by-line methods.”

- 27 • Q10 - Which method from attribute 1 is HQT using to measure costs for purposes
28 of rate design?

29 **Partie 1**

30 **R10**

31 **Please see the response to question 9. HQT's approach is consistent with**
32 **FERC's “or” policy (which is synonymous with FERC's “higher of” policy).**

- 1 • Q11 - Which method from attribute 2 is HQT using to treat power flow?
- 2

3 **Partie 1**

4 **R11**

5 **HQT provides service to customers according to its OATT. Point-to-point**
6 **service is based on reservations, thus consistent with the contract**
7 **path basis.**

- 8 • Q12 - Which method from attribute 3 is HQT using for grouping transmission
9 facilities?

10 **Partie 1**

11 **R12**

12 **HQT has one long-term transmission tariff for all transmission customers,**
13 **thus is the same as having a “corporate postage stamp rate” for all of**
14 **HQT’s system.**

- 15 • Q13 - Using FERC terminology - is the „higher of” transmission pricing policy the
16 same as the „or” transmission pricing policy referred to above? Please comment.

17 **Partie 1**

18 **R13**

19 **The “higher of” pricing refers to a transmission provider charging the**
20 **higher of the embedded system rate with the cost of the network upgrade**
21 **included or the incremental rate, but not both.**

22 **Preamble to Questions 14 to 16**

23 The four questions below are related to Maximum allowance:

- 24 • Q14 - Ignoring the discounting adjustment, O&M fees, and taxation, is the value
25 of the Maximum Allowance derived from the embedded costs of all system
26 assets? If not which assets are not included?

27 **Partie 1**

28 **R14**

29 **Comme indiqué à la pièce HQT-3, Document 1, l'allocation maximale**
30 **correspond à la valeur actualisée du tarif annuel sur une période de**
31 **20 ans, déduction faite des coûts d'exploitation et d'entretien et des taxes**
32 **applicables. Le tarif reflète tous les actifs du réseau de transport inclus**
33 **dans la base de tarification lorsque la Régie rend sa décision.**

- 1 • Q15 - Ignoring the discounting adjustment, O&M fees, and taxation, is the rate of
2 the Maximum Allowance equivalent to the average cost rate? Please comment.

3 **Partie 1**

4 **R15**

5 **Le Transporteur note que l'intervenant utilise « rate » dans sa question et**
6 **comprend que l'intervenant réfère au tarif de transport. Le Transporteur**
7 **croit utile de souligner que l'allocation maximale n'est pas un tarif.**

8 **Le calcul de l'allocation maximale est expliqué à la pièce HQT-3,**
9 **Document 1.**

- 10 • Q16 - If the answer to 15 is yes, is HQT proposing to charge this rate AND an
11 additional fee? Please comment.

12 **Partie 1**

13 **R16**

14 **Voir la réponse à la question 15.**

15 **Preamble to Question17**

16 The FERC OATT pro forma defines the phrase Direct Assignment Facilities as:

17 “Facilities or portions of facilities that are constructed by the Transmission
18 Provider for the sole use/benefit of a particular Transmission Customer
19 requesting service under the Tariff. Direct Assignment Facilities shall be
20 specified in the Service Agreement that governs service to the
21 Transmission Customer and shall be subject to Commission approval.”

22 The HQT OATT does not contain a definition for Direct Assignment Facilities.

23 FERC Order 96 FERC 61,132 states:

24 “The Commission has long held that the integrated grid is a cohesive
25 network whose expansion benefits all users of the grid, and rejected the
26 direct assignment of integrated grid facilities even if those facilities would
27 not have been installed but for a particular request for service.”

- 28 • Q17 - Under HQ's proposed network upgrade policy, is it possible that the costs
29 which are used to calculate the 'contribution' are costs related to integrated grid
30 facilities? Please comment.

1 **Partie 1**

2 **R17**

3 **The contribution represents the portion of the cost of the network upgrade**
4 **that is greater than the maximum allowance. The cost is determined for the**
5 **network upgrade triggered by a customer.**

6 **Preamble to Questions 18 - 19**

7 In HQT-2 Document 1, page 3, line 24 to Page 4 line 2, Ms. Chang states:

8 “Transmission providers typically recover the costs of network upgrades
9 that result from customer’s transmission service requests through charges
10 that are either: (a) “rolled-in” with existing transmission costs that all
11 customers pay over time; or (b) assigned to and paid for by the requesting
12 transmission customer..... in the form of direct “contributions” or
13 incremental rates”. (We underlined.)

- 14 • Q18 - Is Ms. Chang saying that the phrases “direct contributions” and
15 “incremental rates” are mutually exclusive, mean the same, neither or both? Please
16 comment.

17 **Partie 1**

18 **R18**

19 **In the context of the quoted statement, Ms. Chang refers to “direct**
20 **contribution” or “incremental rates” as two potential ways of recovering**
21 **costs from customers that trigger a network upgrade, when rolled-in with**
22 **embedded costs would increase the transmission rate.**

23 **In case of HQT, if an upgrade cost is greater than the maximum allowance,**
24 **the transmission customer who induced network upgrades is required to**
25 **pay a contribution for the portion of the cost of the upgrade that is greater**
26 **than the maximum allowance. The cost of the upgrade up to the maximum**
27 **allowance is rolled into the transmission provider’s rate base and**
28 **recovered through transmission rates.**

- 29 • Q19 - Is the 'contribution' a lump sum payment or a yearly rate? Please comment.

30 **Partie 1**

31 **R19**

32 **The contribution is a payment. It is not an annual transmission rate and is**
33 **not included in the annual transmission rate.**

1 **Preamble to Questions 20 - 24**

2 In HQT-2 Document 1, page 3 line 24 and going to Page 4 line 2, Ms. Chang states:

3 “..... through charges that are assigned to and paid for by the
4 requesting transmission customer..... in the form of direct 'contributions' or
5 incremental rates”.

6 HQT-2, Document 1, footnote 3, page 4 in Ms. Chang’s testimony references FERC
7 policy statement Docket No. RM93-19-00, October 26, 1994, which states:

8 “The first principle is that pricing should conform to traditional cost of
9 service methodologies which incorporate the embedded cost of facilities.”

- 10 • Q20- With respect to the assets for which a customer makes a 'contribution', do all
11 of the costs associated with the assets used to calculate the contribution receive
12 traditional cost of service treatment when calculating the cost of service for a
13 customer? Please comment.

14 **Partie 1**

15 **R20**

16 **Please see the response to question 17.**

- 17 • Q21 – For assets funded using customer contributions, is the capital value of those
18 assets included in the HQT rate base?

19 **Partie 1**

20 **R21**

21 **Only the portion up to the maximum allowance is rolled in to HQT
22 rate base.**

- 23 • Q22– For customer contributions, how are those funds accounted for in HQT’s
24 future cost of service rate making and regulatory accounts?

25 **Partie 1**

26 **R22**

27 **The customer contribution (including of O&M costs) is not part of HQT’s
28 rate base. The costs associated with maintaining the assets will be a part
29 of HQT’s revenue requirement.**

- 1 • Q23 In the aggregate, will the rates charged to transmission customers ensure that
2 HQT will meet, but not exceed, its revenue requirement which is derived on a cost
3 of service basis? Please comment.

4 **Partie 1**

5 **R23**

6 **HQT's transmission tariff is set to fully recover, but not exceed HQT's**
7 **revenue requirement.**

- 8 • Q24 Please elaborate on the outcome of the annual "follow up" on commitments
9 process, is the objective of "meeting but not exceeding its revenue requirement"
10 aided through the yearly „follow up“ of the Contribution? Please comment.

