

**Transmission Provider's responses to  
Request for Information No. 1 from  
the Canadian Federation of Independent Businesses  
(the "CFIB")**

Translation commissioned by  
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TRANSMISSION PROVIDER'S APPLICATION CONCERNING THE NETWORK  
UPGRADE POLICYR-3888-2014

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**DISTRIBUTOR'S UPGRADES****Question 1****References:**

- (i) HQT-1, Document 1, pp. 12 to 19, sections 3.1.2 to 3.3
- (ii) HQT-1, Document 1, pp. 36 to 44, Schedule 1

**Preamble:**

In Reference (i), the Transmission Provider states:

*"Aggregating projects to take into account all investments has the effect of limiting application of the maximum allowance to the forecast growth for satellite substations and loads of Distributor customers connected directly to the transmission system."*

In its application for intervention, the CFIB queries the proposed treatment regarding excess capacities at satellite substations.

**Questions:**

- 1.1 Please confirm that investments in the supply side of satellite substations or connecting customers directly to the transmission system, for example investment in a source substation, will increase the load supplied without requiring investment in satellite substations.

**R1.1**

**Investing in the supply side of satellite substations or connecting customers directly to the transmission system, for example investing in a source substation, could actually increase the load supplied without requiring investment in satellite substations, specifically for customers connected directly to the transmission system.**

- 1.2 Please indicate the following as at the commencement date of the aggregation exercise:

- the capacity(MW) of each satellite substation;

**R1.2.1**

**See response to question 18.1 of Request for Information No. 1 from the Régie in Exhibit HQT-13, Document 1 of File No. R-3605-2006. The Transmission Provider points out that this information was updated in each of its rate applications.**

- peak use (MW) of each satellite substation;

**R1.2.2**

**See response to question 1.2.1.**

- the excess capacity of each satellite substation;

**R1.2.3**

**See response to question 1.2.1.**

- the overall excess capacity of all satellite substations.

**R1.2.4**

**See response to question 1.2.1.**

1.3 Please provide the excess capacity at all satellite substations at present.

**R1.3**

**See Exhibit HQT-9, Document 1.1 of File No. R-3903-2014.**

1.4 Please redo Schedule 1 using 2001 as the point of departure.

**R1.4**

**Native load growth projects have been annually aggregated since 2006, namely since it was authorized by the Régie in Decision D-2006-66 (Schedule D). The Transmission Provider's proposal consists in adding resource-related projects resulting from the Distributor's calls for tenders respecting which the Régie reserved its decision, to current aggregation of load growth projects, i.e., since 2006, to allow for aggregation of positive balances generated by this new aggregation.**

1.5 Please provide full details of the \$24.5 million maximum allowance for reconstructing the Bélanger satellite substation. Please submit a copy of your calculation in Excel.

**R1.5**

**The maximum amount associated with the Bélanger substation reconstruction project is set forth in Exhibit HQT-1, Revised Document 1, Schedule 1, page 44. Explanation of the calculation of the maximum amount is as follows:**

- **Growth forecast over 20 years for satellite substations in the project's area of influence = 41 MW**

- **Maximum allowance applicable in 2014 = \$598/kW**
- **Maximum amount associated with the project = 41 MW x \$598/kW = \$24.5 million**

1.6 If the Distributor is required to increase its peaking capacity demand for technical or administrative reasons (e.g. modification of the method for forecasting peak demand), would the additional revenues generated by the Distributor result in a credit applicable against present or future investments? If not, please justify not considering this increase in consumption of service versus an increase resulting from the physical addition of customers.

**R1.6**

**An increase in the Distributor's transmission needs, resulting for example from a modification of its method for forecasting demand, could correspond to a load growth at satellite substations and/or the loads of customers connected directly to the transmission system.**

**As stated in section 3.3 of Exhibit HQT-1, Revised Document 1, the Transmission Provider applies the maximum allowance when it carries out network upgrades at satellite substations or for the Distributor's customers connected directly to the transmission system.**

**Question 2**

**References:**

- (i) HQT-1, Document 1, pp. 43 and 44, Schedule 1
- (ii) R-3797-2012, HQT-1, Document 1, p. 7 Table 2
- (iii) R-3903-2014, HQT-9, Document 1.1

**Preamble:**

For several years the Transmission Provider has been investing in the Abitibi system; specifically, in strengthening the system on the supply side of satellite substations and at least one customer connection on the transmission system.

