### Transmission Provider's responses to the request for information number 1 of the Régie de l'énergie (the "Régie")

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#### **GUIDING PRINCIPLES**

#### **1. References:** (i) Exhibit B-0004, p. 34;

- (ii) Exhibit B-0005, p. 6;
- (iii) Exhibit A-0005, p. 10 and 15;
- (iv) Exhibit B-0011, p. 5, 24 and 25;
- (v) Case R-3401-98, Decision D-2002-95, p. 298.

#### **Preamble:**

(i) In the conclusion of its initial evidence, the Transmission Provider indicates the following:

"The Transmission Provider's proposals respond to the Régie's questions, use established practices and comply with the framework it implemented in the course of its decisions, as well as the commercial context in which the transmission services are provided to customers. The proposals treat different customers <u>using the same principles</u>. The Transmission Provider proposes the <u>fair treatment of</u> <u>customers</u>, just as the Régie intended when it adopted its upgrade policy" [emphasis added]

(ii) Ms. Judy W. Chang's expert report specifies the following:

"HQT's Network Upgrade Policy, along with proposed modifications, follows certain basic principles including: (i) provide a reasonable assurance of adequate cost recovery from native load and point-to-point customers such that each is protected from excess costs associated with network upgrades triggered by new transmission service requests and (ii) treat all customer's on the system equitably."

(iii) In its decision D-2014-117, the Régie asked for the following clarification: "[30] *The Board notes, moreover, that the Transmission Provider does not define the guiding principles of its Upgrade Policy. It therefore believes it necessary that these principles be specified.* 

[31] Consequently, the Régie requires additional evidence from the Transmission Provider describing the <u>guiding principles</u> of its Upgrade Policy." [emphasis added]

In that same decision, regarding the approach to cost sharing, the Régie referred to decision D-2014-045 in the following terms:

"[59] In its Decision D-2014-045, the Régie noted that reinforcements to the principal system will serve users other than the initial applicant, without those users bearing any portion of the costs of those upgrades. It also noted that this situation resulted from a prioritization of the <u>principle of non-discriminatory access</u> to the system, to the detriment of the <u>user-pays principle</u>." [emphasis added]

(iv) In its additional evidence, the Transmission Provider responds as follows to the Régie's request, expressed in paragraphs 30 and 31 of the abovementioned Decision D-2014-117:

"In the case of network upgrades, <u>three guiding principles</u> flowing from Decision D-2002-95 guide the Transmission Provider:

- avoiding the excessive costs of network upgrades requested by a customer and thus protecting existing customers;
- ensuring that the costs of network upgrades carried out for a customer are covered;
- ensuring that all of the Transmission Provider's customers are treated fairly and have non-discriminatory access to the transmission system. [emphasis added]

Moreover, in the context of its approach to sharing costs among various investment categories, the Transmission Provider mentions, in pages 24 and 25 of its additional evidence, the following:

"The Transmission Provider understands that the <u>user-pays concept</u> referred to by the Régie corresponds to a notion of sharing costs amongst beneficiaries.

[...]

As a result, the Transmission Provider is of the opinion that such a practice, paired with the application of a maximum amount of the investment that may be borne by the Transmission Provider, respects both the application of the <u>fundamental user-pays</u> and <u>non-discriminatory access principles</u>. Moreover, the sequential treatment currently applied provides that the user of a network that triggers an upgrade must bear the costs thereof by means of a contribution in excess of the maximum amount assumed by the Transmission Provider.

[...]

The <u>principles of using a waiting list and "cost causation"</u> remain the usual practices <u>for</u> managing customer demands leading to network upgrades and <u>ensuring that the costs of these upgrades are entirely borne by the applicants instead of the beneficiaries</u>.

#### [...]

At any rate, all of the costs are allocated to the customer that triggers the need for a network upgrade, as is the usual practice with utilities. These general principles are based on the concept of recovering costs, protecting existing customers against the cost of excessive network upgrades, and are all based on a logic of having the entity requesting the network upgrade incur the costs." [emphasis added]

(v) In its Decision D-2002-95, the Régie had this to say about the network upgrade policy then proposed by the Transmission Provider:

"The Régie therefore acknowledges that the impact will, at worst, be neutral for all customers and, at best, be favorable by reducing the transmission rate for all customers.

Applying this maximum therefore protects transmission service customers against the costs of what would be excessive connections and integrations."

#### **Requests:**

1.1 Please explain the various distinctions that the Transmission Provider made above respecting the following terms: "principles", "guiding principles", "fundamental principles", "concept", "logic".

#### R1.1

In the additional evidence requested by the Régie, the Transmission Provider described three guiding principles of the transmission network upgrade policy that have been guiding it since the Régie has adopted this policy.<sup>1</sup>

The other terms mentioned in the preamble must be read in light of these three guiding principles. These principles, guiding principles or fundamental principles make up the foundation on which the reasoning lies. These terms are interchangeable, and the Transmission Provider will henceforth use guiding principles.

Consequently, when the Transmission Provider refers to the non-discriminatory access "principle" or "fundamental principles", it is referring to the third of these guiding principles, namely "ensuring that all of the Transmission Provider's customers are treated fairly and have non-discriminatory access to the transmission system".

When the Transmission Provider refers to the user pays "principle" or "fundamental principles", to the cost-recovery "concept", to protecting existing clients from the costs of excessive network upgrades and to the "logic" of having the entity requesting the network upgrade to incur the costs, it is referring to the first two guiding principles.

1.2 Please specifically identify the principles that guide the Transmission Provider's upgrade policy.

#### R1.2

#### See the answer to question 1.1.

1.3 Please specify whether rate neutrality compliance is one of the principles of the upgrade policy.

#### R1.3

Rate neutrality results from the implementation of the maximum allowance. The goal of implementing the maximum allowance is to ensure compliance with the first two guiding principles, namely that of avoiding the excessive costs of network upgrades requested by a customer and thus protect existing customers, as well as that of ensuring that the costs of network upgrades carried out for a client are covered.

1.4 Please specify the usual principles in force that guide the allocation of network upgrade costs in North America.

<sup>&</sup>lt;sup>1</sup> Decision D-2002-95, page 300.

#### R1.4

Section II of the Direct Testimony of Judy W. Chang discusses the general principles used to guide the allocation of costs for network upgrades in the U.S. In general, there are two general principles that guide the allocation of costs for transmission network upgrades. These include:

1) Ensure equitable treatment and non-discriminatory open access to the transmission system and;

2) Protect existing customers from undue cost burdens induced by other customers that request transmission service.

The above principles were outlined by FERC as part of the electric sector restructuring that occurred during the early 1990s and were designed to ensure that its "transmission pricing policies promote economic efficiency [and] reflect a reasonable allocation of transmission costs among transmission users." FERC has not altered these policies fundamentally since then.

Specifically, FERC designed the "higher of" pricing policy as part of its transmission policy during the restructuring era. The goal of the "higher of" policy is to ensure that existing (and growing) native load was protected, while the wholesale market developed during the restructuring, allowing new transmission users to interconnect to the existing transmission network that was predominantly funded by existing native load.

FERC's "higher-of" pricing policy maintains the principles stated above by allowing the transmission provider to charge a customer the higher of the "embedded cost" and the "incremental cost" of the network upgrade project. That is, if the incremental cost of the upgrade caused by the customer's new service request is greater than the embedded cost, the transmission service provider has the option to charge the requesting customer the incremental cost of the system upgrades that the customer had induced. If the incremental cost associated with the system upgrade is lower than embedded cost, the transmission provider can charge the embedded cost.

Thus, the transmission service provider may charge the higher of the embedded or the incremental cost, but not both. HQT's application of the maximum allowance is consistent with FERC's "higher of" policy. As with the FERC's "higher of" policy, under HQT's network upgrade policy, the requesting customer either pays a) the embedded system rate, if the cost of the upgrade is at or below the maximum allowance or b) the embedded system rate for the portion up to the maximum allowance and a contribution for the portion in excess of the maximum allowance, if the cost of the upgrade is above the maximum allowance. HQT's proposed policy does not over recover the cost associated with network upgrades and ensures that the costs associated with a network upgrade project resulting from a customer's new service requests do not cause undue cost burdens to existing customers.

#### **Methodology for calculating the maximum allowance**

- **2. References:** (i) Exhibit B-0004, p. 15;
  - (ii) Exhibit B-0011, p. 10;

(iii) Exhibit B-0011, p. 10 and 11.

#### **Preamble:**

(i) "In the opinion of the Transmission Provider, this is a conservative proposal. Indeed, the maximum allowance is established over 20 years in order to recover the cost of the upgrades carried out at the request of customers over a maximum period of 20 years. This allowance is less than what it would have been had it been based on a period corresponding to the average useful life of the transmission assets, namely 40 years. The Transmission Provider is therefore guaranteed to obtain a superior contribution to what would have been required had the period corresponded to their average useful life, instead of a period limited to 20 years, as is currently the case. In that regard, it also bears noting that the native load, which grows gradually over the horizon considered by the maximum allowance, in actual fact remains well above the 20-year period used to establish that allowance."

(ii) "Depreciation is determined based on the linear depreciation method approved by the Régie in Decision D-2010-020.<sup>6</sup> For regulatory purposes, the useful life of the transmission assets can extend up to 40 years for substations and up to 50 years for power lines. The Transmission Provider considers a depreciation period of 20 years. This value is conservative considering the period over which these assets will be used.

The 20-year period has been used since case R-3401-98, in the context of which the Régie adopted the practice of applying a maximum allowance, in Decision D-2002-95, for the native load and point-to-point transmission service. The justification for this period was based on the existence of the supply agreements of private generators that generally have a 20-year term. This 20-year term constitutes an approximation of the presence of these customers on the transmission system. The same period was applied for facilities demanded by customers in order to ensure that all system users are treated fairly."

(iii) "The present value of the Transmission Provider's operating and maintenance costs is taken into consideration for the purposes of establishing the maximum allowance. The Transmission Provider considers that the operating and maintenance costs over 20 years represent, on average, 15% of the investment. This parametrical data has been used since case R-3401-98. The Transmission Provider then indicated that the percentage established in 2001 regarding the proportion of operating and maintenance costs generated by the network upgrades compared to the cost of the investment corresponded to 18%. The Transmission Provider proposed using a 15% proportion, seeing as the operating and maintenance costs as well as the use of the transmission system are both variable data, which was retained up to this date.

For 2012, the operating and maintenance costs stood at \$9.11/kW (\$380.2 million/41,744 MW), which corresponds, on an annual basis, to 1.6% of the investment. The data used to illustrate this proportion are the direct operating and maintenance costs as well as the sum of the anticipated transmission requirements. Actualized over a 20-year period with a 5.698% average weighted cost rate of prospective capital for 2012, these costs correspond to 19% of the investment. As a result, the Transmission Provider proposes maintaining the rate for operating and maintenance costs at 15% of the investment." [emphasis added]

The Régie notes that:

- the 20-year period used to calculate the maximum allowance is less than the average lifespan of the assets;
- the native load grows gradually over this 20-year horizon.