11 **Partie 1**

12 **R24**

13 **As stated in section VI of Ms. Judy Chang's testimony, the annual follow-**
14 **up "refers to the demonstration that the point-to-point customers have**
15 **made or are making transmission service contract commitments that are**
16 **sufficient to allow HQT to recover the rolled-in portion of the network**
17 **upgrade costs, including O&M costs and applicable taxes"**
18 **(HQT-2, Document 1, p. 27, lines 4-7). This is a follow-up of the**
19 **commitments, hence not a follow-up of the contribution..**

20 **Preamble to Questions 25 - 28**

21 HQT-2, Document 1, footnote 3, page 4, refer to FERC policy statement
22 Docket No. RM93-19-00, October 26, 1994, which states:

23 "1. Transmission Pricing Must Meet the Traditional Revenue Requirement

24 For conforming proposals, transmission prices must be based on the costs
25 of the transmission service provided. The process of determining
26 transmission prices involves three distinct steps. First, a utility must
27 determine its total company revenue requirement, the capital component
28 of which traditionally has been measured by embedded (depreciated
29 original) cost. Second, a utility must allocate among individual customers
30 or classes of customers that portion of the total revenue requirement that is
31 attributable to providing transmission services, in a manner which
32 appropriately reflects the costs of providing transmission service to such
33 customers or classes of customers. Finally, the utility must design rates to
34 recover those allocated costs from each customer class." (We underlined.)

- 1 • Q25 - Does HQT consider its pricing proposal to be “conforming” or “non-
2 conforming” as the terms are used in the FERC policy document referenced?
3 Please comment.

4 **Partie 1**

5 **R25**

6 **La question porte sur l'application et l'interprétation d'un texte de la FERC
7 à la proposition du Transporteur. Sous réserve de toute interprétation
8 juridique, qui ne relève pas du cadre d'une demande de renseignements,
9 le Transporteur est assujetti à la juridiction de la Régie uniquement, non à
10 celle de la FERC. Dans sa décision D-2012-010, la Régie a d'ailleurs
11 confirmé ce qui suit quant à l'exercice de sa juridiction :**

12 « [74] La Régie considère qu'en vertu des pouvoirs prévus aux articles 31,
13 48 et 49 de la Loi, elle a pleine juridiction pour fixer des tarifs et des conditions
14 qui soient justes et raisonnables. La Régie peut, à cette fin, prendre en
15 considération des propositions et modifications qui découlent des
16 ordonnances de la FERC pour tenir compte de l'évolution des textes
17 réglementaires et des pratiques d'affaires en Amérique du Nord. Toutefois,
18 avant de les incorporer dans les Tarifs et conditions, la Régie doit,
19 notamment, s'assurer qu'elles soient pertinentes et applicables au contexte
20 québécois, dans l'objectif d'adopter un texte qui offre aux clients du service de
21 transport un accès ouvert et non discriminatoire au réseau du Transporteur. »

22 **La question n'est pas pertinente au présent débat. Le texte des Tarifs et
23 conditions et les politiques qui y sont inscrites sont le résultat du
24 processus réglementaire menant à leur approbation par la Régie.**

- 25 • Q26– With respect to the second step mentioned in the quote above when HQT
26 calculates its total company revenue requirements does it measure and record
27 asset costs based on the customer classifications identified in parts II to IV of the
28 HQT OATT? Please comment.

29 **Partie 1**

30 **R26**

31 **HQT only calculates one long-term transmission tariff for all customers.**

- 32 • Q27– With respect to the second step mentioned in the quote above for those
33 transmission system improvements which benefit all system users and are
34 required to ensure the system's durability and reliability, are these costs allocated
35 to all system users based on a load ratio share of system use at time of peak?
36 Please comment.

1 **Partie 1**

2 **R27**

3 As mentioned in Section 7.2 of the Transmission Provider's Additional
4 Evidence filed on September 12, 2014, there are 4 capital expenditure
5 categories "customer demand growth," "asset maintenance,"
6 "maintenance and improvement of service quality" and "compliance with
7 requirements." Of these 4 categories, only the expenditures related to the
8 "customer demand growth" required to meet new customer needs are
9 subject to the Transmission Provider's Network Upgrade Policy. The
10 remaining capital expenditure categories are not subject to the Network
11 Upgrade Policy. The cost of these capital expenditures under these three
12 categories are included in the Transmission Provider's revenue
13 requirement and used to calculate the system-wide transmission tariff that
14 all customers pay.

- 15 • Q28 - With respect to the third step which requires the rate design to recover the
16 costs allocated to each customer class (Native, Point-to-Point, Network) does each
17 customer class contain a capital project classification account which is unique to
18 that customer class? Please comment.

19 **Partie 1**

20 **R28**

21 **HQT does not use separate categories for capital expenditures by**
22 **customer class.**

23 **Preamble to Questions 29 -37**

24 HQT-1, document 1, section 2, titled "Framework of the Application", page 8/43 states:

25 "The Transmission Provider notes that the Upgrades Policy relates to
26 upgrades required to meet its customers' needs, i.e. upgrades that involve
27 projects in the "customer demand growth" category. Work done for
28 purposes of network improvement, to ensure the network's durability and
29 reliability, or to comply with requirements are not covered by the
30 Upgrades Policy. This distinction derives from the approach adopted by
31 the Régie in Decision D-2002-95 and has been applied since: (We
32 underlined.)

33 Improvements to the transmission system include additions required in order to ensure
34 the system's durability and reliability. Such improvements serve to maintain proper
35 operation of the system and ensure safe, reliable flow for the benefit of all system users.
36 The Régie accepts the Transmission Provider's proposal because it is equitable that all
37 customers should contribute to paying for these upgrades. The cost of these facilities may
38 be rolled into the rate base if they are found in a rate case to be a useful and prudent
39 acquisition."

40 The FERC pro forma OATT defines Network Upgrades as:

1 “1.27 Network Upgrades: Modifications or additions to transmission-
2 related facilities that are integrated with and support the Transmission
3 Provider's overall Transmission System for the general benefit of all users
4 of such Transmission System.”

5 The HQT OATT defines Network Upgrades as:

6 “1.4 Network Upgrades: Modifications or additions to transmission-
7 related facilities that are integrated with the Transmission Provider's
8 overall Transmission System, carried out either to meet demand from
9 Transmission Customers under Part II or Part III, or at the request of the
10 Distributor under Part IV herein.”

11 • Q29 - One difference between the two Network Upgrade definitions is that the
12 pro forma OATT definition speaks to the fact that Network Upgrades 'support' the
13 Transmission Provider's overall system for the benefit of all users while the HQT
14 OATT does not include this concept of „support' for all customers.

15 (a) Does HQT make this distinction in its definition because as stated in
16 HQT-1, document 1, section 2 HQT “Work done for purposes of network
17 improvement, to ensure the network's durability and reliability, or to
18 comply with requirements are not covered by the Upgrades Policy”?

19 **Partie 1**

20 **R29a**

21 **Voir réponse à la question 25.**

22 **Par ailleurs, la catégorie d'investissement citée par l'intervenant n'est pas
23 couverte par la politique d'ajout au réseau de transport.**

24 (b) Please explain the reason for the difference in the definitions.

25 **Partie 1**

26 **R29b**

27 **Voir réponse à la question 25.**

28 • Q30 - In reference to the quote from D-2002-095 contained in HQT-1, document
29 1, section 2, as noted above, is HQT's position that the Régie does not recognize
30 improvements which serve to maintain proper operation of the system and ensure
31 safe, reliable flow for the benefit of all system users as being assets covered by
32 the upgrade policy? Please comment.