File No. R-3797-2012 concerns investments at the Figury and Cadillac substations. It notes that three sources supply the Abitibi system: five generating stations in the Upper Ottawa River basin, the 315 kV Abitibi-Lebel dual-circuit line and the Ontario H4Z Otto Holden-Kipawa interconnection.

Load growth at the 32-MW satellite substations is forecast between 2010-2011 and 2025-2026.

Reference (iii) presents the transformation status of three substation types (bulk system substations, source substations, satellite substations).

**Questions:**

- 2.1 Please indicate if there are substation types other than the three mentioned in Reference (iii). What category does the Cadillac substation fall into? Why is it not in the Exhibit?

**R2.1**

**The Transmission Provider states that the upgrade policy is of general application and is not intended specifically for the Abitibi system.**

**The Transmission Provider is of the view that the information requested by the intervenor is not relevant to this file and concerns a level of detail that exceeds the analytical framework of its application filed with the Régie.**

- 2.2 Please compile a list of all substations in the Abitibi system, indicating the type of each substation.

**R2.2**

**See response to question 2.1.**

- 2.3 Please indicate which satellite substations and customers permanently connected directly to the transmission system are connected to which source substations.

**R2.3**

**See response to question 2.1.**

- 2.4 Please indicate the current excess capacity in MW of each satellite substation and of each customer permanently connected directly to the transmission system.

**R2.4**

**See response to question 2.1.**

- 2.5 Please indicate the excess capacity in MW of each satellite substation and of each customer permanently connected directly to the transmission system for 2001.

**R2.5**

**See response to question 2.1.**

- 2.6 Please provide annual load growth forecasts for each satellite substation over 20 years or the available horizon if less than 20 years.

**R2.6**

**See response to question 2.1.**

- 2.7 Please indicate the investments forecast for each of the aforementioned satellite substation and connection for the next five years. For the next 20 years.

**R2.7**

**See response to question 2.1.**

- 2.8 Please indicate if the Transmission Provider foresees recognizing the capacity currently assured by the H4Z interconnection as the maximum allowance upon completion of the reinforcement of the Abitibi grid.

**R2.8**

**The Transmission Provider points out that a maximum amount cannot be granted unless there is a network upgrade. Moreover, regarding upgrades for the Distributor, as stated in section 3.3 of Exhibit HQT-1, Revised Document 1, no maximum amount is granted in reinforcement projects carried out on the supply side of satellite substations, except for projects for connecting the Distributor's customers directly to the transmission system.**

**SCHEDULE 2- REVENUES****Question 3****References:**

- (i) HQT-1, Document 1, p. 45, Schedule 2
- (ii) R-3497-2002, HQT-7, Document 1, p. 6

**Preamble:**

Schedule 2 presents the follow-up on commitments as proposed by the Transmission Provider. The Table specifically presents point-to-point revenues derived from agreements, revenues not considered, Toulmoustou-type commitments, commitments under Section 12A2 i) and Attachment J.

Reference (ii) states:

*"Point-to-point revenues collected from Hydro-Québec Production were \$289.7 million in 2001 pursuant to the rate structure in effect since 1997. For the purpose of such transactions, Hydro-Québec Production has eight long-term point-to-point service agreements with various expiration dates, totaling 3685 MW in 2001, and two short-term umbrella agreements, for firm and non-firm service. The revenues thus collected by TransÉnergie are used to reduce required revenues recovered from the Distributor to supply native load accordingly."*

*"However, given Hydro-Québec Production's long-term sale commitments, including the heritage pool that it must supply to the Distributor pursuant to the Act to amend the Act respecting the Régie de l'énergie, its ability to make point-to-point reservations on the Transmission Provider's system will drop significantly in the next few years. Hydro-Québec Production must therefore*

*connect new generating capacity to the Transmission Provider's system to increase the flexibility of its deliveries in Québec and to export surplus energy to markets outside Québec."* (Emphasis added)

**Questions:**

- 3.1 Please provide the calculation for the \$94.6 million in point-to-point revenues in 2014 for the HQT-NE interconnection. Please do the same for HQT-ON and HQT-HIGH interconnection revenues.

