

Responses from the Association Cooperative Economie Familiale de l'Outeouais (ACEFO) to the request for information from the Régie de Énergie (the Régie) regarding the Transmission Provider's request for changes to the Transmission Network Upgrades Policy

1. Reference: Exhibit C-ACEFO-0011, p. 21.

Preamble:

"In our opinion, the objective of the methodology for payment of the contribution for projects with phased commissioning should be to ensure rate neutrality. It is thus appropriate to match the cost of commissionings with the forecasted revenues based on the customer's commitment to cover the integration costs. Also, this commitment should be set out in the connection agreement to be executed by the Transmission Provider and the customer.

"If the commitment states that the forecasted revenues for the entire project start being collected as of the first commissioning, the Transmission Provider's proposal described above in this section is acceptable, because rate neutrality is assured. However, if the commitment indicates that the forecasted revenues as of the date of the first commissioning do not cover the costs of that commissioning, rate neutrality is not assured and a contribution should be required from the customer as of that commissioning [emphasis added]."

The Régie understands from the intervenor's evidence that the Transmission Provider's proposal regarding payment of a contribution for phased commissioning would be acceptable if the revenue from the commissioning covers the value of the commissioning.

Questions:

1.1 Please confirm the Régie's understanding.

R1.1 ACEFO confirms the Régie's understanding with the following clarification: if the commitment corresponding to the total cost of the project begins with the first commissioning and the value of this commitment is equal to or greater than the amount of successive partial commissioning no contribution is required until the final commissioning.

1.2 Please specify whether your proposal would apply regardless of the transmission service required by the project.

R1.2 The proposal concerns cases of phased commissioning of production equipment. In such cases, long-term firm transmission service is required, for which the customer undertakes a commitment corresponding to the maximum amount that the Transmission Provider can roll into its rate base. Consequently, it is the value of the commitment that is relevant rather than the transmission service required by the project.

1.3 Please explain the rate impact of your proposal with a numerical example, and identify the impact on the Transmission Provider's rate base.

R1.3 Example:

a) Hypothesis and premises

Based on the maximum allowance indicated in R-3903-2014, HQT-12, Document 2, or B-0031, page 5, the maximum value that the Transmission Provider can include in its rate base is \$593 million (1,000 MW * 593 \$/kW).

The Transmission Provider's customer undertakes a commitment corresponding to this amount (\$593 million) and specifies that the commitment begins with the first commissioning.

Given that the value of the commitment is less than the total value of the project, the customer will have to pay a contribution of \$907 million (\$1,500 billion – \$593 million).

Value of first commissioning: \$500 million for a 500 MW upgrade

Value of second commissioning: \$500 million for a 250 MW upgrade

Value of third commissioning: \$500 million for a 250 MW upgrade

b) Determination of contribution based on commissioning

At the first commissioning, the customer's commitment (\$593 million) is greater than the value of the commissioning (\$500 million) and no contribution is required.

At the second commissioning, the customer's commitment (\$593 million) is less than the total of the partial commissioning (\$500 million + \$500 million = \$1 billion) and a contribution of \$407 million is required (\$1 billion – \$593 million, or the total for the partial commissioning less the total value of customer's commitment).

At the final commissioning, the total contribution of \$907 million (\$1.5 billion – \$593 million, or the total project value less the total value of the customer's commitment), becomes due and \$500 million (\$907 million – \$407 million, or the total contribution to be paid by the customer less the amount of the contribution paid at the second commissioning) is due.

c) Rate impact on rate base

The impact on the rate base and on the transmission rate involves capital expenditure only. We will present four cases, which vary according to when the commitment begins and when the contribution is paid.

Rounded data from 2015, found in R-3903-2014, is used to assess impact:

– Rate Base:	\$18.585 billion	(R-3903-2014, B-0031, page 3)
– Total demand:	42,500 MW	(R-3903-2014, B-0023, page 29)
– Rate of return:	7.0%	(R-3903-2014, B-0022, page 6)

Based on the parameters below, the customer's commitment is a constant annuity of \$50.76 million.

- **Present Value: \$593 million, as estimated above**
- **Commitment duration: 20 years, as in R-3581-2005 (HQT-7, Document 2, page 37)**
- **Projected cost of capital: 5.775% (R-3903-2014, B-0022, page 6)**

CASE 1

In the table below, the contribution is paid when the value of the commissionings is greater than the maximum amount that the Transmission Provider can roll into its rate base, with the commitment beginning at the first commissioning.