1 **Partie 1**

2 **R30**

3 **La référence à la décision D-2002-95 vise simplement à appuyer l'énoncé**
4 **selon lequel les travaux réalisés pour le maintien et l'amélioration de la**
5 **qualité du service, ou qui visent à assurer le maintien des actifs, tout**
6 **comme ceux requis pour se conformer aux exigences, le tout dans le but**
7 **d'assurer la bonne performance et la fiabilité du réseau, ne sont pas**
8 **couverts par les dispositions de la politique d'ajouts au réseau de**
9 **transport. La Régie indique qu'il « est équitable que tous les clients**
10 **contribuent au paiement de ces ajouts. »**

- 11 • Q31 - With respect to system modifications that result from an eligible customers
12 request for transmission service and which serve to maintain proper operation of
13 the system and ensure safe, reliable flow for the benefit of all system users, is
14 there a definition within the HQT OATT that can be used to identify those types
15 of assets? Please comment.

16 **Partie 1**

17 **R31**

18 **Les modalités relatives aux ajouts au réseau de transport qui découlent**
19 **d'une demande de service de transport d'un client sont incluses dans les**
20 **Tarifs et conditions.**

21 **Les ajouts visant la pérennité et la fiabilité du réseau et qui ne découlent**
22 **pas d'une demande de service de transport d'un client ne sont pas sujets**
23 **aux dispositions de la politique d'ajouts, comme indiqué en réponse à la**
24 **question 29a.**

25 **Par ailleurs, si un ajout au réseau vise à répondre à la fois à une demande**
26 **d'un client et vise à la pérennité et la fiabilité du réseau, le Transport**
27 **appliquera la méthode présentée à la pièce HQT-3, Document 1.¹**

- 28 • Q32 - With respect to the last sentence contained in the quote from D-2002-095 in
29 the preamble, “The cost of these facilities may be rolled into the rate base if they
30 are found in a rate case to be a useful and prudent acquisition.” - are there any
31 costs which are NOT rolled into the rate base? Please comment.

32 **Partie 1**

33 **R32**

34 **La Régie établit la juste valeur des actifs qu'elle estime prudemment**
35 **acquis et utiles pour le réseau de transport et approuve la base de**
36 **tarification incluant ces actifs.**

¹ Pièce HQT-3, Document 1, section 7.2.

- 1 • Q33 - Does HQT's Network upgrade policy apply to native load growth, native
2 load, both or neither? Please comment.

3 Partie 1

4 **R33**

5 **Tel qu'il est indiqué à la section A de l'appendice J des Tarifs et**
6 **conditions, la politique d'ajouts du Transporteur s'applique à tout ajout au**
7 **réseau de transport requis pour satisfaire les besoins du service de**
8 **transport en vertu des Parties II, III et IV des Tarifs et conditions.**

- 9 • Q34 - In the event native load decreases in one geographic area of Quebec while
10 in another geographic area native load increases by an equal or lesser amount,
11 would the cost of any new equipment required to serve the additional load in the
12 second geographic area be subject to the Upgrade Policy, would it be considered
13 an asset maintenance project, neither or both? Please comment.

14 Partie 1

15 **R34**

16 **Le coût des ajouts au réseau requis pour transporter une croissance de la**
17 **charge dans une région donnée est assujetti à la politique d'ajouts au**
18 **réseau, même s'il y a simultanément une décroissance de la charge dans**
19 **une autre région.**

- 20 • Q35 - In the event native load decreased in Quebec while a customer requested
21 Point-to-Point transmission service for an equal or lesser amount, would the cost
22 of any new equipment required to serve the Point-to-Point transmission customer
23 be subject to the Upgrade Policy, would it be considered an asset maintenance
24 project, neither or both? Please comment.

25 Partie 1

26 **R35**

27 **Chaque demande de service de transport de point à point à long terme est**
28 **étudiée en fonction de l'état actuel de l'ensemble du réseau de transport et**
29 **de son évolution prévue sur la période visée par la demande de service,**
30 **selon la prévision de croissance de la charge locale et l'ordonnancement**
31 **des demandes de service de transport de point à point. De cette façon,**
32 **l'étude d'impact tient compte de toute variation de la charge locale sur**
33 **l'horizon de la demande de service de transport de point à point. L'étude**
34 **d'impact tient compte également des investissements en pérennité. Les**
35 **ajouts requis pour répondre à un besoin de croissance ne remplacent pas**
36 **les investissements en pérennité.**

- 37 • Q36 - Does HQT's modification to the definition of Network Upgrade, relative to
38 the FERC proforma definition, remove from the scope of the HQT OATT some
39 transmission facilities which would otherwise be within the scope of the HQT
40 OATT network upgrades policy if HQ had maintained the FERC pro forma
41 definition of Network Upgrades? Please comment.

1 **Partie 1**

2 **R36**

3 **Voir réponse à la question 25.**

- 4 • Q37 - Given the differences between HQT's definition of Network Upgrades, and
5 that of FERC can HQT provide some guidance on the implications of the difference
6 in the HQT and FERC's terms, such that the Regie can fully understand these
7 implications in assessing HQT's network upgrade policy?

8 **Partie 1**

9 **R37**

Voir réponse à la question 25.

10 **Preamble to Questions 38 - 41**

11 In HQT -3, document 1, section 7.2, Page 14/21 the author states:

12 "The Transmission Provider recalls that only projects which meet new
13 customer needs, ie "customer demand growth" projects, are covered by the
14 transmission network upgrade policy."

- 15 • Q38 - In the event a new resource is planning to be integrated to the HQT system
16 and it is planned to export its production under an existing Point-to-Point
17 transmission service contract (with a POR at the HQT point) whose MW
18 reservation is unchanged does that transmission service arrangement provide new
19 revenue if system peak also remains unchanged? If so how?

20 **Partie 1**

21 **R38**

22 **Voir la réponse à la question 4.3 de la demande de renseignements
23 numéro 1 de la Régie à la pièce HQT-4, Document 1.**

- 24 • Q39 - Is the project that's described in Q38 covered by the network upgrade
25 policy? Please comment.

26 **Partie 1**

27 **R39**

28 **La politique d'ajouts s'applique à tous les ajouts découlant des demandes
29 de clients du service de transport, que ce soit pour un raccordement de
30 centrale ou pour un service de transport de point à point.**

- 31 • Q40 - In the event a new resource is planning to be integrated to the HQT system
32 and it is planned to serve native load and system peak declines does the associated
33 transmission service arrangement provide new revenue? If so how?

1 **Partie 1**

2 **R40**

3 **Le Transporteur tient à rappeler la nature particulière du service de**
4 **transport de la charge locale² notamment le fait que la charge locale est**
5 **constituée d'une multitude de charges alimentées par une multitude de**
6 **ressources sans association particulière entre les unes et les autres. Pour**
7 **le Transporteur, la charge locale, représentée par le Distributeur, constitue**
8 **un tout.**

9 **De plus, dans l'agrégation des projets de charges et de ressources**
10 **proposée par le Transporteur, aucun MW n'est attribué aux projets de**
11 **raccordement de ressources.**

- 12 • Q41 - Is the project that's described in Q40 covered by the network upgrade
13 policy? Please comment.

14 **Partie 1**

15 **R41**

16 **Le Transporteur rappelle que la politique d'ajouts couvre les**
17 **raccordements de centrales et les ajouts requis pour répondre aux**
18 **demandes des clients du service de transport de point à point et du**
19 **service de transport servant à alimenter la charge locale.**

20 **Preamble to questions 42 - 43**

21 In FERC Order 2003-b at p. 56 the commission stated:

22 “In response to these petitioners, we first reaffirm that an important
23 objective of our interconnection pricing policy continues to be the
24 protection of existing Transmission Customers, including the
25 Transmission Provider's native load, from adverse rate implications
26 associated with Interconnection Facilities and Network Upgrades
27 required to interconnect a new Generating Facility. Despite the
28 unsupported hypothetical generalizations of some petitioners, we
29 have not been presented with any evidence that native load and other
30 Transmission Customers cannot be held harmless under our existing
31 pricing policy. If a Transmission Provider (or an existing
32 Transmission Customer) believes that, for an actual interconnection,
33 it faces circumstances where native load and other customers are not
34 held harmless, it should make that demonstration in an actual
35 transmission rate filing. The Transmission Provider must explain the
36 facts of the case and the assumptions on which its calculation is based
37 and provide evidentiary support. While we cannot envision any
38 circumstances where our existing pricing policy will not fully protect

² Pièce HQT-1, Document 1, Section 3.1.2.