#### **Requests:**

2.1 Please specify the reasons for which the Transmission Provider compares, in clause (i), the term of the reference for the purposes of calculating the allocation (20 years), the justification for which is given in clause (ii), to that of the average term of transmission assets.

#### R2.1

Establishing a maximum allowance over 40 years, which represents the average useful life of transmission assets, involves a maximum amount for network upgrades higher than that calculated over a period of 20 years.

In the opinion of the Transmission Provider, a maximum allowance calculated over a period of 20 years instead of 40 is still appropriate, since it is in line with the forecasted native load requirements as well as the commercial and financial reality of the Transmission Provider's point-to-point customers. It is more inter-generationally fair because it is shorter. It therefore adequately protects existing customers.

The Transmission Provider compares the reference term for the purposes of calculating the maximum allowance (20 years) to that of the average term of transmission assets to demonstrate that the term it uses, being shorter than the term of the assets, increases the assurance that its costs will be covered.

2.2 Please describe the effect of each of the two findings that the Régie mentions in the preamble respecting the degree of precision of the maximum allowance amount resulting therefrom.

#### R2.2

In the preamble, the Régie mentions that on the one hand, the 20-year period used to calculate the maximum allowance is less than the average useful life of the assets and, on the other hand, the native load is gradually increasing over that 20-year period.

The Transmission Provider reminds us that the method for establishing the maximum allowance for a 20-year period described in Section E of Attachment J to the Open Access Transmission Tariff was approved in Decisions D-2002-95 and D-2003-12 of R-3401-98, even though the average useful life of transmission assets was and remains greater than 20 years. In the Transmission Provider's opinion, applying this method for a 20-year period remains the most appropriate for the reasons given in the response to question 2.1. Moreover, the Régie also ruled that the maximum allowance applies to upgrades carried out on behalf of point-to-point transmission customers as well as native loads upgrades.

As for the term that is to be used for establishing the maximum allowance, an estimate over 40 years is presented in Exhibit HQT-2, Document 1, Schedule B1. The Régie will note that the value thus estimated stands at \$772/kW, compared to the maximum

allowance of \$598/kW over 20 years presented in Exhibit HQT-3, Document 1, page 9, table 1, which is in force in the *Open Access Transmission Tariff*.

However, what must be evaluated here is not the resulting specified maximum amount for network upgrades, but rather the appropriate term for covering the costs. For example, a 40-year period might under certain circumstances seem interesting, such as native loads with an anticipated long-term presence, or point-to-point transmission service customers that sign long-term transmission service agreements (over 20 years). In such cases, in order for costs to be covered, the customer having requested the upgrade will need to have a long-term presence on the network. However, the Transmission Provider questions the expediency of stretching the cost recovery period for such a large span of time, especially as regards generations of clients and the various types of contextual changes that can take place over long periods of time.

Moreover, the maximum allowance is applied to the maximum capacity to be transmitted, which is entirely coherent with the manner in which the network was designed. Since degree of precision is raised in the question, it could be relatively imprecise to forecast the capacity for a period of 40 years, especially when it comes to upgrades for native load growth.

As for the second finding, the application of the maximum allowance to the load growth is carried out in accordance with Section C of Attachment J to the *Open Access Transmission Tariff*. The terms and conditions described in that section provide that all projects commissioned in a year and all load growth that these projects seek to supply over a period of 20 years must be taken into account. The fact that the native load requirement materializes gradually over a 20-year period is an intrinsic feature of native-load transmission service and an unavoidable aspect of applying the maximum allowance to the native load. Indeed, the growth is essentially diffuse and continuous.

As a result, as indicated in the evidence, the Transmission Provider's proposal is to maintain the establishment of the maximum allowance over 20 years.

Finally, the Transmission Provider emphasizes that the two findings mentioned by the Régie are not novelties introduced in this case, but result from the application of terms and conditions resulting from prior decisions and have been part of the *Open Access Transmission Tariff* for a number of years.

2.3 Please justify that the reference to a 20-year term for the purposes of calculating the maximum allowance is still appropriate both for the native-load transmission service as well as the point-to-point transmission service.

#### R2.3

## The Transmission Provider proposes maintaining the 20-year period for calculating the maximum allowance. See the responses to questions 2.1 and 2.2 for the justification.

2.4 Please provide the basic data (direct operating and maintenance costs, estimated amount of transmission demands, weighted average cost rate of prospective capital) as well as the results obtained for the operating and maintenance cost rate, in \$/kW, for each of the years 2001 through 2012.

#### R2.4

In the following table, the Transmission Provider presents the basic data and results obtained for the maintenance and operating cost rate for 2001 through 2012.

## Table R2.4Basic data and results for the maintenance and operating cost rate for 2001 through2012

	2001 to 2004	2005 and 2006	2007	2008	2009	2010	2011	2012
Direct operating and maintenance costs (\$M) <sup>1</sup>	347.2	372.6	417.9	377.7	384.9	374.2	380.2	380.2
Total estimated transmission demands (MW)	35,570	34,465	36,341	36,296	38,072	39,805	41,470	41,744
Results (\$/kW)	9.76	10.81	11.50	10.41	10.11	9.40	9.17	9.11
weighted average cost rate of prospective capital (%)	8.080%	6.800%	6.350%	5.380%	5.781%	5.685%	5.950%	5.698%

<sup>1</sup>For 2001 to 2004, direct gross loads are used to calculate operating expenses, expressed in dollars per kW, as indicated in R-3401-98.

3. References:	(i)	Exhibit B-0001, p. 12;
	(ii)	Hydro-Québec Open Access Transmission Tariff, p. 49 and 50

#### **Preamble:**

(i) Table 2 specifies the notion of maximum capacity to be transmitted in the context of the network upgrades contemplating a growth in transmission requirements. In particular, for the point-to-point service request, the maximum capacity to be transmitted corresponds to the capacity specified in the transmission service application triggering the network upgrades.

(ii) Section 17.2 of the Open Access Transmission Tariff stipulates, among other things:

"**17.2 Completed Application**: A completed application shall provide all of the information specified in the Régie decisions, orders and regulations including but not limited to the following:

[...]

(vi) an estimate of the capacity and energy to be delivered to the Receiving Party;

[...]

#### **Request:**

3.1 Please confirm that the "power specified in the application for point-to-point transmission service triggering the network upgrades" corresponds to the estimated power provided for in paragraph (vi), Section 17.2 of the *Open Access Transmission Tariff*.

#### R3.1

The Transmission Provider indicates that the "power specified in the application for transmission service triggering the network upgrades" generally corresponds to the estimate of the capacity provided for in paragraph (vi), Section 17.2 of the *Open Access Transmission Tariff*. However, if a technical limitation were to arise in the course of the upgrade planning process, the transmission service agreement that is to be signed could, for instance, differ from the application. At any rate, the capacity to be transmitted would be that delivered to the receiving party, as provided for in the agreement.

#### APPLICATION OF THE TRANSMISSION PROVIDER'S MAXIMUM ALLOWANCE IN CASES OF NETWORK UPGRADES

## Application of the transmission Provider's maximum allowance for point-to-point transmission service

- **4. References:** (i) *Hydro-Québec Open Access Transmission Tariff*, p. 29 to 31 and p. 180;
  - (ii) Exhibit A-0005, p. 11;
  - (iii) Exhibit B-0011, p. 12.

#### **Preamble:**

(i) Section 12A2 stipulates, among other things:

#### "12A Connection of Generating Stations to the Transmission and Distribution System

#### 12A.1 Connection Agreement

[...]

"12A.2 Purchase of Point-to-Point Service or Repayment: When the Connection Agreement is executed, the provisions herein for connecting the generating station to the power system, particularly those set out in Attachment J, shall apply. Furthermore, the generating station owner or a third party named for that purpose by the owner shall, to the satisfaction of the Transmission Provider, make at least one of the commitments below.

(i) Long-Term Transmission Service Agreement

[...]

(ii) Transmission Service Purchase Commitment

[...]

(iii) Repayment

[...]

The generating station owner shall not be required to provide any of the above commitments for any generation obtained by the Distributor through a call for tenders or when such a call for tenders is waived and which the Distributor has designated pursuant to Section 38 herein."

Moreover, Attachment J to the Open Access Transmission Tariff stipulates the following:

"Network upgrades made by the Transmission Provider to complete a new interconnection with a neighboring system, or to increase the capacity of an existing interconnection, shall be implemented by the Transmission Provider consistent with applicable technical guidelines. The entire cost for upgrades required to the system shall be borne by the Transmission Provider up to a maximum specified in Section E below."

 (ii) "[38] The Régie notes, in fact, that the Transmission Provider's proposal does not present terms and conditions seeking to avoid the duplication of the maximum allocation for a pointto-point service user. This is a topic that is part of the requirements of the Régie.

[39] The Régie deems these stakes to be relevant. Consequently, it requires that the Transmission Provider adduce additional evidence in order to define the terms and conditions that will prevent the duplication of the maximum allowance for a point-to-point service user."

(iii) "An allowance is granted to a point-to-point transmission service customer only if the network upgrade required to address its need generates revenues for the Transmission Provider, and this whether it is a point-to-point transmission service or a generating station connection. Each allowance is associated with a network upgrade in respect of which the point-to-point transmission service customer is required to make a contractual commitment for a sufficient term so as to allow the Transmission Tariff require the point-to-point transmission service customer to commitments respecting the connection of a new generating station or for any new point-to-point transmission service."

#### **Requests:**

4.1 The Régie states that Article 12A of the *Open Access Transmission Tariff* applies exclusively to generating station connections. Please confirm this understanding.

#### R4.1

Section 12A of the *Open Access Transmission Tariff* currently in force applies exclusively to the connection of generating stations.

4.2 Please specify the provisions of the *Open Access Transmission Tariff* that apply to commitments when upgrading an interconnection or increasing its output.

#### R4.2

An eligible customer must execute a service agreement under which it agrees to compensate the Transmission Provider for all network upgrade costs either by means of a contribution or transmission revenues. When service is for a period of less than 20 years, the allocation is adjusted to reflect the term of the agreement, as provided for in Section E, Attachment J to the OATT.

4.3 Please indicate if the Transmission Provider's maximum allowance applies to a point-to-point service customer when connecting a generating station and when upgrading an interconnection if the service agreement justifying the connection of the generating station is the same as the one used to justify upgrading the interconnection.

#### R4.3

An allocation is granted to a point-to-point transmission service customer for any network upgrade requested by a customer that generates revenues for the Transmission Provider.

As regards the connection of a generating station, the provisions of Section 12A.2(i) specify that the point-to-point transmission service customer is required to sign at least one firm point-to-point service agreement that will generate sufficient revenues to cover the costs incurred by the Transmission Provider to connect it to the transmission network, less any reimbursement made to the Transmission Provider.