**R3.1**

**See response to question 16.2 of Request for Information No. 1 from the Régie in Exhibit HQT-4, Document 1.**

- 3.2 Please provide the overall annual installed capacity and output of Toulmoustou, Eastmain 1-A and Sarcelle generating stations, of the Romaine Complex and of the generating stations under Section 12A.2 i), from 2001 to 2014 and forecasts to 2020.

**R3.2**

**The installed capacity of Hydro-Québec's existing generating stations is set forth on page 118 of Hydro-Québec's 2013 Annual Report<sup>1</sup>. The total capacity of the Romaine Complex is presented on page 9 of the same reference. The installed capacity of generating stations is public information that does not vary or varies little over time.**

**The Transmission Provider is unable to provide historical information or forecasts for the annual output of each generating station. Furthermore, point-to-point transmission revenues are based on reservations and not on the output levels of such generating stations.**

- 3.3 Please provide the quantity of energy exported by the generator at each interconnection every year since 2001.

**R3.3**

**The Transmission Provider is of the view that the information requested by the intervener is not relevant to this file and concerns a level of detail that goes beyond the analytical framework of its application filed with the Régie. Such information is not considered in the process of determining the maximum amount for network upgrades borne by the Transmission Provider because the determination is based on the maximum capacity to be transmitted.**

**Out of courtesy, without admission and solely for the intervener's comprehension, the Transmission Provider provides the following**

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<sup>1</sup>Hydro-Québec 2013 Annual Report : [http://www.hydroquebec.com/publications/en/annual\\_report/](http://www.hydroquebec.com/publications/en/annual_report/)

information. Hydro-Québec's electricity sales outside Québec are presented on page 2 of Hydro-Québec's 2013 Annual Report.

- 3.4 Please provide detailed calculations and assumptions (including those respecting unused heritage pool) underlying long-term revenues not considered.

**R3.4**

The Transmission Provider points out, as stated in Exhibit HQT-1, Revised Document 1, page 26, that the Régie established the follow-up format for Touloustouc-type commitments. Thus, the Transmission Provider follows up on its commitments in its annual report. Follow-ups have been filed with the Régie for several years. The present application is not aimed at modifying the follow-up process.

For the intervener's comprehension, the Transmission Provider states the following. In the annual follow-up of Touloustouc type commitments, the Régie asked that annual point-to-point revenues derived from four reservations for delivery to CORN, HIGH and DER not be considered. Subsequently, two of the four reservations were not renewed. This was taken into account in the follow-up, because revenues not considered could be refined by taking into account events subsequent to those that had been considered in the request for connection of the Touloustouc generating station.

- 3.5 Please explain the decrease in long-term revenues not considered

**R3.5**

See response to question 3.4.

- 3.6 Please explain not providing any short-term revenues not considered since 2007.

**R3.6**

See response to question 3.4.

As follows from the preamble to Reference (ii), short-term revenues ceased being excluded in 2007 given that the heritage pool volume had been reached.

- 3.7 Please explain why the minimum revenue base for 2007 is less than that for 2005.

**R3.7**

See the responses to questions 3.4 to 3.6.

- 3.8 Please indicate the quantity of energy delivered by the generator to supply native load for each year since 2001. Please break that energy down into patrimonial, base load contract, cycling power contract, wind power integration, framework agreement or other. Where applicable, please specify the category that "other" refers to.