1 native load and other Transmission Customers, we are willing to
2 consider alternative pricing proposals under the facts of a specific
3 case. We emphasize that the Transmission Provider bears the full
4 burden of showing that any such proposal is just and reasonable
5 and not unduly discriminatory or preferential, and is appropriate
6 under the circumstances." (We underlined.)

7 Similarly within HQT-3, doc 1, page 13/21, at quote [55] the Régie stated:

8
9 "The Régie directs the Transmission Provider to submit additional
10 evidence specifying the cases in which the proposed solution would not
11 apply, and explaining possible alternatives to the Transmission Provider's
12 proposed methodology for cost-sharing among the various transmission
13 service customers."

- 14 • Q42 - Please comment if and how the opinions and requirements within FERC
15 Order 2003 and related rulings, have been considered and reflected in HQT's
16 proposal. Please comment.

17 **Partie 1**

18 **R42**

19 **Voir réponse à la question 25.**

- 20 • Q43 - In reference to HQT-3, document 1, pg 13 of 21 "..the Transmission
21 Provider wanted to leave the door open in case an exceptional situation should
22 arise" - can HQT please elaborate on what would constitute an "exceptional
23 situation"?

24 **Partie 1**

25 **R43**

26 **Comme mentionné à la pièce HQT-3, Document 1, « le Transporteur**
27 **n'identifie pas de cas où la méthode proposée ne s'appliquerait pas. »³**

28 **Preamble to Question 44**

29 In FERC Order 2003 at p. 842 the commission stated:

30 "A non-public utility that has a "safe harbor" Tariff may add to its Tariff
31 an interconnection agreement and interconnection procedures that
32 substantially conform or are superior to the Final Rule LGIP and Final
33 Rule LGIA if it wishes to continue to qualify for safe harbor treatment."

³ Pièce HQT-3, Document 1, page 18.

- 1 • Q44 - Does section 12a of the HQT OATT with the proposed network upgrades
2 policy, contain interconnection procedures that substantially conform or are superior
3 to the FERC Order 2003 - Final Rule LGIP and Final Rule LGIA? If not, where is
4 this procedure located within the HQ OATT?

5 **Partie 1**

6 **R44**

7 **Voir réponse à la question 25.**

8 **Preamble to Question 45**

9 In FERC Order 2003-a the commission at p.756 stated:

10 “In Order No. 2003, the Commission states that, on compliance, if a non-RTO or non-ISO (or other non-independent) Transmission Provider offers a variation from the LGIP and LGIA and the variation is necessary to meet established reliability requirements (i.e., approved by the Applicable Reliability Council), then it may seek to justify its variation using the regional difference rationale. If the variation is for any other reason, the non-RTO or ISO Transmission Provider must justify the variation using the “consistent with or superior to” rationale that the Commission applies to variations from the OATT in Order No. 888.”

- 19
- 20 • Q45 - There are no references or discussion of FERC Order 2003 in HQT's or
21 Ms. Chang's testimony, are there any reasons related to system reliability which
22 would make the industry conventions established by FERC's “or' pricing policy”
23 and those conventions born from Order 2003, and related rulings, not suitable for
24 HQT? Please comment.

25 **Partie 1**

26 **R45**

27 **Voir réponse à la question 25.**

28 **The purpose of Ms. Chang's testimony was to provide the underlying
29 principles behind FERC's transmission pricing policy and compare those
30 principles to HQT's Network Upgrade policy.**

1 **Preamble to Question 46**

2 In HQT-2, document 1, Table 1, Ms. Chang provides a forecast of the “Maximum
3 Allowance”.

- 4 • Q46 - Please provide a reference which identifies the specific system
5 modifications, upgrades or reinforcements which are included in the calculation
6 and the reason for the upgrades i.e. native load growth, point to point service
7 request, system maintenance etc.

8 **Partie 1**

9 **R46**

10 The maximum allowance is calculated as indicated in Ms. Chang’s
11 testimony (HQT-2, Document 1, pages 9-11). The preamble refers to a
12 forecast of the maximum allowance. The maximum allowance presented in
13 Table 1 is not a forecast provided by Ms. Chang, since the Régie already
14 approved it and its inputs. It is therefore applicable for 2014 in
15 HQT’s OATT.

16 **Preamble to Questions 47 - 48**

17 On page 9/21 of HQT-3 Document 1, HQT states:

18 “An allowance is granted to a Point-to-Point transmission customer only if
19 the network upgrade required to meet the customers demand generates
20 revenue for the Transmission Provider.”

- 21 • Q47 - In the event HQP adds a generation resource to the HQT system and through
22 the application of OATT 13.7 incorporates production from the facility to an
23 existing export TSA, is this a case where no new revenue is generated for the
24 Transmission Provider? Please comment.

25 **Partie 1**

26 **R47**

27 Le Transporteur précise d’abord que la politique d’ajouts s’applique à tous
28 les clients. La proposition du Transporteur consiste à s’assurer que sur
29 une base annuelle, les revenus de l’ensemble des conventions puissent
30 couvrir l’ensemble des engagements d’un client.

31 Voir également la réponse à la question 4.3 de la demande de
32 renseignements numéro 1 de la Régie à la pièce HQT-4, Document 1.

- 33 • Q48 - In the case noted in Q47 , are the network upgrades associated with the
34 interconnection paid for through existing transmission service agreements or an
35 upfront contribution? Please explain how the upgrades are paid for.

1 **Partie 1**

2 **R48**

3 Pour chaque ajout sujet aux dispositions de la politique d'ajouts, le
4 Transporteur calcule le montant maximal qu'il peut assumer, en vertu de
5 l'appendice J des *Tarifs et conditions*.

6 Les coûts du projet jusqu'au montant maximal doivent être couverts par
7 des revenus provenant du client de transport de point à point à l'origine de
8 cet ajout. Si les coûts du projet sont supérieurs au montant maximal, le
9 client devra payer l'excédent par une contribution.

10 **Voir également la réponse à la question 47.**

11 **Preamble to questions 49 - 50**

12 On page 10/21 of HQT-3 Document 1, HQT states:

13 “In the first step the maximum cost borne by the transmission provider is
14 calculated on the basis of the maximum capacity to be transmitted from
15 the distributors generating sources.”

- 16 • Q49 - In the event that system load does not increase and as a result the maximum
17 capacity to be transmitted from the distributors generating sources does not
18 increase and HQD avails of a new on system generation resource to serve native
19 load under existing native load transmission service, is this a case where no new
20 revenue is generated for the Transmission Provider? Please comment.

21 **Partie 1**

22 **R49**

23 **Voir la réponse à la question 40.**

- 24 • Q50 - In the event that total system load does increase, whether it is the result of a
25 new Point-to-Point reservation by another customer or the result of a native load
26 increase, is it the case that transmission costs are allocated on a load ratio share,
27 regardless of the actual cost of the system upgrades? Please comment.

28 **Partie 1**

29 **R50**

**Voir la réponse à la question 14.9 de la demande de renseignements
 numéro 1 de la Régie à la pièce HQT-4, Document 1.**

30 **Preamble to Question 51 - 54**

31 Page 15/21 of HQT-3 Document 1, under the heading „ a) cost allocation of integrated
32 multiple-objective projects HQT discusses the manner by which costs are allocated for
33 projects containing multiple objectives.