In this context, a point-to-point transmission service customer that has already signed a firm long-term transmission service agreement justifying the addition of a new connection may present the same service agreement to cover the maximum amount borne by the Transmission Provider to connect a generating station, provided that it allows the Transmission Provider to cover the costs of all of its commitments on an annual basis. The annual follow-up proposed by the Transmission Provider will allow it to monitor the revenues and costs to be covered for each customer. The costs incurred by the Transmission Provider in excess of the maximum amount shall be borne by the point-to-point transmission service customer by means of a contribution.

NETWORK UPGRADES TO CONNECT GENERATING STATIONS IN ORDER TO SERVE THE NATIVE LOAD

#### Calculation of maximum amount applicable to the Matapédia project

5. Reference:

- (i) Exhibit B-0004, p. 17;
- (ii) Case R-3631-2007, Decision 2007-141, p. 24 and 25;

- (iii) Exhibit B-0011, p. 15;
- (iv) Case R-3864-2013, Exhibit B-0005, p. 28.

#### **Preamble:**

- (i) *"For the purposes of establishing the financial contribution required of the Distributor, the Transmission Provider used 990 MW as the maximum capacity to be transmitted in order to calculate the maximum allowance in accordance with the Open Access Transmission Tariff."*
- (ii) "In order to calculate the additional revenue to be taken into consideration when calculating the Project's rate impact, the parameter used must be an estimate of the Distributor's fluctuating needs during a system peak, which is the usual criterion used to establish the rate, and not the maximum capacity to be connected and transmitted over the system. This 990 MW maximum capacity is applied as the criterion of the network's design, but not as the criterion of the rate's establishment.

For the purposes of calculating the impact that the Project will have on the rate, a growth in the Distributor's needs should therefore, based on this logic, be linked to the data of the Distributor's supply plan and with the guarantee provided under the balancing agreement entered into between the Distributor and the Generator. The portion of the needs satisfied by integrating the wind power output resulting from the first call for tenders should also be set at 346 MW, namely 35% of the 990 MW of the connected maximum capacity."

(iii) The Transmission Provider presents table 3 outlining the maximum amount applicable to projects to connect wind farms authorized by the Régie:

# Table 3Calculation of the maximum amount applicable to the Matapédia project(1<sup>st</sup> call for tenders) and other projects to connect wind farms authorized<br/>to date by the Régie

	1 <sup>st</sup> call for tenders	2 <sup>nd</sup> call for tenders	3 <sup>rd</sup> call for tenders
Maximum capacity to be transmitted	817.5 MW	2004.5 MW	289.9 MW
Maximum allowance	\$560/kW	\$596/kW	\$571/kW
Maximum amount for transmission network upgrades	\$457.8 M	\$1194.7 M	\$165.5 M

(iv) In case R-3864-2013 respecting the request for approval of Distributor's 2014-2023 supply plan, note 1 to table 4-3 of the power budget states the following:

"The capacity associated with wind power supplies reflects the strengthening capacity associated with the integration service that establishes a guaranteed total contribution representing 35% of the contractual capacity."

#### **Request:**

5.1 Knowing that only 35% of the rated capacity of wind farms is retained in the Distributor's supply plan, please specify, all other things being equal, how the Transmission Provider intends to secure revenues corresponding to the difference between the maximum amount for the network upgrades to the transmission system calculated above based on the 817.5 MW capacity to be transmitted and the revenues generated by the capacity retained in the Distributor's supply plan.

#### R5.1

The Transmission Provider's proposal is based on the premise that it draws no revenues from resources connected to meet the Distributor's needs.

The Transmission Provider therefore grants no MWs to the Distributor's resource projects when it adds them to the annual aggregation. The estimate of the amounts available to cover the costs of the Distributor's upgrade is exclusively based on the forecasted growth of the satellite substations and the forecasted growth of customers directly connected to the transmission system.

In the Transmission Provider's proposal, the power to be transmitted, expressed in MWs, is used only to determine the costs that might be added to the aggregation, to be covered by the growth of the satellite substations and, where applicable, the growth of the Distributor's customers directly connected to the transmission network.

#### Network Upgrades for The Distributor

#### 6. References:

- (i) Exhibit B-0004, p. 14;
- (ii) Exhibit B-0004, p. 14;
- (iii) Exhibit B-0004, p. 17 and 18;
- (iv) Exhibit B-0004, p. 15, Table 2, note 1.

#### **Preamble:**

(i) "The Transmission Provider proposes integrating the Distributor's resource projects that result from calls for tenders, exemptions or other purchase programs, into the aggregation of projects used in the annual calculation of the Distributor's contribution. This procedure ensures that the maximum annual amount of investments that may be integrated into the rate base of the Transmission Provider for all upgrades to the native load, including the integration of resources, remains limited to the Transmission Provider's maximum allowance that is applied to the anticipated growth of projects at satellite substations and to clients connected directly to the transmission system." [emphasis added]

(ii) "The Transmission Provider specifies that the portion of the costs of the Distributor's resource projects that might <u>potentially</u> be covered by the allowances granted to satellite substations will be limited, on the one hand, by the amount calculated by applying the maximum allowance to the maximum capacity to be transmitted on the system. <u>An initial contribution from the Distributor will therefore be calculated for such projects</u>, where applicable. For these types of projects, it is therefore only the investment amount less the initial contribution that will be integrated into the aggregation

used to calculate the Distributor's annual global contribution, without any growth in MWs being associated therewith. The Transmission Provider considers that this approach <u>allows all generators to</u> <u>be treated the same, whether they have a contract with the Distributor or are transmission service</u> <u>customers</u>." [emphasis added]

(iii) "As the Transmission Provider proposes in section 3.1, all investments that may be borne by the Transmission Provider in connection with the Distributor's projects, including resource projects, will be limited by applying the maximum allocation to the anticipated growth of satellite substations and to the customers that are connected directly to the transmission system. A maximum allocation is applied to the Distributor's resource projects strictly for the purposes of calculating the <u>initial contribution</u> and the cost to the included in the annual aggregation (loads and resources). The upgrade amounts resulting from the Distributor's resource projects must be paid by means of a contribution, except in those years were there is a surplus allowance as compares to the anticipated costs of projects involving satellite substations and customers connected directly to the transmission system included in the aggregation." [emphasis added]

(iv) In note 1 to Table 2, the Transmission Provider describes the following example:

"In this example, the costs are net of the initial contribution, namely the difference between the actual cost of the project and the maximum allowance based on the capacity to be transmitted in the context of the project. For example, if the project's cost is \$150 million and the maximum allowance is \$100 million, the cost net of contribution is \$100 million and is payable by the Distributor."

#### **Requests:**

6.1 Please specify how the Transmission Provider currently applies the maximum allowance to resource projects.

#### R6.1

In the case of resource projects, the Transmission Provider establishes the maximum amount for network upgrades based on the maximum allowance in effect upon the execution of the connection agreement entered into between the Transmission Provider and the generating station's owners, and the new maximum capacity to be transmitted from the generating station.

The Transmission Provider will also estimate whether a contribution will be required from the customer.

Once all of the scheduled commissionings needed to connect this new resource have been completed, the Transmission Provider compares the total actual costs to the value of the maximum amount for the network upgrades previously calculated. If the actual costs are greater than maximum amount for the network upgrades, the Transmission Provider claims a contribution from the customer that requested the connection of this new resource.

6.2 Please specify if certain resource projects might not be covered by the Transmission Provider's proposal.

#### R6.2

As mentioned in Exhibit HQT-1, Document 1, the Transmission Provider proposes integrating the eligible costs of all of the Distributor's resource projects into the aggregation of the projects used for the purposes of the annual calculation of the latter's contribution. However, the application of the Transmission Provider's proposal is, like all proposals contained in this case, prospective.

Consequently, this proposal to aggregate projects does not apply to resource integration projects that have been completed or are underway, with the exception of those projects associated with the Distributor's three calls for tenders respecting wind power, the Régie having, in its decisions contemplating these projects, reserved its decisions relating to the calculation of the Distributor's contribution.<sup>2</sup>

The Transmission Provider has noted an error in Schedule 1 to Exhibit HQT-1, Document 1, entitled "Aggrégation des projets de croissance de charges et de ressources et évaluation de la contribution" (aggregation of resource and power growth projects and evaluation of contribution). It hereby submits a revised version of that schedule, which excludes resources projects other than the projects to integrate wind power.

6.3 Please explain how the proposal allows all generators to treated in the same manner (reference (ii)), whether they be under contract with the Distributor or a transmission service customer.

#### R6.3

The transmission network upgrade policy stipulates that the amount borne by the Transmission Provider corresponds to the maximum amount resulting from Section E of Attachment J to the *Open Access Transmission Tariff*. Any amount exceeding those borne by the Transmission Provider, plus an amount of 15% to reflect the capitalized value over 20 years of the maintenance and operating costs, along with applicable taxes, must be borne by the Transmission Provider's customer having requested the network upgrade. If any cost of the Distributor's resource project exceeding the maximum amount resulting from Section E of Attachment J of the *Open Access Transmission Tariff* were to be entirely integrated into the project aggregation, the Transmission Provider would then potentially bear, for that project, a cost greater than the price it would have borne for a resource project not initiated by the Distributor.

To avoid such a difference in the treatment of resource project proponents, the Transmission Provider proposes that the portion of the Distributor's resource project costs that may be integrated into the project aggregation and therefore potentially covered by the maximum amounts for satellite substations, and for customers connected directly to the transmission network, be limited to a maximum amount resulting from the terms and conditions provided for in Section E of Attachment J to the *Open Access Transmission Tariff.* 

<sup>&</sup>lt;sup>2</sup> Record R-3631-2007, decision D-2007-141, page 26, record R-3742-2010, D-2011-166, pages 8-9, record R-3836-2013, decision D-2014-045 Reasons, page 23.

6.4 Please provide an estimate of the length of the typical period between the commissioning of a resource project and its completion as a satellite substation project.

#### R6.4

## The Transmission Provider cannot establish a direct link between the commissioning of a resource project and that of a satellite substation for those reasons invoked in previous cases (notably R-3669-2008 and R-3738-2010):

"As regards supplying the native load, the Distributor must supply a very wide variety of loads with different delivery features, and this using a portfolio of resources that also present their own range of features. What is more, the Distributor can never directly identify which specific resource is supplying which specific load"<sup>3</sup>

"[...] the dynamics of developing a network [...] result in a non-linear investment process when the goal is to satisfy a growing native load. Given the nature and features of the facilities that are required to transmit power, the investments are carried out at successive levels, resulting in progress that is "staggered" and thus allows the Transmission Provider to reliably respond to the relatively continuous growth in native load demand. All of this translates, on the one hand, into periods during which the system has the flexibility to absorb growth without making additional investments. It therefore follows, on the other hand, that at different points in time, when moving from one level to the next, the amount of investments will more or less reflect the load's growth.<sup>4</sup>"

"The Transmission Provider is moreover of the opinion that identifying a specific flow of power for the purposes of calculating transmission revenues per project does not correspond to a context where multiple loads are supplied using a multitude of resources, as is the case with the native load. <sup>5</sup>

The Transmission Provider adds that it is legitimate to consider the revenues generated by the Distributor, be it the growth of satellite substations or the increased number of customers connected directly to the transmission network, in order to cover the costs associated with commissioning the projects contemplating the Distributor.