**R3.8**



The question is outside the scope of this application. The Transmission Provider's role is not to engage in analysis or simulations for the benefit of comments that the intervenor wishes to make.

The Transmission Provider further states that the concept of energy delivered to supply native load plays no role in the transmission system upgrade policy. It further notes that electricity supply and, where applicable, associated contracts, are not its responsibility.

- 3.9 Please submit all agreements in effect any time since 2001 and indicate the annual capacity associated with each one.

**R3.9**

See response to question 16.2 of the Request for Information No. 1 from the Régie in Exhibit HQT-4, Document 1 for a list of customer Hydro-Québec Production's long-term point-to-point service agreements in effect. Long-term point-to-point revenues generated by that customer since 2005 are set forth in Schedule 2 of Exhibit HQT-1, revised Document 1. There are no other point-to-point transmission customers whose requests for firm service required network upgrades. Moreover, the Transmission Provider's proposal is of prospective application.

- 3.10 Please provide annual sales of heritage pool in TWh since 2001 and the amount of unused heritage pool. Also, please provide projections for the next 10 years.

**R3.10**

See response to question 3.8.

- 3.11 Please provide short- and long-term point-to-point sales in TWh and in \$ million since 2001 and break them down by Generator and other counterparties.

**R3.11**

Point-to-point transmission revenues are based on reservations and not on short- and long-term energy sales. Also see response to question 3.9.

- 3.12 Please justify treating commitments under Section 12A.2 ii) (Magpie generating station) differently from the others. Namely not transferring the excess of revenues over costs to other projects.

**R3.12**

As indicated in Exhibit HQT-1, Revised Document 1, page 27, the Transmission Provider's proposal in the present application applies to projects covered by Section 12A.2 i) and Attachment J of the OATT.

The Transmission Provider applies the provisions of Section 12A.2 ii) of the OATT for dealing with "take or pay" commitments, which are the subject of an annual follow-up. The present application is not aimed at modifying the follow-up.

**SCHEDULE 2- COMMITMENTS**

**Question 4****References:**

- (i) HQT-1, Document 1, p. 46, Schedule 2
- (ii) HQT-3, Document 1, pp. 26 and 27
- (iii) HQT-1, Document 1, p. 28

**Preamble:**

Reference (ii):

*"The Transmission Provider proposes applying an additional repayment as a reasonable transition measure for existing obligations under Section 12A.2 i) of the OATT—for which the customer benefits from established legal frameworks under the regulatory framework in effect when those agreements were concluded. The additional repayment is meant to respect recognition of all annual revenues from service agreements in effect, in keeping with the provisions of Section 12A.2 i) of the OATT, under which the point-to-point transmission service customer must have signed at least one service agreement. Annually, after commitments of the Toulouste and generating station metering type have been covered, the total revenues available from agreements in effect will be applied pro rata to the annual amounts to be covered under Section 12A.2 i) of the OATT. The surplus will be used for accelerated repayment of existing commitments in effect under Section 12A.2 i) of the OATT. The additional repayment is in keeping with the regulatory framework existing since 2006; it respects agreements stemming therefrom and speeds up the transition to a standard follow-up on all commitments for point-to-point transmission customers."*

Reference (iii):

*"In order for it to conduct an annual follow-up, the Transmission Provider now proposes that all such obligations be considered for follow-up purposes, to the extent that the Transmission Provider and its customer can reach formal arrangements. If this can be done, the method described above shall apply to existing projects. Note that if revenues exceed the annual amounts and commitments of the Toulouste and generating station metering type, the surplus will be applied as an additional repayment to all projects covered by a follow-up under Section 12A.2 i) and Attachment J, and hence obligations toward the Transmission Provider for costs it incurred for the Network Upgrades may be met more quickly. This additional repayment is a reasonable transition measure between the framework under which such commitments were made and the framework presently proposed"*

**Questions:**

- 4.1 Please provide the detailed calculation of the annual amount of \$23.2 million for the Toulmoustouc generating station. The calculation must clearly show the relationship between project costs and the annual amount. Please provide the source of the data used.