- 1 • Q51 - For the three applications of the differential cost allocation methodology
2 presented, can the author examine the separation of costs under scenarios where
3 there is zero demand growth? This would be the case if a new resource was
4 integrated to the HQT system and its production was exporting under existing
5 Point-to-Point contracts (HQT point). Please comment.

6 Partie 1

7 **R51**

8 **Le Transporteur rappelle que seuls les projets réalisés à la demande des**
9 **clients, soit les projets de la catégorie « Croissance des besoins de la**
10 **clientèle », sont visés par la politique d'ajouts. S'il n'y a pas de**
11 **composante en croissance, les coûts sont attribués entre les catégories**
12 **visées par les objectifs du projet.**

- 13 • Q52 - Is it the case that all the transmission facilities presently associated with
14 “Asset Maintenance” and „Maintenance and improvement of service quality and all
15 the facilities that will be associated with those classifications are all facilities whose
16 costs are treated as embedded within the cost of service rate setting
17 methodology? Please comment.

18 Partie 1

19 **R52**

20 **Le Transporteur rappelle que seuls les projets destinés à répondre aux**
21 **demandes de clients, soit les projets en « Croissance des besoins de la**
22 **clientèle », sont visés par la politique d'ajouts.**

23 **Les projets ayant des objectifs en « Maintien des actifs », en « Maintien et**
24 **amélioration de la qualité du service » et en « Respect des exigences »**
25 **sont traités comme l'a décidé la Régie dans sa décision D-2002-95 citée en**
26 **réponse à la question 30.**

- 27 • Q53 - Please describe the criteria for the following categories and what types of
28 upgrades would be included in each category: (1) asset maintenance, (2) customer
29 demand growth, (3) maintenance and improvement of service quality.

30 Partie 1

31 **R53**

32 **Les investissements sont catégorisés en fonction de leurs objectifs. En ce**
33 **qui a trait aux ajouts réalisés dans l'objectif de répondre à la « Croissance**
34 **des besoins de la clientèle », le Transporteur rappelle que seuls ceux-ci**
35 **sont visés par les dispositions de la politique d'ajouts.**

36 Pour plus d'information, voir la pièce HQT-3, Document 1, page 19.

- 1 • Q54 - If an upgrade for customer demand growth results in a significant deferral
2 of an upgrade that would otherwise be required in the short to medium term to
3 maintain or extend the service delivery from a facility, would this cost sharing be
4 considered as “asset maintenance” or “maintenance and improvement of service
5 quality”? Please explain.

6 **Partie 1**

7 **R54**

8 **Le Transporteur réfère à la section 7.2.a) de la pièce HQT-3, Document 1,
9 pour comprendre comment sont attribués les coûts des projets intégrés à
10 objectifs multiples aux catégories d’investissement.**

11 **Voir également réponse à la question 35.**

12 **Preamble to Questions 55 - 59**

13 On Page 15/21 of HQT-3 Document 1 HQT states:

14 “This differential cost allocation methodology is used because it is
15 impossible to objectively measure, for each of the project facilities or
16 components that contribute to achieving more than one objective, the
17 portion of costs that relates to each of the projects objectives.”

18 In opinion 69 FERC 61,168 the commission stated:

19 “The AEP Companies also argue that it is unrealistic to expect them to
20 estimate the incremental costs attributable to a transmission customer over
21 the entire term of a long-term contract. We recognize that it may be
22 difficult to determine the costs that would not have been incurred but for
23 the transmission customer and to estimate future impacts of a transmission
24 request. However, if a utility needs to expand its system and charges a
25 transmission customer a rate higher than an average, embedded cost rate to
26 recover the costs of the expansion to its transmission system, the utility
27 must be able to identify and justify the estimated costs of the expansion.”
28 (We underlined.)

- 29
- 30 • Q55 - Please explain HQT’s comment from page 15/21 of HQT-3 Document 1 in
31 the context of the above noted reference from FERC.

1 **Partie 1**

2 **R55**

3 **Voir la réponse à la question 25.**

4 Par ailleurs, l'attribution des coûts de façon séquentielle, par différence,
5 est une approche valable pour identifier et justifier les coûts d'ajouts au
6 réseau dans les projets intégrés à objectifs multiples, alors que chacun
7 des équipements ou composantes du projet contribue à satisfaire
8 indistinctement plus d'un objectif.

9 Le Transporteur rappelle que c'est dans une perspective d'optimisation de
10 ses interventions qu'il réalise des projets dont les principales
11 composantes contribuent à satisfaire simultanément des objectifs
12 multiples de façon intégrée.

- 13 • Q56 - For all the three capital project categories - (1) asset maintenance, (2)
14 customer demand growth, (3) maintenance and improvement of service quality,
15 please illustrate the manner by which a project is determined to be a revenue
16 generator, or not? Please comment.

17 **Partie 1**

18 **R56**

19 Les investissements sont catégorisés en fonction de leurs objectifs. Dans
20 la mesure où un investissement a pour objectif, en tout ou en partie, de
21 répondre à la « Croissance des besoins de la clientèle », et est ainsi visé
22 par les dispositions de la politique d'ajouts, le coût de cet investissement
23 se voit attribué, en tout ou en partie, à cette catégorie. Dans la mesure où il
24 s'agit d'un projet intégré à objectifs multiples, la méthode séquentielle de
25 partage des coûts décrite par le Transporteur à la pièce HQT-3,
26 Document 1, section 7.2.a) s'applique.

- 27 • Q57 - Please comment on the role depreciation plays in determining whether or
28 not a capital project is classed as a revenue generator.

29 **Partie 1**

30 **R57**

31 Les investissements sont catégorisés en fonction de leur objectif.
32 L'amortissement n'a pas d'effet sur la détermination de la classification
33 d'un projet dans la catégorie « Croissance des besoins de la clientèle » ou
34 dans toute autre catégorie.

- 35 • Q58 - Does depreciation play a role in protecting existing transmission customers
36 against rate increases that could result from the cost of new projects? Please
37 comment.

1 **Partie 1**

2 **R58**

3 **Pour les projets réalisés à la demande de clients, c'est l'application de**
4 **l'allocation maximale et, lorsque applicable, de la contribution qui en**
5 **découle qui protège les clients existants d'impacts de ces projets sur le**
6 **tarif.**

7 **De plus, l'amortissement de la base de tarification existante permet**
8 **d'amoindrir l'impact sur les revenus requis des mises en services.**

- 9 • Q59 - Can HQT provide examples of interconnection or upgrade policies from
10 other OATTs which allocate costs based on capital project categories? Please
11 comment.

12 **Partie 1**

13 **R59**

14 **Le Transporteur n'est pas en mesure de fournir des exemples provenant**
15 **de Tarifs et conditions en vigueur dans d'autres juridictions.**

16 **Preamble to Question 60**

17

18 HQT-3, Document 1 Page 15/21 states:

19 “However, the Transmission Provider reiterates that exceptional cases
20 remain possible, given the unique and complex nature of some projects. If
21 necessary, an appropriate cost allocation methodology will be submitted to
22 the Régie for review as part of the project authorization process.”

- 23 • Q60 - Please provide an example of an exceptional case?

24 **Partie 1**

25 **R60**

26 **À l'heure actuelle, comme indiqué à la pièce HQT-3, Document 1, le**
27 **Transporteur n'a pas identifié de cas où la méthode proposée ne**
28 **s'appliquerait pas. Si un tel cas survenait, le Transporteur ferait une**
29 **proposition à la Régie.**

30 **Preamble to Questions 61 - 62**

31 The HQT OATT defines a third Party sale as:

32 “1.63 Third-Party Sale: Any sale in interstate, interprovincial or
33 international commerce to a Power Purchaser that is not designated as
34 supplying either Network Load under the Network Integration
35 Transmission Service or the Distributor's Native Load.”