6.5 Please confirm that the maximum contribution in the example cited in (iv) is \$50 million.

#### R6.5

In the example cited in (iv), the amount of \$50 million represents the difference between the actual cost of the project and the maximum amount of network upgrades. It corresponds to the Distributor's contribution.

6.6 Please specify how this initial contribution will be handled in the example cited in (iv). Please specify, for instance, whether this initial contribution, which was calculated in the context of the resource project, will be revised.

<sup>&</sup>lt;sup>3</sup> R-3669-2008, HQT-10, Document 5, page 12.

<sup>&</sup>lt;sup>4</sup> R-3738-2010, HQT-13, Document 1, response to question 37.1 of the Régie.

<sup>&</sup>lt;sup>5</sup> R-3738-2010, HQT-13, Document 1, response to question 37.5 of the Régie.

#### R6.6

This amount represents the first contribution to be paid by the Distributor. It will not form part of the aggregation of growth projects required to ensure the native-load transmission service. This contribution may be revised based on actual costs in the context of tariff requests filed before the Régie.

6.7 In the affirmative, please specify the forum in which this initial contribution will be revised.

#### R6.7

#### See the response to question 6.6.

6.8 Please specify when and in which forum this initial contribution will be considered as final and payable.

#### R6.8

The Transmission Provider emphasizes that for resources projects contemplating the native load, it first limits the portion of costs that may be integrated into the annual aggregation, namely the eligible costs, to the amount obtained by applying the maximum allowance to the maximum capacity to be transmitted over the system. It then adds this amount to the aggregation of costs for all of the Distributor's projects (loads and resources) to be covered by the 20-year growth forecast for the satellite substations and customers connected directly to the transmission network. This response relates to the estimated contribution in the first phase (the "initial contribution").

Therefore, in the case of a project with only one commissioning, the contribution will be revised and become payable based on the actual costs once the final commissioning will have been completed.

In the case of a project with several commissionings phased over time, the first portion of the contribution will be paid as soon as the monetary value of the commissionings exceeds that of the maximum amount, and so forth, until the last commissioning. These contributions will be revised and become payable based on the actual costs.

- 7. References:
- (i) Exhibit B-0004, p. 15 and 16;
- (ii) Exhibit B-0004, p. 16;
- (iii) Exhibit B-0004, Schedule 1;
- (iv) Case R-3823-2013, p. 15, Exhibit C-HQT-0046, p. 12.

#### **Preamble:**

(i) "To illustrate, the Transmission Provider presents the results of its proposal applied to the Distributor's projects in Schedule 1. As this table illustrates, the Transmission Provider proposes that resource projects that have been commissioned since 2006 be taken into account in the calculation of the Distributor's contribution in accordance with this proposal. The Transmission Provider's proposal begins in the year where the aggregation was introduced in the Open Access Transmission Tariff, namely in 2006. The Transmission Provider applies this measure to aggregations already filed before the Régie, since the Régie has reserved its decisions on the estimate of the Distributor's contributions for these projects. Consequently, the table presents the annual aggregations that led to the evaluation of the contribution required from the Distributor that were filed in the rate applications<sup>16</sup> by adding thereto the commissioned resource projects. In this proposal, the Distributor would have an additional contribution estimated at \$521.6 million,<sup>17</sup> plus maintenance and operating costs. The contribution will be integrated in the next rate application following the Régie's decision."

- (ii) In the footnote on page 17, the Transmission Provider explains the calculation that results in the amount of \$521.6 million in these terms: "Difference between the anticipated amount of \$810.2 million in Schedule 1 and the amounts projected for 2013 and 2014 in Case R-3823-2012, Exhibit HQT-12, Document 2, page 13, tables 8 and 9."
- (iii) The Transmission Provider presents the annual aggregation of load growth projects as well as native load resource projects from 2006 to 2014.
- (iv) "The Transmission Provider presents, in the following tables, the evaluation requested for 2011, 2012, 2013 and 2014. According to this evaluation, a contribution would be required from the Distributor for 2013 and 2014. However, these will <u>only be confirmed at the beginning of the following years, namely the first quarter of 2014 and 2015, respectively</u>, using the actual costs of commissionings effectively carried out in 2013 and 2014." [emphasis added]

To obtain the additional contribution of \$521.6 million, the Régie understands that the Transmission Provider:

- 1. adds the costs of resource projects to the annual calculations of contributions.
- 2. deducts the annual amount previously established, the amount of contribution calculated <u>for</u> <u>each year</u>, from 2006 to 2014, without taking resource projects into consideration.
- 3. carries forward any remaining positive balances.

The Régie also notes that the amount of \$521.6 million in reference (i) would have been \$860 million had there been no positive balances to carry forward.

#### **Requests:**

7.1 Please confirm that the amount established at \$521.6 million was obtained in accordance with the calculation provided by the Régie in the preamble.

#### R7.1

The Transmission Provider specifies that based on the revised version of Schedule 1 to Exhibit HQT-1, Document 1 mentioned in the response to question 6.2, the amount of \$521.6 million is revised to \$444.1 million.

The amount of \$444.1 million is the difference between the amount of \$732.7 million provided for in the revised Schedule 1, and the amounts projected for 2013 and 2014 in R-3823-2012, Exhibit HQT-12, Document 2, page 13, tables 8 and 9. The Transmission

Provider's calculation method is the same as the one presented by the Régie in the preamble, although the following specification respecting the first point of the Régie's calculation should be made. As explained in the response to question 6.3, the costs of resource projects integrated into the aggregation of projects, namely the eligible costs, are limited to the maximum amount pursuant to Section E, Attachment J to the *Open Access Transmission Tariff*.

7.2 Please confirm that the amount calculated by the Transmission Provider will be revised to reflect reference (iv).

#### R7.2

The amount of \$444.1 million will be revised to reflect the actual amounts of the commissionings actually carried out in 2013 and 2014.

7.3 Please present the impact on rates, from 2006 to 2014, that will result from applying the Transmission Provider's proposal in respect of positive balances carried forward (\$521.6 million impact) by comparing it to the impact on rates where positive balances are not carried forward (\$860 million impact).

#### R7.3

As mentioned in Exhibit HQT-1, Document 1, page 16, the additional contribution, plus maintenance and operating costs, will be integrated at the time of the rate application after the Régie has ruled on this matter, if the delay between the decision and filing of the rate case so permit. The Transmission Provider's proposal will not have the effect of modifying the rates approved by the Régie for past years.

The following table shows the effect that the Transmission Provider's proposal will have during the period beginning 2016 and ending 2023 by considering the revised calculation of reference (i), based on the response to question 7.1.

However, the potential contributions that are unknown as at this date for the years 2015 and up could accentuate this downward effect on the transmission rate after the Transmission Provider's proposal is approved.

Years	Net	Capital cost <sup>2</sup>	Depreciation	Tax on	Total	Total	Transmission	Annual
	additions to			utilities		revenues	Load	rate
	the rate					required		
	base							
	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)	(\$/k")
2016	-511	-22	-11	0	-33	-33	41 954	-0.79
2017	0	-28	-15	-3	-46	-46	42 606	-1.07
2018	0	-27	-15	-3	-45	-45	43 875	-1.02
2019	0	-26	-15	-3	-44	-44	44 676	-0.98
2020	0	-25	-15	-2	-43	-43	46 215	-0.93
2021	0	-24	-15	-2	-42	-42	46 555	-0.90
2022	0	-24	-15	-2	-41	-41	46 866	-0.88
2023	0	-23	-15	-2	-40	-40	47 179	-0.85

Table R7.3.1Impact of the Transmission Provider's proposal on rates

Entire 2016 tp 2023 period

-1.52

<sup>1</sup> Additional contribution of \$444.1 million, plus 15% maintenance and operating costs.

<sup>2</sup> Weighted average cost of prospective capital of 5.666%, according to decision D-2014-035.

<sup>3</sup> 0.55% tax on utilities.

<sup>4</sup> Transmission load based on table 13 of Exhibit HQT-9, Document 1, page 29 of request R-3823-2013.

The following table shows the effect that the Transmission Provider's proposal will have if the positive balances carried forward are not taken into account. This analysis was conducted based on the revised calculation of reference (i), in accordance with the response to question 7.1. However, given the cyclical nature of the demand for native load, a certain flexibility in the application of the Transmission Provider's proposal would be desirable, as mentioned in Exhibit HQT-1, Document 1, page 16 and as the Régie indicated in its decision D-2011-039, paragraph 431.

#### Table R7.3.2

## Impact of the Transmission Provider's proposal on rates, without positive balances being carried forward

Years	Net	Capital cost <sup>2</sup>	Depreciation	Tax on	Total	Total	Transmission	Annual
	additions to			utilities <sup>3</sup>		revenues	Load⁴	rate
	the rate					required		
	base <sup>1</sup>							
	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)	(\$/k")
2016	-943	-41	-21	0	-61	-61	41,954	-1.46
2017	0	-51	-28	-5	-84	-84	42,606	-1.98
2018	0	-50	-28	-5	-83	-83	43,875	-1.88
2019	0	-48	-28	-5	-81	-81	44,676	-1.81
2020	0	-47	-28	-5	-79	-79	46,215	-1.71
2021	0	-45	-28	-4	-77	-77	46,555	-1.66
2022	0	-44	-28	-4	-76	-76	46,866	-1.62
2023	0	-42	-28	-4	-74	-74	47,179	-1.57

Entire 2016 to 2023 period

<sup>1</sup> Additional contribution of \$819.9 million, plus 15% maintenance and operating costs.

<sup>2</sup> Weighted average cost of prospective capital of 5.666%, according to decision D-2014-035.

<sup>3</sup> 0.55% tax on utilities.

<sup>4</sup> Transmission load based on table 13 of Exhibit HQT-9, Document 1, page 29 of request R-3823-2013.

#### PAYMENT TERMS FOR THE CONTRIBUTION TO A PROJECT CONTAINING SEVERAL COMMISSIONING DATES STAGGERED OVER TIME

#### **8. References:** (i) Exhibit B-0004, p. 19 and 20;

- (ii) Exhibit B-0011, p. 17;
- (iii) Case R-375702011, Exhibit B-0006;
- (iv) Decision D-2007-141, p. 27, and 28;
- (v) Decision D-2010-165, p. 19.

#### **Preamble:**

(i) In its initial evidence, the Transmission Provider indicates the following:

"[In Cases R-3631-2007 and R-3742-2010] The Régie asked the Transmission Provider to submit a proposal respecting the terms and conditions for establishing and paying the Distributor's contribution in cases where a project contains several commissioning dates staggered over time. [footnote omitted]

#### [...]

Also, for projects containing several commissioning dates staggered over time, the Transmission Provider proposes that payment of the Distributor's contribution be <u>henceforth</u> required as of the commissioning date on which the maximum allowance of the project is reached and, thereafter, upon each subsequent commissioning until the final commissioning. This proposal is illustrated using the following example.