**R4.1**

**See response to question 3.4. Furthermore, it is clear from Schedule 2 of Exhibit HQT-1, Revised Document 1, the annual amount applies since 2005. The annual amount is final and has been submitted to the Régie on several occasions in the follow up on Toulmoustouc-type commitments in the Transmission Provider's annual reports<sup>2</sup>.**

- 4.2 Please do the same for the Ontario interconnection, the Eastmain-1-A and Sarcelle generating stations and the Romaine Complex.

**R4.2**

**See Schedule 2 of Exhibit HQT 1, Document 1.**

- 4.3 Please indicate the Transmission Provider's contribution for each project.

**R4.3**

**The Transmission Provider did not make any contributions to Hydro-Québec Production for those projects. The contributions correspond to excess project costs versus the maximum allowable amount. Where a contribution is required, it is the customer's responsibility.**

- 4.4 Please explain how the additional repayment for each commitment under Section 12A.2 i) is established

**R4.4**

**Additional repayments were established on the basis of the amounts on line 1.4 of Schedule 2 of Exhibit HQT-1, Revised Document 1, from which the presumed annual amounts in section 2.2, of the same reference, were subtracted. The additional repayment for each commitment was established prorata the presumed annual amounts.**

- 4.5 Please provide the commitment balance for each year for each project under Section 12A.2 i).

**R4.5**

**The Transmission Provider's proposal regarding the follow-up on commitments under Section 12A.2 i) is presented in section 2.2 of Schedule 2 of Exhibit HQT-1, Revised Document 1. Thus, for such commitments, a presumed annual amount is estimated to cover the cost borne by the**

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<sup>2</sup>Transmission Provider's 2012 Annual Report, HQT-2, Document 14.

Transmission Provider for each project. Commitments are followed up on the basis of such annual amounts. Moreover, as stated in evidence, recourse to additional repayment is required to respect the customer's commitment made under the *OATT* applicable for each project. Accordingly, the follow-up proposed by the Transmission Provider is not submitted in evidence on the basis of the balance of commitments, therefore the Transmission Provider is unable to provide simulations in that regard.

- 4.6 Please explain what happens regarding excess revenues once all commitments are "repaid". Are they returned to the customers?

**R4.6**

The Transmission Provider points out that additional repayments do not involve any cash flow. It is a transitional measure, between two modes of follow-up on commitments, allowing for the application of long-term point-to-point revenues to presumed annual amounts. Once costs incurred by the Transmission Provider for upgrades required for a customer are covered under long-term service agreements, the revenues from those service agreements may be applied to cover the annual amounts of other upgrades for the same customer.

- 4.7 Please confirm that eligible revenues from the agreements continue to accumulate until they expire, for example for 50 years in the case of HQT-ON.

**R4.7**

The intervenor's question is vague. The Transmission Provider's proposal is to present on an annual basis, for each point-to-point customer, its aggregate annual revenues from the service agreements in effect, and to verify that it covers the aggregate annual amounts of all commitments in effect for the same year.

- 4.8 Please provide the estimated balance of excess revenues for the commitments over a 20-year horizon taking into account only the projects set forth in Schedule 2.

**R4.8**

The Transmission Provider is unable to provide a reasonable revenue forecast over 20 years due to the potential change in revenues and assumptions underlying the estimation thereof over such a long period.

The Transmission Provider also states that its role is not to engage in analyses or simulations for the benefit of comments that the intervenor wishes to make.

- 4.9 In relation to Reference (iii), please identify "metering" type follow-ups.

**R4.9**

See response to question 3.12.

For the intervenor's comprehension, the Transmission Provider states the following. These are "take or pay" commitments under Section 12A.2 ii) of the *OATT*. As stated in Exhibit HQT-1, Revised Document 1, page 26, a

**single commitment was made in that respect. It is presented in section 1.3 of Schedule 2 of Exhibit HQT-1, Revised Document 1.**

- 4.10 Please explain how the "currently proposed" framework will differ from the one presented in Schedule 2 once additional repayments have been finalized. Does that mean that there will be no cross-financing of projects?