Contribution based on value of partial commissioning					
Commitment starting at first commissioning					
PROJECT					
			\$M	\$M	\$M
Capital			500	500	500
Contribution			0	407	500
Net upgrade			500	93	0
Amortization	40		12.50	2.33	0.00
Net capital			487.50	90.68	0.00
RATE IMPACT					
Rate base (\$M)	18,585		19,072.0	19,163.2	19,163.2
Rate	7.0%		7.0%	7.0%	7.0%
Return (\$M)	1,301.0		1,335.1	1,341.4	1,341.4
20-year commitment (\$M)			50.76	50.76	50.76
Revenue requirement (\$M)	1,301.0		1,284	1,291	1,291
Total demand (MW)	42,500		42,500	42,500	42,500
Rate \$/kW	30.61		30.22	30.37	30.37

As can be seen, there is no upward pressure on the rate, and any impact on return is offset by the yearly payment of the amount of the customer's commitment (\$50.76 million) for 1,000 MW (total capacity of the upgrade) and, consequently, revenue requirements are less than initial revenue requirements.

CASE 2

In the table below, the contribution is paid at the final commissioning with the commitment beginning at the first commissioning.

Contribution paid at final commissioning					
Commitment starting at first commissioning					
PROJECT					
			\$M	\$M	\$M
Capital			500	500	500
Contribution			0	0	907
Net upgrade			500	500	-407
Amortization	40		12.50	12.50	-10.18
Net capital			487.50	487.50	-396.83
RATE IMPACT					
Rate base (\$M)	18,585		19,072.5	19,560.0	19,163.2
Rate	7.0%		7.0%	7.0%	7.0%
Return (\$M)	1,301.0		1,335.1	1,369.2	1,341.4
20-year commitment (\$M)			50.76	50.76	50.76
Revenue requirement (\$M)	1,301.0		1,284	1,318	1,291
Total demand (MW)	42,500		42,500	42,500	42,500
Rate \$/kW	30.61		30.22	31.02	30.37

As can be seen, there is no increase for the first commissioning, but there is for the second. The customer can prevent this by paying a contribution at the second commissioning.

CASE 3

For purposes of comparison, the table below shows the impact that would result if the commitment started with the final commissioning and if the contribution were paid at the same time.

Contribution paid at final commissioning					
Commitment starting at final commissioning					
PROJECT					
			\$M	\$M	\$M
Capital			500	500	500
Contribution			0	0	907
Net upgrade			500	500	-407
Amortization	40		12.50	12.50	-10.18
Net capital			487.50	487.50	-396.83
RATE IMPACT					
Rate base (\$M)	18,585		19,072.5	19,560.0	19,163.2
Rate	7.0%		7.0%	7.0%	7.0%
Return (\$M)	1,301.0		1,335.1	1,369.2	1,341.4
20-year commitment (\$M)			0	0	50.76
Revenue requirement (\$M)	1,301.0		1,335	1,369	1,291
Total demand (MW)	42,500		42,500	42,500	42,500
Rate \$/kW	30.61		30.41	32.22	30.37

As can be seen, there is an impact on the rate up until the start of payment of the commitment, i.e., at the final commissioning. There is an increase in return but, in this case, the increase is not offset by payment of the customer's commitment for the first two commissionings.

CASE 4

The following table illustrates the impact that would result if the commitment began at final commissioning and if the contribution were paid once the total amount of the commissionings exceeded the maximum allowance for network upgrades.

Contribution based on value of partial commissioning					
Commitment starting at final commissioning					
PROJECT					
			\$M	\$M	\$M
Capital			500	500	500
Contribution			0	407	500
Net upgrade			500	93	0
Amortization	40		12.50	2.33	0.00
Net capital			487.50	90.68	0.00
RATE IMPACT					
Rate base (\$M)	18,585		19,072.5	19,163.2	19,163.2
Rate	7.0%		7.0%	7.0%	7.0%
Return (\$M)	1,301.0		1,335.1	1,341.4	1,341.4
20-year commitment (\$M)			0	0	50.76
Revenue requirement (\$M)	1,301.0		1,335	1,341	1,291
Total demand (MW)	42,500		42,500	42,500	42,500
Rate \$/kW	30.61		30.41	31.56	30.37

This case also shows an impact on the rate. For the first commissioning, the increase is the same as in the previous example, but for the second commissioning, the increase is lower.