[...]

The Transmission Provider proposes amending the text of the Open Access Transmission Tariff to require the transmission service customers' contribution as of the commissioning date on which the maximum allowance of the project is reached and, thereafter, upon each subsequent commissioning."

(ii) In its additional evidence, the Transmission Provider specifies, in that respect:

"The Transmission Provider proposes applying the same terms and conditions to <u>future projects</u> of all of its customers.

*In its evidence, the Transmission Provider specifies that it* "proposes amending the text of the Open Access Transmission Tariff to demand the transmission service customers' contribution as of the commissioning date on which the maximum allowance of the project is reached and, thereafter, upon each subsequent commissioning." [emphasis added]

"Transmission service customers include point-to-point transmission service customers, native load customers and, where applicable, network customers, which are defined in the Open Access Transmission Tariff." [footnote omitted]

(iii) The Transmission Provider presents the rate impact for the project to connect the generating stations of the de la Romaine complex.

(iv) "In this case, the Transmission Provider proposes establishing, by means of an administrative agreement, the final amount of the Distributor's contribution based on the terms and conditions of the Open Access Transmission Tariff in force after the project's commissioning in 2012. Payment of the Distributor's contribution will be carried out in January 2013.

According to the terms and conditions of the model connection agreement referred to in the Open Access Transmission Tariff, the maximum that can be borne by the Transmission Provider is usually established based on the amount prescribed in the Open Access Transmission Tariff in force at the time the connection agreement is executed. Seeing as the Project contains several commissionings staggered over time, and therefore several connection agreements, this poses <u>a problem in terms of matching costs and contributions in the rate base</u>.

To the extent that the total contribution required of the Distributor is not high and that the exact amounts used to establish that contribution will only be known at the end of the Project, the Transmission Provider's proposal may be deemed acceptable. However, if that contribution were to be higher, for example after the Régie requests the presentation of a new financing proposal for the *Project, the terms and conditions for establishing and paying the Distributor's contribution will have to undergo a more detailed examination.* 

[...]

However, the Régie is asking the Transmission Provider to submit an amended proposal within 30 business days that responds to the various findings and concerns set forth in Sections 6, 7 and  $\underline{8}$  of this decision and, consequently, reserves the final decision to be rendered in those respects pursuant to Section 73 of the Act." [emphasis added]

(v) "[74] The Régie gives no opinion as to the estimate of the Distributor's contribution, or the terms and conditions for collecting that contribution, seeing as the topics will be discussed in phase 2 of the examination of the Transmission Provider's rate application currently underway."

#### **Requests:**

8.1 Please file a list of projects currently being approved by the Régie for which there is an estimated contribution and partial commissionings staggered over time.

#### R8.1

The Transmission Provider's proposal being prospective in its application (see also the response to question 6.2), only those projects are presented for which the Régie has reserved its final decision on certain aspects, including the calculation and payment of the contribution, in order that it may be dealt with in this case, and the projects for which a contribution is estimated.

- 1<sup>st</sup> C/T wind farm;
- 3<sup>rd</sup> C/T wind farm;
- 8.2 Please illustrate the description, in reference (i), of the impact that the Transmission Provider's proposal will have on the rate by applying it to the project cited in reference (iii).

#### R8.2

The decision to be rendered in this case will be prospective in its application, as is generally the case for all decisions relating to an amendment to the *Open Access Transmission Tariff*.

The Transmission Provider emphasizes that this decision will, for each case and in a unique manner, have an impact on the <u>previous final decisions</u> of the Régie relating to the Distributor, namely Decisions D-2007-141, D-2009-166, D-2010-165 and D-2014-045. For example, in Decision D-2010-165, the Régie concluded the following:

"RESERVES its decision respecting the estimate of the Distributor's contribution as well as on the conditions for recovering the said contribution."

In paragraph 93 of Decision D-2014-045, the Régie repeats the same reservation.

Such a conclusion is absent from Decision D-2011-083 for the Request of the Transmission Provider respecting a project to connect the generating stations of the de la Romaine complex to the transmission system (Case R-3757-2011).

#### In its Decision D-2011-083, the Régie concluded the following:

" [24] The investments of the Transmission Provider in this Project have no impact that would increase its rates. [...]"

"The Régie de l'énergie:

AUTHORIZES the Transmission Provider to carry out the Project; [...]"

With all due respect, one cannot expect the decision to be handed down in this case to have an impact on the contractual framework that was constituted and confirmed under Decision D-2011-083 of the Régie as regards the determination and payment terms of the Generator's contribution. The contribution expected from the Generator in the context of this project will be paid at the time the project is commissioned.

### Owing to these very particular circumstances, the Transmission Provider submits that it cannot satisfy the Régie's request.

8.3 Please comment on the possibility of applying the terms and conditions for establishing and paying the contribution that answer the issues raised by the Régie back in 2007 (reference iv), in the projects underway for which a contribution and partial commissionings are projected.

#### R8.3

#### See response to question 8.2

8.4 Please comment on the appropriateness of applying a contribution establishment and payment methodology that would be carried out proportionally to the amount associated with the partial commissioning.

#### 8.4

In the context of growth investment projects, the Transmission Provider assesses the customer's contribution, where applicable. This initial estimate is based on the parameter costs that could fluctuate as the project progresses, up to the complete and final commissioning thereof.

The Transmission Provider integrates the costs associated with project commissionings in its rate base. Consequently, when a contribution is expected, it is evaluated by taking the commissioning assets into account, as mentioned in Exhibit HQT-3, Document 1 in this case.

In the case of commissionings that are staggered over time, any method for establishing the contribution proportionally to the amount associated with the partial commissioning will decrease the level of accuracy of the costs. Consequently, the calculation of the contribution, where applicable, and the addition of assets in the rate base might contain inaccuracies.

Such project cost inaccuracies would present several challenges. One of the more significant ones is that it could result in rate base fluctuations. The Régie, however, insists that the Transmission Provider's rate base forecasts be as precise as possible.

Moreover, the method for establishing the contribution would not be representative of the costs that might be borne by the Transmission Provider and would not be in keeping with the strict meaning of Attachment J to the *Open Access Transmission Tariff*, which holds that the Transmission Provider may bear the costs of upgrades seeking to increase customer demands up to the maximum amount for transmission network upgrades. From this perspective, it would be inappropriate to demand a contribution from a customer that has not reached the maximum amount to which it is entitled, depending on the features of its project, the maximum amount being associated with the project and not with the amounts of the commissionings. Indeed, it is a single and unique project that was contemplated by a single application for authorization and in respect of which only one maximum amount is calculated based on the project's total capacity.

The Transmission Provider's proposal relies on the costs of assets commissioned; this allows it to better reflect the additions to the rate base. Moreover, it is fair, precise, entirely objective and allows the contribution to be paid as soon as the maximum amount is reached.

8.5 Please comment on the appropriateness of applying a contribution establishment and payment methodology that would be carried out proportionally to the MWs corresponding to each of the partial commissionings.

#### R8.5

See the response to question 8.4. A contribution establishment and payment method that would be carried out proportionally to the MWs might accentuate the lack of equivalency between the contribution demanded and the service rendered after a commissioning that is staggered over time.

**9. References:** (i) Exhibit B-0011, p. 17.

#### Preamble:

In its additional evidence, the Transmission Provider specifies the following:

"The Transmission Provider proposes applying the same terms and conditions for <u>future projects</u> of all of its customers.

*In its evidence, the Transmission Provider specifies that it* "proposes amending the text of the Open Access Transmission Tariff to require transmission service customers' contribution as of the commissioning date on which the maximum allowance of the project is reached and, thereafter, on each subsequent commissioning." [emphasis added]

The transmission service customers include the point-to-point transmission service customers, native load customers and, where applicable, network customers, which are defined in the Open Access Transmission Tariff<sup>2</sup>. [footnote omitted]

#### **Requests:**

9.1 Please describe the accounting treatment for contributions based on the authoritative accounting pronouncements of the Canadian GAAP, the IFRS and the US GAAP. More specifically, please indicate whether the allocation of contributions of third parties is provided for at the time of the partial commissionings, the final commissionings or otherwise.

#### R9.1

The accounting treatment reserved for contributions received from third parties is similar under the authoritative accounting pronouncements of the Canadian GAAP (Part V) and the US GAAP. Pursuant to these authoritative accounting pronouncements, contributions received from third parties must be deducted from the capital costs contemplated by these contributions. At the time of commissioning, the costs associated with the capital assets that are to be commissioned, including contributions received from third parties, are determined and amortized over the useful life of the capital assets to which they relate.

Under the IFRS, third party contributions must instead be accounted for as revenue when they are payable. For regulatory purposes, a capital depreciation in an amount equal to the contributions received must be accounted for seeing as the yield on the rate base is calculated based on fixed assets net of the contributions received. At the time of commissioning, the costs associated with capital assets to be commissioned, including the corresponding depreciation of contributions received from third parties, are determined and amortized over the useful life of the capital assets to which they are related.

As mentioned on page 7 of Exhibit HQT-1, Document 1 (lines 18 through 23), in the case of a project that has several commissionings staggered over time, the Transmission Provider intends to demand the contribution of transmission service customers as of the commissioning date on which the maximum allowance of the project is reached and, thereafter, upon each subsequent commissioning. If the Régie recognizes the method proposed by the Transmission Provider in respect of the customer contribution requirement, the accounting treatment will be compliant from the perspective of the application of the Canadian GAAP (Part V), the US GAAP and the IFRS.

#### SPECIFIC RISKS OF CERTAIN PROJECTS

- **10. References:** (i) Exhibit B-0004, p. 21;
  - (ii) Exhibit B-0004, p. 23.

#### Preamble:

(i) "One feature of the Project is that the Transmission Provider, at the Distributor's request, builds facilities in an isolated territory that will, in theory, be dedicated to serving a single native load customer. The Régie asked the Transmission Provider how a hypothetical cessation in the activities of the Distributor's customer after only a few years of operation in permanent supply would affect the Transmission Provider and its customers.

[...]

To answer the Régie's question, the Transmission Provider proposed a supervisory measure for the <u>specific situation</u> described by the Régie. This supervisory measure therefore applies to the Distributor and contemplates projects to connect industrial customers with facilities in <u>isolated territories</u> to the transmission system.

#### [...]

*The Transmission Provider will ensure <u>that this measure is reflected in the internal connection</u> <u>agreements with the Distributor for the identified projects.</u>" [emphasis added, footnote omitted]* 

(ii) *"Obtain payment of a compensation from the Distributor should an industrial customer <u>cease</u> <u>its operations</u> [...]" [emphasis added]* 

#### **Requests:**

10.1 Please explain the appropriateness of applying the proposed measure to any project dedicated to a single industrial customer, given the potential impact that a cessation in its activities after only a few years of operation might have.

#### R10.1

The Transmission Provider is of the opinion that it is not appropriate to apply the proposed measures to any project dedicated to a single industrial customer.