**R4.10**

**The Transmission Provider hereby states that its proposal regarding follow-up on commitments does not result in cross-financing of investment projects. A follow-up on commitments is not a form of financing.**

**The provisions of Section 12A.2 i) of the OATT allow a point-to-point customer that has signed a service agreement to apply the entirety of revenues to its aggregate commitments. Once costs incurred for existing upgrades under 12A.2 i) and Attachment J of the OATT are covered, the revenues from those same service agreements would be applied to cover the annual amounts of other upgrades of the same customer.**

- 4.11 Please indicate if the Eastmain-1-A and Sarcelle generating stations and the Romain complex resulted in additional revenues for the Transmission Provider. If yes, Please provide your calculations.

**R4.11**

**Those projects were the subject of a demonstration that project costs were covered at the time of the investment authorization application to the Régie, based on present value of revenues derived from at least one long-term transmission service agreement.**

**The Régie accepted the demonstration that revenues from existing service agreements, including those for delivery to ON, MASS and NE, can cover project costs**

- 4.12 Please confirm that the commitments listed in Schedule 2 for each project may not exceed the maximum allowance for the projects.

**R4.12**

**The commitments solely concern costs incurred by the Transmission Provider, up to the maximum amount for each network upgrade.**

- 4.13 Please confirm that the existence of an overall surplus does not affect the level of contribution that may be required for a future project under Attachment J.

**R4.13**

**The level of contribution borne by the point-to-point customer corresponds to the difference between total project cost and the maximum amount to be borne by the Transmission Provider, according to the provisions of Attachment J of the OATT.**

**The Transmission Provider reiterates that its proposal concerns the follow-up on commitments under Section 12A.2 i) and Attachment J of the OATT.**

**The proposal does not modify application of the maximum allowance, and therefore does not affect the level of contribution required from point-to-point customers for costs exceeding the maximum amount, when network upgrades are required as a result of a customer requests.**

**THE USE OF NETWORK OVERCAPACITY**

**Question 5**

**References:**

- (i) HQT-3, Document 1, pp. 22 to 25, section 7.3

**Preamble:**

The Transmission Provider is of the view that the principles of queuing and "cost causation" are equitable practices for managing customer requests leading to network upgrades.

**Question:**

- 5.1 Please indicate if the Transmission Provider considers the opportunity cost as a valid cost to be integrated in a cost/benefit analysis.

**R5.1**

**The question is outside the scope of this application. The Transmission Provider does not conduct a cost/benefit analysis of projects related to requests for transmission service that it receives. It ensures proper application of the *OATT* for the purposes of receiving and processing such requests. Such cost/benefit analyses, like the relevance of their elements, including the establishment of an opportunity cost, is a matter solely for the requester of transmission service. The Transmission Provider does not intend to speculate on the content of such analyses and speculations. Even if they are relevant in this case, which is not the case, they would be useful only for a requester and in the specific factual context of a particular project.**

- 5.2 Based on your past experience, how much time (minimum, average and maximum) is there between the time a customer is placed in the queue and approval of a project? Between the time a customer is placed in the queue and commissioning?

**R5.2**

**There are no typical delays. They depend on the projects.**

- 5.3 Please provide the queue for impact studies as at the date of your response, indicating the date each project was placed on the list.

**R5.3**

**The information is on the Transmission Provider's OASIS system in the public part of the site<sup>3</sup>.**

5.4 Please indicate how asset maintenance and quality of service maintenance are integrated in that sequence?

**R5.4**

**The sequence of impact studies, presented on the Transmission Provider's OASIS system concerns requests for transmission service and requests for connecting generating stations.**

#### **CALCULATION OF THE MAXIMUM ALLOWANCE**

### **Question 6**

#### **References:**

- (i) HQT-3, Document 1, p. 9

#### **Questions:**

6.1 Please confirm that the maximum allowance is based on the transmission tariff.

**R6.1**

**As indicated in Exhibit HQT-3, Document 1, the maximum allowance corresponds to the present value of the annual rate over 20 years, less operating and maintenance costs and applicable taxes.**