1 Reference 3 of HQT-2, Document 1, pg 4, in reference to “Comparability” States that:

2 “Second, when a utility uses its own transmission system to make off-
3 system sales, it should ``pay'' for transmission service at the same price
4 that third-party customers pay for the same service, and credit the
5 transmission revenues to its native load customers. This treatment restricts
6 the transmission owner's ability to gain an unfair advantage in the bulk
7 power market by selling itself transmission service at a discount that would
8 be subsidized by native load and transmission-only customers.”

9 Also in, Reference 3 of HQT-2, Document 1, under the heading “Transmission Pricing
10 Should Promote Fairness” FERC states that:

11 “ As a general matter, transmission pricing should be fair and equitable.
12 This has two important implications. First, the EPA requires that, to the
13 extent practicable, existing wholesale, retail and transmission customers
14 should not pay for the costs incurred in providing wholesale transmission
15 services ordered under section 211. Similarly, we do not believe that third-
16 party transmission customers should subsidize existing customers.....”

17 In HQT-2, Document 1, page 4, lines 5 - 7 Ms. Chang states that:

18 “The network upgrade policies in the U.S. center on protecting existing
19 transmission customers from excess costs induced by network upgrades
20 associated with customers requesting transmission service....”

21 Similarly in HQT-2, Document 1, page 5, lines 1 - 10 Ms. Chang also states that:

22 “However, since native load customers, prior to restructuring, had funded
23 (and were going to continue to fund) the infrastructure that made the
24 delivery of power to them possible, FERC also wanted to ensure that
25 existing transmission users would not be unduly harmed by costs imposed
26 by customers requesting transmission service involving network upgrades
27 that could increase the embedded costs of the system. Thus, FERC’s initial
28 “higher of” policy was designed to ensure that existing (and growing)
29 native load was protected, while the wholesale market developed,
30 allowing new customers to interconnect to the existing transmission
31 network that was predominantly funded by existing native load. In a
32 policy statement in the mid-1990s, FERC stated that one of the goals of its
33 new pricing policy was “to hold native load customers harmless.” (We
34 underlined.)

- 1 • Q61 - In reference to these quotes from Ms. Chang please confirm Ms. Chang's
2 position regarding which existing customers are being protected from excess
3 costs, i.e. transmission service customers for native load? point-to-point
4 transmission service customers for export sales, both, neither? Please comment.

5 **Partie 1**

6 **R61**

7 **In reference to the quote above, both existing native load and point-to-
8 point transmission service customers should be protected from excess
9 costs related to the upgrades triggered by the requesting customer.**

- 10 • Q62 - Would Ms. Chang agree that 'comparability' is an absolute requirement
11 within FERC's transmission pricing policy document as referenced in footnote 3
12 of HQT-2, document 1. Please comment.

13 **Partie 1**

14 **R62**

15 **FERC's general principle is to ensure that transmission pricing policy
16 should treat all transmission customers equitably.**

17

1 Partie 2 – Questions de M. Seabron Adamson pour NLH

2 **Preamble to Questions 1:**

3 Testimony of Judy Chang, page 4:

4 *As a part of U.S. electricity industry restructuring in the 1990s, FERC outlined its transmission
5 pricing policy. FERC indicated a desire to ensure that its “transmission pricing policies promote
6 economic efficiency, fairly compensate utilities for providing transmission services, reflect a
7 reasonable allocation of transmission costs among transmission users, and maintain the
8 reliability of the grid.”³ More specifically, FERC identified five principles for evaluating
9 transmission pricing proposals. In a 1995 Order to clarify its 1994 transmission pricing policy,
10 FERC stated the following: [Quotation omitted]*

- 11 1. Ms. Chang in her testimony quotes the principles stated by FERC in its 1995 policy
12 statement and in Order 888 for transmission cost allocation. Has she considered more
13 recent FERC Orders regarding transmission cost allocation principles by public utility
14 transmission providers? Please comment.

15 Partie 2

16 **R1**

17 **Ms. Chang’s testimony (HQT-2, Document 1) was intended to present the principles underlying FERC’s transmission pricing policy for network upgrades and compare them to the principles supporting HQT’s proposed network upgrade policy. Ms. Chang is generally aware of other FERC orders related to transmission network upgrade pricing. As listed on Appendix C “References” to Ms. Chang’s testimony, Ms. Chang also relied upon FERC Order 890 dated February 16, 2007.**

24 **Preamble to Question 2:**

25 Testimony of Judy Chang, page 7:

26 *“HQT’s embedded costs are recovered through a uniform transmission charge that is based on HQT’s system cost, net of the amount paid through customers’ direct contributions. To provide a reasonable assurance that customers triggering network upgrades do not impose excess costs on other customers of the system by raising the average system charge, HQT has put into place an approach that requires both the native load customer (Hydro-Québec Distribution (H-QD)) and point-to-point customers (Hydro-Québec Production (H-QP) or third-parties) to pay sufficient contributions to HQT for network upgrade costs that exceed average system costs”*

- 34 2. Please provide a detailed schedule of actual annual customer Contributions (for the last 5 years) associated with each category of transmission network upgrades (e.g., associated with point-to-point service, native load growth and generation interconnection).

37 Partie 2

38 **R2**

39 **Le Transporteur est d’avis qu’il n’est pas requis de produire les informations demandées pour saisir la portée de sa proposition et comprendre l’approche décrite en préambule.**

1 **Preamble to Questions 3 and 4:**

2 Testimony of Judy Chang, page 14:

3 *"Under the proposed approach, when integrating generation resources for native load triggers
4 network upgrades, HQT would, in a first step, determine HQD's Contribution as under the
5 current policy, which is the "assumed" rolled-in amount. This allows equitable treatment to all
6 generation resources. In a second step, HQT would compare the assumed rolled-in portion of the
7 upgrade costs against "credits" associated with HQD's load growth-related upgrades. "Credits"
8 are created when the rolled-in portion of an upgrade cost is less than the Maximum Allowance.
9 This comparison determines whether HQD has accumulated sufficient credits to cover the
10 "assumed" rolled-in portion of the generation resource-related upgrade costs. If there are not
11 enough credits to cover the pooled network upgrade costs needed to serve load and associated
12 generation resources, HQD will be required to make an additional Contribution that covers the
13 remainder of the upgrade costs."*

14 3. Please provide a schedule of HQD "credits" would have been over the last 5 years and how
15 these were calculated

16 **Partie 2**

17 **R3**

18 **Le Transporteur réfère aux tableaux de l'annexe 1 de la pièce HQT-1,
19 Document 1 révisée.**

20 4. Are such "credits" available to point-to-point customers as well as HQD? if so, please
21 describe applicability of credits for a point to point customer.

22 **Partie 2**

23 **R4**

24 **The proposed approach relating to "credits" applies only to the Distributor
25 as described in the evidence of HQT.**

26 **Preamble to Question 5:**

27 HQT Evidence, "Transmission Provider Policy on Network Upgrades", page 11.

28 *"When a point-to-point customer requests transmission service for which transmission network
29 upgrades are necessary, the amount of the allowance granted by the Transmission Provider is
30 based on the term of the transmission service agreement executed by the customer. Customers are
31 granted an allowance over a maximum period of 20 years, or based on the term of their service
32 agreement, and they must pay, if applicable, a contribution if the cost of their network upgrades
33 exceeds the allowance."*

34 5. Please provide a summary of point-to-point service requests made to HQT over the last
35 5 years and their quantity in MW and duration in years, plus the associated points of
36 injection and withdrawal.