The Transmission Provider has already submitted to the Régie that the diversity and growth of the Distributor's loads, as well as the useful life of the equipment of the transmission system, are factors that mitigate the risks associated with those exceptional cases where the lifespan of one of the Distributor's loads might be uncertain, thus allowing to maintain that the investments are useful and prudent acquisitions that can generally be used for 40 years or more.<sup>6</sup>

The Transmission Provider adds that the second criterion proposed, namely the ratio that the weight of the industrial customer's load bears to the surrounding loads, which seeks to target projects that are located in isolated territories or dedicated to serving a single client, constitutes an appreciation of the potential for reusing built assets and therefore the risks associated with the isolation of an industrial customer. Consequently, projects that do not meet this criterion (ratio of under 90%) present a

<sup>&</sup>lt;sup>6</sup> Case R-3738-2010, HQT-13, Document 1, response to question 31.3.

better potential for reuse, as the assets built in the context of the project can be used to serve another customer, and to consolidate the Transmission Provider's network or contribute to its development.

10.2 Please explain the benefits and inconveniences of limiting the proposed measures to industrial projects in isolated territories.

#### R10.2

The Transmission Provider is of the opinion that the measure, as proposed, adequately addresses the Régie's concern over industrial projects dedicated to serving a single customer in an isolated territory.

The Transmission Provider sees neither the benefit nor the necessity of expanding this measure that applies to exceptional situations contemplated by the Régie to all of the Distributor's industrial clients.

It points out that industrial customers form an integral part of the native load. As indicated in the response to question 10.1, facilities that are intended to be used to connect industrial customers not located in isolated territories present a strong potential for reuse, given the diversity and multiplicity of the Distributor's load.

The Transmission Provider emphasizes in that respect that it offers the Distributor a transmission service allowing it to efficiently and economically use its resources to supply the native load without being required to execute service agreements. This service integrates all native load requirements, including those of industrial customers directly connected to the transmission system.

10.3 Please specify what the expressions "discontinuation of operations" and "cessation of operations" mean, specifically as to duration.

#### R10.3

The Transmission Provider uses the expressions "discontinuation of operations" and "cessation of operations" indiscriminately in its evidence to refer to a cessation of the operations of a Distributor's customer, without making any assumption as to the duration thereof.

10.4 Please explain the appropriateness of applying the proposed measure to cases of temporary cessations of operations, notably lasting one or several years.

#### R10.4

The Transmission Provider suggests applying the proposed measure upon confirmation, by the Distributor, that its customer will be ceasing its operations, without presuming that they might possibly resume, unless confirmation is received from the Distributor that the cessation is temporary and a resumption is formally planned. 10.5 Please indicate how, other than the in-house agreements to connect to the Distributor, the Transmission Provider intends to integrate the proposed measure into the *Open Access Transmission Tariff*.

#### R10.5

As the Régie suggests in its question, the proposed measure will be integrated into the in-house connection agreement, where applicable. For new loads from the Distributor's customers that are connected to the transmission system, the technical committee responsible for handling all administrative issues under Section 43.3 of the *Open Access Transmission Tariff* will integrate the measure proposed by the Transmission Provider. The Transmission Provider does not intend to make any amendment to the *Open Access Transmission Tariff*.

**11. References:** Exhibit B-0004, p. 22.

#### **Preamble:**

"The first criterion seeks to target projects that could have an impact on the required revenues in the event that a customer ceases its operations. This impact is evaluated by considering the costs borne by the Transmission Provider, therefore net of any amount reimbursed by means of a contribution. The Transmission Provider therefore proposes considering <u>projects the cost of which it will bear that are equal to or greater than five million dollars</u>." [emphasis added]

#### **Request:**

11.1 Please justify the choice of value, namely five million dollars.

#### R11.1

This criterion of materiality is predicated on the fact that a \$5 million investment borne by the Transmission Provider, were it not to generate revenues because the Distributor's customer ceased its operations for which the investment was made, would have a negligible impact of approximately \$0.01/kW/year on the transmission rate. Consequently, this criterion means that it is possible not to add administrative followups of insignificant impacts.

**12. References:** (i) Exhibit B-0004, p. 22.

#### **Preamble:**

"The second criterion targets projects located in isolated territories <u>or assets dedicated to serving a</u> <u>single customer</u>. This criterion is defined by the following ratio:

Ratio =

<u>Industrial customer's load</u> Industrial customer's load + Surrounding load The value of the ratio <u>determines the weight of the industrial customer's load compared to the</u> <u>surrounding load</u>. The surrounding load is defined by the sum of the actual loads on the transmission system within a 15-kilometer radius of a given geographical point.

#### [...]

The Transmission Provider defines the <u>threshold of this ratio at 90%</u>. A client with a ratio equal to or greater than this threshold is considered to be a client located in an isolated territory." [emphasis added]

#### **Requests:**

12.1 Please explain the need to calculate this ratio for an industrial customer requiring network upgrades that are completely dedicated to it.

#### R12.1

#### See the last paragraph of the response to question 10.1

12.2 Please specify how the Transmission Provider will determine the geographical point cited in reference. Please indicate where this point will be located in the case of the Eleonore project (Case R-3656-2008), for example.

#### R12.2

The geographical point is determined by the customer. It represents the intended site for its facility. The Transmission Provider receives this information through the Distributor when a planning study is requested. As for the Eleonore project, the geographical point is indicated in Exhibit HQT-2, Document 1 (geographical location of the project) in Case R-3656-2008.

12.3 Please justify, using examples, the choice of the proposed 90% threshold.

#### 12.3

First, the second proposed criterion discriminates against any project that is more than 15 kilometers away from any other surrounding load, which considerably reduces the risks associated with the isolation of an industrial customer.

Moreover, as mentioned in the response to question 10.2, the Transmission Provider believes that the projects do not meet this criterion (ratio under 90%), have a good potential for reuse and therefore represent a marginal risk for the Transmission Provider. Consequently, by setting this threshold at 90%, the Transmission Provider ensures that it will identify risky projects.

Finally, the results were polarized in all of the case studies examined by the Transmission Provider to establish its criterion. As can be seen in the following table, among the case studies examined (14), those beneath the 90% threshold are far under that threshold.

	Load of industrial customer		Distance of nearest load		
Case		Line length			2
	(MVA)	(km)	(km)	Surrounding load <sup>+</sup> (MVA)	Ratio <sup>2</sup> (%)
Case 1	50	0	1	696	7%
Case 2	45	50	65	0	100%
Case 3 Case 4	34 25	4 165	9 250	140 0	20% 100%
Case 5	40	20	25	0	100%
Case 6	140	22	1	696	17%
Case 7	42	0	1	140	23%
Case 8	500	15	1	1,119	31%
Case 9	30	1	5	43	41%
Case 10	30	3	11	327	8%
Case 11	31	4	1	5,000	1%
Case 12	70	1	1	5,000	1%
Case 13	157	1	1	785	17%
Case 14	100	5	2	907	10%

## Table R12.3Cases examined for projects to connect theDistributor's customers directly to the transmission system

<sup>1</sup> Surrounding load within a 15-kilometer radius.

<sup>2</sup> Ratio: load of industrial customer/(load of industrial customer + surrounding load)

12.4 Please indicate how this ratio is a factor of "isolation" rather than simply a factor of the relative weight of the industrial customer's load within its environment, as cited in reference. Please provide examples in support of your response.

#### R12.4

#### See the responses to questions 10.2 and 12.3.

#### COST SHARING APPROACH

**13. References:** (i) Exhibit B-0011, p. 22.

#### **Preamble:**

"For follow-up purposes and <u>barring exceptions</u>, the Transmission Provider allocates each piece of equipment and major component, such as a transformer or a power line, to only one investment category. These allocations are made while taking into consideration the amounts established in the allocation of costs to the various categories." [emphasis added]

#### **Requests:**

13.1 Please specify in which cases there might be an exception, namely that the equipment or major components might not be attributed to a single investment category.

#### R13.1

The Transmission Provider reminds us that this is a cost-tracking element. The Transmission Provider nonetheless pays particular attention to cases where a piece of equipment or a component meeting multiple objectives constitutes the entirety or a major portion of a multiple-objective project. In such cases, the cost of the same equipment or component may be attributed to various investment categories corresponding to the project's objectives, depending the results of the sequential method proposed by the Transmission Provider.

13.1.1 Please specify how such cases are then handled and give concrete examples.

#### R13.1.1

Cases where a piece of equipment or component constitutes the entirety or a major portion of a multiple-objective project are handled by attributing the cost to the appropriate investment categories based on the proportions resulting from the application of the sequential method. Such a treatment involves a specific follow-up, depending on whether the Transmission Provider's asset will be associated with more than one category. The Transmission Provider insists that such cases are not the norm.

The Transmission Provider uses the example of a project to replace an underground line between the Notre-Dame and Berri stations (Case R-3718-2009). The costs of replacing line No. 1250 associated with the "asset maintenance" category were determined based on the costs estimated for a project to replace the existing line by a line with a similar capacity. However, in order to optimize the investments made in the course of that project, the Transmission Provider took into consideration the growing demands on line No. 1250 and took this opportunity to increase its transmission capacity. Consequently, the additional amount invested to respond to that demand was attributed to the "customer demand growth" category.<sup>7</sup>

13.2 Please indicate how the Transmission Provider allocates costs among the various investment categories when the project consists of upgrading a single major component.

#### R13.2

See the response to question 13.1.1, more specifically how the project to replace the underground line between the Notre-Dame and Berri stations was handled. The Transmission Provider reminds us that it reserves such treatment for cases where a piece of equipment or component constitutes the entirety or major portion of a multiple-objective project. This treatment is particular, considering that a Transmission Provider's asset is usually associated with a single investment category.

13.3 Please demonstrate that the approach consisting of associating each piece of equipment and major component to a single investment category does not risk resulting in an overestimation of the costs associated with one investment category to the detriment of another.

<sup>&</sup>lt;sup>7</sup> R-3718-2009, HQT-1, Document 1, page 18.

#### R13.3

The Transmission Provider reminds us that the equipment is allocated to the various investment categories using the investment categorization process, which is carried out based on the project's objectives. This categorization process is carried out by first applying the proposed sequential method.

Once the cost of each category is obtained using the sequential method, and essentially for follow-up purposes, the Transmission Provider will associate the equipment to the various investment categories so as to allocate the total cost of the project in such a manner as to reflect, where possible, the vocation of the equipment in question, maintaining as best as possible the proportions resulting from the application of the sequential method. While the outcome might result in slightly different proportions than those obtained using the sequential method, the Transmission Provider specifies that it does not privilege any category when using this approach. Consequently, for all projects, it appears highly unlikely that the approach of associating each piece of equipment and major component to one and the same investment category will result in an overestimation of the cost of an investment category.

For the purposes of the annual report to the Régie, the Transmission Provider points out that it must conciliate the objective of the fair allocation of costs with that of a fair and adequate follow-up. Considering the high number of projects carried out each year, the Transmission Provider tries to limit exceptions requiring a particular follow-up.