6.2 Please indicate where in the calculation presented in Reference (i) the transmission tariff is considered .

**R6.2**

**See response to question 6.1.**

6.3 Please provide the revenues forecast for the next 20 years used in the calculation.

**R6.3**

**The intervener's question is vague. Calculation of the maximum allowance, including the values considered in the calculation, is described in detail in section 3.1 of Exhibit HQT-3, Document 1, and reiterated in response to question 6.1. Those References do not provide a revenue forecast.**

6.4 In the calculation in Reference (i), the maximum allowance is used as a point of departure for an apparently pre-calibrated calculation. To facilitate follow-up of determination of the maximum allowance, please provide a calculation in which the maximum allowance is the result of the calculation and not its point of departure.

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<sup>3</sup>

[http://www.oasis.oati.com/HQT/HQTdocs/List\\_Impact\\_Studies.pdf](http://www.oasis.oati.com/HQT/HQTdocs/List_Impact_Studies.pdf)

**R6.4**

The Transmission Provider has provided the necessary information for calculation of the maximum allowance in filing Exhibit HQT-3, Document 1. Consequently, the maximum allowance is not "used as a point of departure for an apparently pre-calibrated calculation" because it is the result thereof. By iteration (or by using, as required, spreadsheet commands), it is possible to obtain the value of the maximum allowance that corresponds to the present value of the annual rate, less the amounts for operations and maintenance and the public utilities tax, the whole as is explained in section 3.1 of Exhibit HQT-3, Document 1. Lastly, as the maximum allowance for 2014 has been approved and is in effect, a calculation of another maximum allowance for this year is not required.

6.5 Please demonstrate that the present value of rate revenues corresponds in fact to the estimated maximum allowance.

**R6.5**

See response to question 6.4.

**EXPERT'S REPORT****Question 7****References:**

- (i) HQT-2, Document 1, p. 5
- (ii) HQT-2, Document 1, p. 14
- (iii) HQT-2, Document 1, p. 15
- (iv) HQT-1, Document 1, p. 25, Table 6
- (v) HQT-1, Document 1, p. 46, Schedule 2

## Reference (i)

*"Under the FERC 's "higher of" policy, a transmission customer's service request that requires transmission upgrades would pay the higher of the "embedded cost" or "incremental cost" of the upgrade."*

## Reference (ii)

*"Credits " are created when the rolled-in portion of an upgrade cost is less than the Maximum Allowance."*

## Reference (iii)



*"Under HQT's current and proposed methodology, upgrade costs related to generation integration requests for point-to-point service up to the Maximum Allowance is borne by HQT, while the point-to-point customer makes a Contribution above the Maximum Allowance. This Maximum Allowance is calculated based on the full capacity of the generation unit being integrated. Furthermore, HQT requires the requesting customer to sign at least one point-to-point service agreement that adequately covers the cost of the upgrades related to the generation integration, net of any Contributions already made by the customer." (Emphasis added)*

### Questions:

7.1 Please confirm that the FERC's "higher-of" policy does not apply to native load.

**R7.1**

**FERC's principle associated with the "higher-of" policy does not apply to native load, with the rare exception of new large blocks of load that may not remain on the system for the long-term.**

7.2 Please indicate if native load is frequently treated on the same footing as point-to-point customers. Where applicable, please give examples of jurisdictions in which that practice applies.

**R7.2**

**As explained in Ms. Chang's testimony, FERC's primary policy objective at the time of restructuring was to ensure that transmission providers offered non-discriminatory open access to the transmission network while protecting existing transmission users from costs imposed by customers requesting transmission service that involve network upgrades. FERC's policy is to strike a proper balance of protecting load and point-to-point customers. In that sense, HQT's proposed network upgrade policy is also intended to strike the balance between protecting native load and point-to-point customers. See response to CFIB Question no. 7.1.**

7.3 In cases where native load is not dealt with on the same footing as point-to-point customers, please indicate the arguments generally used by the regulators to justify such a situation.