1 **Partie 2**

2 **R5**

3 **Toutes les demandes de service de point à point sont inscrites sur le**
4 **système OASIS du Transporteur. La liste de la séquence d'impact est**
5 **accessible dans la partie publique du système OASIS. Voir également la**
6 **réponse à la question 16.2 de la demande de renseignements de la Régie.**

7 **Preamble to Questions 6 and 7:**

8 Testimony of Judy Chang, page 7:

"To protect existing customers from bearing excess costs for network upgraded associated with a transmission service request, HQT estimates the maximum amount of transmission investment that can be rolled-in to its aggregate revenue requirement (which I will refer to as "Maximum Allowance"). If the cost of certain upgrades needed to fulfill a customer's transmission service request exceeds this maximum, the customer is required to make a direct contribution (which I will refer to as "Contribution") in excess of the Maximum Allowance to HQT to mitigate the impact of the upgrade on HQT's other customers. This treatment is applicable to upgrades associated with native load growth, generation integration, and point-to-point transmission service."

- 9 6. Has HQT suffered any direct financial losses, or has its native load customers faced any
10 increased costs, from transmission additions made to accommodate point-to-point service
11 requests of less than 20 year duration while its OATT has been in force? Please comment.

12 **Partie 2**

13 **R6**

- 14 **Ms. Chang has not evaluated whether native load customers have faced**
15 **any increased costs from transmission additions made to accommodate**
16 **point-to-point service requests of less than 20 year duration. However,**
17 **HQT uses the point-to-point transmission service length to determine the**
18 **maximum allowance and to estimate the amount of cost that can be rolled-**
19 **in to the transmission tariff. If the cost of the upgrade is greater than the**
20 **maximum allowance, the customer is required to make a contribution.**

- 21 7. If HQT claims it has suffered any such financial losses, so, please provide a detailed
22 schedule of these losses and how they have been calculated.

23 **Partie 2**

24 **R7**

- 25 **Le Transporteur estime que cette question ne s'inscrit pas dans le cadre**
26 **de la présente demande, qui a été retenu par la Régie afin de traiter des**
27 **sujets identifiés dans la décision procédurale D-2014-117. De plus, le**
28 **Transporteur n'a pas évoqué de telles pertes financières dans sa preuve.**

1 **Preamble to Question 8:**

2 HQT Evidence, “Transmission Provider Policy on Network Upgrades”, page 11.

3 *“Under the current regulatory framework, the Distributor’s contribution is calculated on the
4 basis of annual commissionings by applying the maximum allowance to forecasted 20-year
5 growth in satellite substations and customers connected directly to the transmission system. Thus,
6 the Transmission Provider updates the Distributor’s contribution to native load projects on an
7 annual basis. The Distributor’s resource-integration and generating-station-connection projects
8 (“resource projects”) are rolled into the Transmission Provider’s rate base up to the maximum
9 allowance, based on the maximum capacity to be transmitted on the network.”*

10 *In accordance with Section C of Attachment J to the Transmission Tariff, the Transmission
11 Provider calculates the Distributor’s contribution “taking into account for all investments
12 associated with projects commissioned by the Transmission Provider during the year and all load
13 growth that such projects are to serve over a twenty (20) year period.” As a result, projects are
14 aggregated on an annual basis. That aggregation is filed with the Régie in rate applications.”*

15 8. Please provide a detailed calculation of the Distributor’s contribution based on 20 year
16 growth forecast as discussed in Section 3.1.2.1 for each of the last 5 years.

17 **Partie 2**

18 **R8**

19 **Le Transporteur réfère aux tableaux de l’annexe 1 de la pièce HQT-1,
20 Document 1 révisée.**

21 **Preamble to Question 9:**

22 HQT Evidence, “Transmission Provider Policy on Network Upgrades”, page 13.

23 *“The maximum allowance is established over a 20-year period, so the cost of upgrades made at a
24 customer’s request is recovered within a maximum of 20 years. This allowance is less than what
25 it would be if it were based on the average useful life of transmission facilities, which is 40 years.
26 The Transmission Provider is therefore guaranteed a contribution greater than what would be
27 required if it were calculated over average useful life instead of a limited 20-year period, as is
28 currently the case. In this regard, it should also be noted that native load, which grows gradually
29 over the timeframe factored into the maximum allowance, in fact persists well beyond the 20-year
30 period used to establish this allowance.”*

31

32 9. What impact on transmission rates, maximum allowance and Distributor contributions
33 would be forecast over the next three years if the Transmission Provider assumed the use of
34 a life of 40 years for transmission facilities, as discussed in 3.1.2.2 (page 13).

1 **Partie 2**

2 **R9**

3 **La proposition du Transporteur est de maintenir la période d'établissement**
4 **de l'allocation maximale sur 20 ans. Le Transporteur indique que son rôle**
5 **n'est pas de procéder à des analyses ou des simulations au bénéfice des**
6 **démonstrations que souhaite réaliser l'intervenant.**

7 **Preamble to Question 10:**

8 HQT Evidence, "Transmission Provider Policy on Network Upgrades", page 15.

9 "Transmission Provider's Proposals

- 10 ➤ *Include all of the Distributor's projects in the annual aggregation of projects used to calculate the "annual aggregation (loads and resources)" contribution, i.e. add resource projects to the aggregation currently used for native load growth projects in order to limit the total capital costs borne by the Transmission Provider to the maximum allowance based on forecasted 20-year growth in satellite substations and customers connected directly to the transmission system.*
- 11 ➤ *Carry forward positive balances from the annual aggregation of the Distributor's projects to cover its contribution in subsequent years, if applicable."*

20 10. Provide a table of carry forward balances for the last 5 years and provide a calculation
21 demonstrating how these carry forward balances (if implemented at the time) would have
22 affected:

23 a. HQD Contributions

24 **Partie 2**

25 **R10a**

26 **Voir les notes 1 des tableaux R7.3.1 et R7.3.2 de la réponse à la**
27 **question 7.3 de la demande de renseignements numéro 1 de la Régie à la**
28 **pièce HQT-4, Document 1.**

29 b. Maximum Allowance and

30 **Partie 2**

31 **R10b**

32 **Le Transporteur précise que montant maximal attribué aux projets de**
33 **croissance aux postes satellites et aux projets de raccordement de clients**
34 **du Distributeur directement au réseau de transport n'est pas affecté par le**
35 **cumul des soldes positifs.**

1 Par ailleurs, le Transporteur souligne que l'allocation maximale (en \$/kW)
2 approuvée par la Régie dans la section E de l'appendice J des *Tarifs et*
3 *conditions* des dernières années ne sera pas modifiée, celles-ci ayant fait
4 l'objet de décisions finales.

5 c. the Network Service Rate

6 **Partie 2**

7 **R10c**

8 Voir la réponse à la question 7.3 de la demande de renseignements
9 numéro 1 de la Régie à la pièce HQT-4, Document 1.

10 Preamble to Questions 11-14:

11 HQT Evidence, "Transmission Provider Policy on Network Upgrades", page 24:

12 "*The Transmission Provider proposes a new approach to following up on commitments for future*
13 *projects. The proposed follow-up would be conducted on an annual basis, as desired by the*
14 *Régie.*

15 *Under this proposal, the Transmission Provider will perform an annual follow-up to*
16 *demonstrate that upgrade costs for each customer, as established for monitoring purposes for all*
17 *projects subject to paragraph 12A.2(i) and sections A, B and D of Attachment J, are being*
18 *recovered annually by total transmission revenues for that customer.*"

19 11. Please provide a detailed description and an example of how HQT currently conducts
20 transmission cost "follow-ups" for point-to-point or other transmission customers on a net
21 present value basis using actual costs and revenues from an existing Point -to-Point or
22 generation interconnection transmission customer.

23 **Partie 2**

24 **R11**

25 À ce jour, le suivi des engagements de type Toulnustouc et selon l'article
26 12.A ii) est présenté sur une base annuelle à la Régie. Ces engagements
27 sont présentés à l'annexe 2 de la pièce HQT-1, Document 1.