13.4 Please comment on the possibility of allocating the cost of components in the same proportions as those that the Transmission Provider establishes for allocating the cost of a project among the various investment categories.

#### R13.4

As indicated in the response to question 13.2, the allocation of a single piece of equipment or component to several investment categories represents a treatment requiring a particular follow-up, considering that the Transmission Provider's follow-up methods, which involve several hundreds of thousands of pieces of equipment and components, provide that an asset is generally associated with a single category.

The Transmission Provider repeats that the current allocation by equipment reproduces, with good accuracy, the attribution that results from applying the sequential method.

14. References:	(i)	Exhibit B-0004, p. 25;
	(ii)	Exhibit B-0011, p. 22.

#### Preamble:

(i) "The Transmission Provider proposes codifying, in the Open Access Transmission Tariff, the approach used to distribute the costs of a project among the various transmission service customers benefitting therefrom.

The Transmission Provider can in fact determine that some of the work required in the context of various network upgrade projects would benefit from being replaced by a joint technical solution that proves to be more optimal in terms of costs and development of its network than the choice of separate solutions. Where applicable, the approach proposed by the Transmission Provider is to attribute to each of the projects in question a portion of the costs of the joint solution based on the costs that solution allows each project to avoid. If this approach is not applied in the context of a specific project, the Transmission Provider will present a replacement method to the Régie." [emphasis added]

(ii) "In cases where projects simultaneously meet only the growth objectives and maintenance and approval of service quality objectives, and where the costs thereof that are to be attributed cannot be objectively split, those costs that are to be attributed to the "maintenance and improvement of service quality" category are estimated by difference, by comparing the total value of the project to the value of the functional solution that will satisfy only the growth needs.

[...] "In cases where projects simultaneously meet the growth objectives, asset maintenance objectives and maintenance and improvement of service quality objectives, the costs will be attributed in the following manner. Costs will first be attributed to the "asset maintenance" category in the manner described above, then to the "customer demand growth" category by considering a functional solution that will satisfy the longevity needs and growth demands, then to the "maintenance and improvement of service quality" category by taking into consideration the total cost of the project." [emphasis added]

To illustrate, the Régie presents the following cases:

Example 1: Project meeting the "customer demand growth" objectives (growth) that simultaneously meets the needs of two customers.

- Cost of entire project (joint technical solution): \$300 million;
- Cost of the permanent solution corresponding solely to the needs of client #1: \$200 million;
- Cost of the solution corresponding only to the needs of client #2: \$150 million.

Example 2: Project meeting the growth objectives that simultaneously meets the needs of two customers.

- Cost of entire project (joint technical solution): \$300 million;
- Cost of the solution solely meeting the needs of client #1: \$300 million;
- Cost of the solution solely meeting the needs of client #2: \$50 million.

Example 3: Project simultaneously meeting only the growth objectives and "maintenance of assets and improvement of quality of service" objectives (maintenance and improvement):

- Cost of entire project: \$100 million;
- Functional solution solely meeting the growth needs: \$70 million;
- Functional solution solely meeting the maintenance and improvement needs: \$50 million.

Example 4: Project simultaneously meeting only the growth objectives and maintenance and improvement objectives:

- Cost of entire project: \$100 million;
- Functional solution only meeting the growth needs: \$100 million.
- Functional solution only meeting the maintenance and improvement needs: \$20 million;

Example 5: Project simultaneously meeting the growth objectives, "asset maintenance" objectives (maintenance) and maintenance and improvement objectives:

- Cost of entire project: \$400 million;
- Investments in maintenance: \$150 million;
- Functional solutions only meeting the growth needs: \$200 million;
- Functional solution only meeting the maintenance and improvement objectives: \$100 million.

#### **Requests:**

14.1 Please confirm that, when applying the methodology cited in reference (i) in the case of a growth project allowing for the simultaneous response to the demands of two customers, the Transmission Provider will evaluate two individual solutions that would have allowed it to respond to each of the customers' demands.

#### R14.1

For a growth project allowing a simultaneous response to the demands of two customers, the Transmission Provider will evaluate two individual solutions that would have allowed it to respond to each of the customers' demands.

14.2 Please describe how the Transmission Provider will determine and evaluate the investments in individual solutions for the purposes of allocating costs among several customers.

#### R14.2

The Transmission Provider will evaluate the investments needed for each of the individual solutions based on their chronological order. Each request will give rise to a determination of a solution and will be dealt with taking into account the amendments made to the network to respond to all the demands that preceded it.

14.3 Please describe how the Transmission Provider will determine and evaluate the investments in functional solutions for allocating the cost among several investment categories.

#### R14.3

The Transmission Provider will use its usual process for developing and comparing scenarios to evaluate optimal solutions for each demand or customer, taken separately.

• In the case of projects that meet both the customer demand growth objectives and maintenance and improvement of service quality objectives, the Transmission Provider will evaluate the optimal functional solution that will only satisfy the growth needs, in order to allocate the costs amongst the two categories.

• In the case of projects that meet the customer demand growth objectives, asset maintenance objectives as well as maintenance and improvement of service quality objectives, the Transmission Provider will evaluate the optimal functional solution that will satisfy the longevity needs and growth demands, and will compare the cost to the total cost of the project in order to determine the portion attributable to the "maintenance and improvement of service quality" category.

14.4 Please indicate how the Transmission Provider will refer to an optimal solution in order to evaluate a functional solution for allocating costs among investment categories or an individual solution for allocating costs between several customers.

#### R14.4

#### See the response to question 14.3

14.5 Please specify the reasons for which the Transmission Provider does not propose evaluating a functional solution for the maintenance and improvement category in its methodology cited in reference (ii).

#### R14.5

The Transmission Provider has set an order for the categories resulting in an allocation of costs by investment category based on the following considerations:

• The first priority and in the absence of any growth and service quality improvement needs, the Transmission Provider must ensure the longevity of its system, hence the choice of first considering the "asset maintenance" category;

• Second, the Transmission Provider must ensure that its system has the capacity to respond to customer demand growth, hence the choice of considering the "customer demand growth" as the second category in its sequence;

• Then, if a project allows it to simultaneously meet the objectives associated with the three investment categories, the Transmission Provider will attribute to the "maintenance and improvement of the service quality" category any difference, where applicable, between the total cost of the project and the cost of a functional solution that would satisfy both the "asset maintenance" and "customer demand growth" needs.

14.6 Please specify the allocation of costs that would result from each of the examples provided by the Régie in the preamble, applying the proposals of the Transmission Provider to references (i) and (ii).

#### R14.6

For the five examples presented in the preamble, the Transmission Provider gives the following specifications on the sharing of costs by customer or the allocation of costs by category.

#### Example 1

As this is a case of sharing between customers and not a case of allocating between investment categories, the costs would be shared based on the costs avoided, as the Transmission Provider proposes in Exhibit HQT-1, Document 1, section 3.7, p. 24.

As this is a project meeting only the objectives of the growth of two customers, the Transmission Provider would attribute the cost between the two customers while taking into account the costs of solutions that would have allowed it to respond to each customer's demands individually.

Assuming that Customer 1 presented its demand to the Transmission Provider before Customer 2, the costs would be allocated as follows:

Customer 1: \$200 million

Customer 2: \$100 million

Assuming that Customer 2 presented its demand to the Transmission Provider before Customer 1, the costs would be allocated as follows:

Customer 2: \$150 million

Customer 1: \$150 million

#### Example 2

The Transmission Provider emphasizes that the scenario described by the Régie implies that no network upgrade would be required to connect the facilities of Customer 2, either because it was a new customer setting itself up on an already connected site (for example, a site abandoned by a customer that ceased its operations) or because it was an existing customer wanting to increase its load. The investments required to respond solely to the demand of this Customer 2, at a cost of \$50 million, would involve strengthening the system upstream of the bypass connecting the customer to the system.

Assuming that Customer 1 presented its demand to the Transmission Provider before Customer 2, the costs would be allocated as follows:

Customer 1: \$300 million

Customer 2: \$0 million

Assuming that Customer 2 presented its demand to the Transmission Provider before Customer 1, the costs would be allocated as follows:

Customer 2: \$50 million

Customer 1: \$250 million

#### Example 3

As this is a project that simultaneously meets only the growth objectives and maintenance and improvement of service quality objectives, the Transmission Provider would attribute the costs to the two categories as follows:

Growth: cost of functional solution meeting only the growth needs = \$70 million

Maintenance and improvement\*: difference between the total cost of the project (\$100 million) and that of the functional solution only meeting the growth demand needs (\$70 million) = \$30 million

\* The Transmission Provider will not evaluate a functional solution that only addresses maintenance and improvement needs.

#### Example 4

As this is a project that simultaneously meets only the growth objectives and maintenance and improvement of service quality objectives, the Transmission Provider would attribute the costs to the two categories as follows:

Growth: cost of functional solution only meeting the growth demand needs = \$100 million

Maintenance and improvement\*: Difference between the total cost of the project (\$100 million) and that of the functional solution only responding to the growth demand needs (\$100 million) = \$0 million

\* The Transmission Provider would not evaluate a functional solution that only addresses maintenance and improvement of the service quality needs.

#### Example 5

The Transmission Provider emphasizes that for a project that simultaneously meets the objectives of asset maintenance, growth and maintenance and improvement of service quality, it will not evaluate a functional solution that only meets growth demands, but rather a functional solution that will meet the asset maintenance and growth needs, as indicated in Exhibit HQT-1, Document 1, page 22. Assuming that the cost of the functional solution simultaneously meeting the asset maintenance and growth needs was \$200 million, the Transmission Provider would attribute the cost of the project amongst the three investment categories as follows:

Asset maintenance: cost of investments required to maintain assets = \$150 million

Growth: difference between the cost of a functional solution simultaneously meeting the maintenance asset and growth needs (\$200 million) and the cost of investments required to maintain the assets (\$150 million) = \$50 million

Maintenance and improvement of the service quality<sup>\*</sup>: difference between the total cost of the project and that of the functional solution simultaneously meeting the asset maintenance and growth needs, namely \$200 million

### \* The Transmission Provider would not evaluate a functional solution that only addresses maintenance and improvement needs.

14.7 Please justify, in the cost sharing methodology described in reference (ii), the order leading to the allocation of costs, namely subtract from the total value of the project the value of the functional solution that would only satisfy the growth needs instead of subtracting from the total value of the project the value of the functional solution that would only satisfy the maintenance and improvement needs.

#### R14.7

#### See the response to question 14.5.

14.8 Please justify, in the cost sharing methodology described in the second paragraph of preamble (ii), the order of the category choices leading to the allocation of costs.

#### R14.8

#### See the response to question 14.5.

14.9 Please comment on the possibility of allocating costs among customers proportionally to the MWs associated with each of these customers, in the case of a growth project allowing it to simultaneously meet the needs of both customers.

#### R14.9

The costs of a solution allowing it to satisfy a growth objective depend on the size of the required upgrades to the transmission system and are not proportional to the capacity that the project will allow it to transmit.