**R7.3**

**Ms. Chang is unaware of systems where the policy is particularly skewed toward protecting only native load or only point-to-point customers.**

7.4 Where the "higher of" policy applies to native load, what is the useful life used to calculate the maximum allowance.

**R7.4**

**See response to CFIB Question no. 7.1.**

- 7.5 Please indicate why a useful life of 20 years for native load should be considered equitable?

**R7.5**

**As explained in Ms. Chang's testimony, even though native load may be around for longer than 20 years and the useful life of the transmission upgrade assets is greater than 20 years, HQT has conservatively used the 20 years to ensure that (a) the cost of upgrades will be recovered by requiring a larger contribution from the requesting customer and (b) treating native load and point-to-point customers equitably. (Also see HQT-2, Document 1, page 18 of Ms. Chang's testimony.)**

- 7.6 In a scenario where the two concepts would be in opposition, please indicate why the fact that an approach is conservative should be preferred to the fact that it is fair.

**R7.6**

**The concept of "conservative" and "fair" can be simultaneously achieved. HQT's proposed approach tries to strike the balance of being fair by being conservative.**

- 7.7 Please indicate, both for native load and point-to-point customers, if, to your knowledge there are other jurisdictions with systems in which credits are transferable between projects and over time. Where applicable, please elaborate.

**R7.7**

**HQT's network upgrade policy is grounded on similar principles as those of FERC's "higher-of" policy where the transmission provider can charge a requesting customer the higher of the embedded cost or the incremental cost of the upgrade.**

**Given the response to CFIB Question no. 7.1, Ms. Chang is not aware of other jurisdictions where credits are transferable between transmission projects as is proposed through HQT's approach.**

- 7.8 In relation to Reference (iii), please explain your justification for calculating the maximum allowance on the basis of generating station capacity rather than on the basis of service agreements.

**R7.8**

**As described in Section VI of Ms. Chang's testimony (HQT-2, Document 1), the annual follow-ups of the commitments for point-to-point service ensure that the point-to-point customer provides revenues that adequately cover the rolled-in portion of the cost of the upgrades (cost above maximum allowance is collected as contribution).**

- 7.9 In Scenario 1 of Table 6 (Reference (iv)), Ms. Chang applies the \$139.1 million credit to the "rolled-in" portion of the resource-related project exclusively. The balance of the credit is not used to limit the customer's contribution. Please confirm that the Transmission Provider's proposal is that the \$139.1 million credit be applied towards the total costs of resource-related projects and not only to the "rolled-in" part. Please confirm that the same holds true for point-to-point projects.

**R7.9**

In step 1, the initial contribution from the resource-related upgrades is determined, which in Scenario 1 of Table 6 is equal to \$40.2 (before O&M markup) (row [e]). HQD is required to make this initial contribution regardless of how much credits may be available to offset the remainder of the costs. That is, the credits are only applied to the cost of the upgrade beyond the minimum contribution. In Scenario 1 of Table 6, this amount is equal to \$59.8 million (row [f]). Since there is \$139.1 million (in row [p]) of available credits from other load-related projects, it fully offsets the \$59.8 million of the remaining costs. However, even though additional credits are available ( $\$139.1 - \$59.8 \text{ million} = \$79.3 \text{ million}$ ), it is not applied towards the minimum contribution (row [e]). Therefore, in Scenario 1, HQD is required to make the minimum contribution of \$40.2 (before O&M markup) for its resource-related project. Thus, the credits are not applied towards the total cost of the project.

The application of maximum allowance for point-to-point service customers with an interconnecting generator is based on the full capacity of the generation unit being integrated. Since point-to-point customers sign transmission service agreements and pay for the service through the transmission tariff, the transmission charges collected from the point-to-point customers are used to evaluate whether upgrade costs are adequately recovered from the point-to-point customers.