28 Jusqu'à présent, les projets déjà autorisés en vertu de l'article 12A.2 i) et
29 de l'appendice J des *Tarifs et conditions* ne sont pas associés à des
30 engagements annuels. Ces projets ont fait l'objet d'une démonstration de
31 revenus au moment de la demande d'autorisation des projets à la Régie,
32 en fonction de l'impact tarifaire et lorsque la Régie le demandait, sur la
33 base de la valeur actualisée des revenus d'au moins une convention de
34 service de transport à long terme.

35 12. What total additional customer cost amounts have been collected by HQT in each of the
36 previous 5 years under these "follow-ups"?

37 **Partie 2**

38 **R12**

39 40 Cette question n'est pas claire en ce qui a trait aux termes « *total*
 additional customer cost amounts ».

1 Le Transporteur mentionne qu'il a perçu des revenus de transport
2 permettant de couvrir les engagements. Il n'a pas encaissé d'autres
3 montants résultant du suivi des engagements.

4 13. Please provide a detailed description and an example of how HQT proposes to conduct
5 transmission cost "follow-ups" for point-to-point customers on an annual basis.

6 **Partie 2**

7 **R13**

8 **Le Transporteur précise que l'annexe 2 de la pièce HQT-1, Document 1**
9 **révisée, présente en détail la proposition du Transporteur.**

10 14. Under HQT's proposal, If under follow-up from a point-to-point customer a surplus is
11 generated will these be refunded in a year if the point-to-point customer has no further
12 obligations to HQT Please comment.

13 **Partie 2**

14 **R14**

15 **Ce n'est pas la proposition du Transporteur.**

16 **Preamble to Question 15:**

17 HQT additional evidence, page 13:

18 *"In Decision D-2014-117, the Régie stated:*

19 *[54] The Régie notes that the Transmission Provider does not specify the cases in which*
20 *the proposed methodology would not apply. The Régie also believes that it would be*
21 *relevant and appropriate to know, in the context of this case, what alternative methods*
22 *the Transmission Provider might propose for the purpose of sharing costs among the*
23 *various transmission service customers.*

24 *[55] The Régie directs the Transmission Provider to submit additional evidence*
25 *specifying the cases in which the proposed solution would not apply, and explaining*
26 *possible alternatives to the Transmission Provider's proposed methodology for cost-*
27 *sharing among the various transmission service customers.*

28 *At this time, the Transmission Provider has not identified any cases in which the proposed*
29 *methodology would not apply. Therefore, it has not defined alternative methodologies for cost-*
30 *sharing among the various transmission service customers."*

32 15. Has in the last 10 years the Transmission Provider been required to make any cost
33 allocation decisions between different categories of customers (such as native load versus
34 point-to-point customers)? If so, describe how these cost allocation decisions have been
35 made and provide the calculations in spreadsheet format.

36 **Partie 2**

37 **R15**

38 **Voir la réponse à la question 17.b de la demande de renseignements**
39 **numéro 1 de l'AQCIE-CIFQ à la pièce HQT-4, Document 2.**

40 **Preamble to Question 16:**

1 HQT additional evidence, page 14:

2 “*Capital projects are classified according to their objectives.*

3 *The resulting classification is used to allocate project costs to the various capital expenditure*
4 *categories. Capital projects that are needed to meet new customer demand belong to the revenue-*
5 *generating group, while projects that ensure the durability of the system, the maintenance or*
6 *improvement of service quality or compliance with requirements belong to the non-revenue-*
7 *generating group. Based on these objectives, the Transmission Provider uses four capital*
8 *expenditure categories recognized by the Régie, in the following order: “customer demand*
9 *growth,” “asset maintenance,” “maintenance and improvement of service quality” and*
10 *“compliance with requirements,” as defined in the exhibit entitled “Description synthétique des*
11 *investissements et de leurs objectifs” in docket R-3904-2014.”*

12 16. Please provide a schedule of costs allocated between the four categories {customer demand
13 growth, asset maintenance, maintenance and improvement of service quality, compliance
14 with requirements} over the last five years and describe how these have been allocated in
15 detail.

16 **Partie 2**

17 **R16**

18 **Le Transporteur présente le sommaire des mises en service, par**
19 **catégories, pour la période 2009 à 2013 au tableau suivant.**

20 **Tableau Partie 2 – R16**
21 **Sommaire des mises en service par catégorie 2009 à 2013 (M\$)**

Catégorie des mises en service	2009	2010	2011	2012	2013
Maintien des actifs	636	638	564	541	634
Maintien et amélioration de la qualité du service	60	76	221	81	248
Respect des exigences	25	51	17	47	58
Croissance des besoins	718	388	460	373	1 012
Total	1 440	1 153	1 262	1 042	1 951

23 Pour la méthode d’attribution des coûts aux différentes catégories,
24 le Transporteur réfère l’intervenant à la pièce HQT-3, Document 1,
25 section 7.2.

1 **Preamble to Question 17:**

2 HQT additional evidence, page 14:

3 *“However, to optimize each of its initiatives, the Transmission Provider carries out many large-
4 scale projects whose main components simultaneously pursue multiple objectives in an
5 integrated fashion (“integrated multiple-objective projects”). For example, entire facilities and
6 sometimes entire sub-systems are sometimes fully replaced to achieve objectives of durability,
7 growth and service quality improvement. The allocation of project costs to the various relevant
8 categories is more complicated in those cases”*

9 17. Please detail the set of criteria used by HQT in establishing the “objectives” in integrated
10 projects and how these are used to separate costs.

11 **Partie 2**

12 **R17**

13 **Les objectifs d'un projet sont déterminés en fonction des besoins identifiés et de la possibilité de les traiter au sein d'un même projet, compte tenu de leur concomitance. Ainsi, les besoins identifiés se traduisent par des objectifs.**

17 **Suivant ces objectifs, le Transporteur utilise quatre catégories d'investissement reconnues par la Régie, soit la catégorie « Croissance des besoins de la clientèle », la catégorie « Maintien des actifs », la catégorie « Maintien et amélioration de la qualité du service » et la catégorie « Respect des exigences ».**

22 **Pour une description de la catégorisation des projets d'investissements, voir la section 7.2 de la pièce HQT-3, Document 1.**

24

25 **Preamble to Question 18:**

26 HQT additional evidence, page 18

28 *The Transmission Provider is not aware that cost-sharing among the beneficiaries of a transmission system improvement project is a common practice in other jurisdictions.*

31 18. What other jurisdictions has HQT examined in making the statement that “The Transmission Provider is not aware that cost-sharing among the beneficiaries of a transmission system improvement project is a common practice in other jurisdictions”?

34 **Partie 2**

35 **R18**

36 **Ms. Chang is familiar with some of the cost allocation methodologies used in the U.S. for network upgrades. By its evidence, HQT is describing the fact that different approaches to cost sharing for transmission network upgrades are applied in different regions in the U.S. There is no one single cost-allocation method that applies to all regions in the U.S.**

1 **Preamble to Question 19:**

2 HQT additional evidence, page 18:

3 *“Some network upgrades provide direct or indirect benefits to existing or future users other than
4 the requester that triggered the expenditure. It is however reasonable to think that those users
5 would be inclined to challenge any attempt to make them pay a share of the cost of upgrades that
6 are not required for their own transmission or generating station connection needs, on the
7 grounds that they were not involved in the decision to make such network upgrades.”*

8
9 19. Under what circumstances does HQT anticipate that that the requesters of transmission
10 services triggering upgrades differ from the beneficiaries? Does it have examples of such
11 differences?

12 **Partie 2**

13 **R19**

14 **Le Transporteur considère que le demandeur ayant déclenché un ajout au
15 réseau en est toujours le bénéficiaire. Par ailleurs, le Transporteur précise
16 que l'ensemble du réseau de transport sert à rendre l'ensemble des
17 services de transport.**