Consequently, the Transmission Provider is of the opinion that the sharing of the costs of a growth project allowing it to simultaneously meet the demands of two customers must be made based on the costs of the individual solutions that would have allowed it to respond to the needs of these customers, and not based on the MWs associated with each of them.

14.10 Please comment on the possibility of allocating costs among the various investment categories proportionally to the MWs associated with each of these categories.

#### R14.10

The Transmission Provider specifies that among the four investment categories used by the Transmission Provider, only the "customer demand growth" category is associated with an MW upgrade to the transmission system.

Moreover, similarly to what it expressed in its response to question 14.9, the Transmission Provider indicates that the investments required to satisfy a need, regardless of the category with which they are associated, are not proportional to the

existing MWs or to the MWs contemplated by the upgrade, but are instead linked to the magnitude of the works to be carried out on the system to satisfy such needs.

TERMS AND CONDITIONS RESPECTING THE MAINTENANCE OR REPLACEMENT OF THE SWITCHYARDS OF EXISTING GENERATING STATIONS

15. References:	(i)	Exhibit B-0004, p. 9;
	<···>	

(ii) Exhibit B-0004, p. 33.

#### **Preamble:**

(i) "Work carried out to improve the system or to ensure the longevity and reliability thereof, such as work needed to comply with requirements, is not covered by the provisions of the upgrade policy."

(ii) "Apply the longevity treatment afforded to generating station switchyards belonging to Hydro-Québec to generating station switchyards belonging to private generators, provided that these switchyards have been contemplated by a reimbursement from the Transmission Provider up to the <u>maximum contribution</u>, and taking into consideration their contractual framework at the time of reconditioning.

[emphasis added]

#### **Requests:**

15.1 Please indicate whether, in light of the statement in reference (i), the Transmission Provider intends to codify in the *Open Access Transmission Tariff* the measures proposed in reference (ii). If not, please justify.

#### R15.1

The Transmission Provider does not intend to codify in the *Open Access Transmission Tariff* the measures proposed in reference (ii), namely the handling of the longevity of generating station switchyards belonging to Hydro-Québec and those belonging to private generators. This is justified by the fact that the upgrade policy applies to upgrades carried out at the request of customers, and not to investments required for the longevity work associated with maintaining its assets. Moreover, an authorization procedure before the Régie already exists for longevity investment projects.

15.2 Please specify if the expression "up to the maximum amount" refers to the actual cost of the switchyard within the limits of the maximum contribution authorized in Attachment J to the *Open Access Transmission Tariff.* 

#### R15.2

The expression "up to the maximum amount" refers to the actual cost of the switchyard, without, however, exceeding the maximum amount of a contribution for the switchyard pursuant to Attachment J of the *Open Access Transmission Tariff*.

15.3 Please specify whether, in the case of private generators as well as that of generating stations belonging to Hydro-Québec, the Transmission Provider will take into account the maximum contribution, authorized by the Régie for their switchyards, in force at the time of maintenance.

#### R15.3

The Transmission Provider applies the same longevity rules for all of its assets, including generating station switchyards belonging to Hydro-Québec. The terms and conditions of the upgrade policy, including maximum allowance, apply only to growth projects.

As for switchyards belonging to private generators, in those cases where a contribution was paid, the Transmission Provider proposes a longevity follow-up method similar to the one it applies to its own assets when maintenance or replacement of the switchyard is required.

However, in order to be eligible, the private generator must demonstrate that it meets the requirements set by the Transmission Provider, namely it must show that it has a contract with the Distributor or the Generator, or a transmission service agreement, that it has performed maintenance on its switchyard based on the requirements stipulated in the connection agreement, and that it's switchyard requires longevity work.

In the case of private generators that have not obtained a reimbursement for their switchyard, the longevity works will be their responsibility, seeing as those assets are not part of the transmission system.

#### HANDLING OF COMMITMENT FOLLOW-UPS

#### 16. References: (i) Case R-3605-2006, Decision D-2007-08, p. 73;

- (ii) Exhibit B-0011, p. 26;
- (iii) Hydro-Québec Open Access Transmission Tariff in force, p. 29 to 31.

#### **Preamble:**

(i) In Decision D-2007-08, the Régie had this to say respecting approval of the text of Section 12A2.(i) of the Open Access Transmission Tariff:

"According to the Régie, the use of several agreements is acceptable if it can be shown that each of these agreements generates <u>additional revenue</u> for the Transmission Provider and that all additional revenues can be used to cover the <u>additional costs</u> associated with the project." [emphasis added]

(ii) "The approach proposed by the Transmission Provider allows to compare, on an annual basis, <u>all</u> <u>of the commitments</u> with all of the revenues generated by the <u>transmission service agreements in force</u>, for each of its point-to-point transmission customers."

[...]

To date, connection projects that have already been authorized under section 12A.2(i) of the Open Access Transmission Tariff come from the Generator, as point-to-point transmission customer, and are not associated with annual commitments." [emphasis added]

(iii) Section 12A2 of the Open Access Transmission Tariff provides for 3 options:

- Option (i): Long-term transmission service agreement;
- Option (ii): Transmission service purchase commitment;
- Option (iii): Repayment;

#### **Requests:**

16.1 Please specify the relevance of considering all revenues generated by transmission service agreements that are in force instead of just additional revenues generated by new service agreements associated with the project.

#### R16.1

In the case of a generating station connection, the provisions of Section 12A.2(i) specify that the point-to-point transmission service customer is required to have signed at least one long-term transmission service agreement. The text of the *Open Access Transmission Tariff* does not provide for the execution of a new transmission service agreement. In this context, a point-to-point transmission service customer having already signed a long-term transmission service agreement may present that same service agreement to cover the maximum amount assumed by the Transmission Provider to connect a generating station, provided that this agreement generates sufficient revenues to cover the costs of all upgrades in respect of which it is presented. The Régie has already accepted this approach, specifically as regards the project relating to the connection of the de la Romaine complex (Case R-3757-2011).

An annual follow-up allows the Transmission Provider to verify how the coverage of the costs of a point-to-point transmission service customer compares to all of its commitments. For the purposes of following up on the commitments, the matching of all revenues and commitments is justified, especially as the revenues generated by a single long-term firm point-to-point transmission service agreement may be associated with several various investment projects, and this for the purposes of covering the maximum amount assumed by the Transmission Provider for the same projects.

The Transmission Provider also adds that the consideration of all revenues generated by the transmission service agreement in force favours the execution of long-term service agreements.

16.2 For each long-term point-to-point service agreement in force, please provide the name of the customer as well as the agreement's commencement and termination date, the quantity of MWs and the total amount associated with the annual reservations.

R16.2

The following table presents the inherent features of each long-term point-to-point transmission service agreement.

## Table R16.2Long-term point-to-point service agreements

				Capacity,	Capacity,	Forecasted
				transmission	transmission	rovopuos <sup>2</sup>
						ferences
_				losses	losses	tor 2014
Customers	Delivery	Commencement	Termination	(MW)	(MW)	(\$M)
HQP	ON	2009-07-02	2059-10-10	1,250	1,320	98.5
HQP	MASS	2009-07-01	2044-06-30	1,200	1,267	94.6
HQP	NE	2009-07-01	2044-06-30	1,200	1,267	94.6
HQP	HIGH <sup>3</sup>	2007-12-20	2015-12-31	225	238	17.7
HQP	CORN	2000-03-01	2019-12-31	45	48	3.5
EBM	NE	2013-04-01	2018-03-31	41	43	3.2
EBM	NE	2013-04-01	2018-03-31	16	17	1.3
EBM	NE	2012-11-01	2017-10-31	100	106	7.9
EBM	NE	2013-11-01	2018-10-31	100	106	7.9
NLH	MASS	2014-04-01	2024-03-31	50	53	3.9
NLH	MASS	2014-04-01	2024-03-31	50	53	3.9
NLH	MASS	2014-04-01	2024-03-31	50	53	3.9
NLH	MASS	2014-04-01	2024-03-31	100	106	7.9

<sup>1</sup> The transmission loss rate approved by the Régie for 2014 is 5.6%.

The revenues forecasted for 2014 are established based on the transmission rate of \$74.65/kW approved by the Régie.
 A new agreement will be replacing the existing agreement as at the date on which the network upgrade will be completed. The service provided for that agreement will end October 30, 2022.

16.3 Please specify the date on which the Transmission Provider intends to apply its new approach.

#### R16.3

#### As with all other proposals presented in this case, the Transmission Provider proposes a prospective application of its approach for commitment follow-ups, namely to begin the application after the final decision is rendered by the Régie in this matter.

Please demonstrate how option (i) that would result from the Transmission Provider's proposal, will be equivalent to options (ii) and (iii) in Section 12A.2 of the *Open Access Transmission Tariff*.

#### R16.4

Options (i), (ii) and (iii) of Section 12A.2 of the *Open Access Transmission Tariff* are commitment conditions offered to the point-to-point transmission service customer in order to allow the Transmission Provider to obtain revenues to ensure coverage of the costs it incurs, and this up to the maximum amount for the network upgrades.

Independently of the commitment conditions selected by the point-to-point transmission service customer, the Transmission Provider's proposal mainly seeks to bring the follow-ups made on all customer commitments to an annual basis, including

those commitments contracted under Section 12A.2(i) and Attachment J to the *Open Access Transmission Tariff*, namely the network upgrades for connecting a new generating station or new long-term point-to-point transmission service, in respect of which at least one service agreement has been signed, allowing the Transmission Provider to cover the maximum amount assumed for these upgrades.

To date, only a follow-up of the Toulnustouc-type commitments and 12A.2(ii)-type commitments or the "take or pay" commitments are presented on an annual basis to the Régie.

Option 12A.2(iii) does not come into play in the Transmission Provider's proposal to follow-up on commitments, as this is a case where the point-to-point transmission service customer has chosen to reimburse, exclusively by means of a contribution, all of the costs incurred by the Transmission Provider in order to connect its generating station instead of availing itself of a commitment and of the maximum allowance to which it would have been entitled.

## **Schedule A**

Schedule inserted by the Régie de l'énergie in its request for information regarding reference (iv) in question 5.1

In MWs	2013-2014	2014- 2015	2015- 2016	2016- 2017	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023
Peak needs contemplated by the Plan	37,374	37,268	37,607	37,954	38,337	39,031	39,397	39,726	40,036	40,340
+ Reserve to comply with the reliability criterion	3,562	3,647	3,922	4,125	4,167	4,242	4,372	4,408	4,441	4,474
- Heritage pool electricity	37,442	37,442	37,442	37,442	37,442	37,442	37,442	37,442	37,442	37,442
- Supply of non-heritage pool electricity	2,844	3,114	3,338	3,588	3,769	4,298	4,498	4,618	4,668	4,668
TransCanada Energy	0	0	0	0	0	0	0	0	0	0
<ul> <li>HQP – Base and cyclable</li> </ul>	600	600	600	600	600	1,000	1,000	1,000	1,000	1,000
<ul> <li>Other long-term contracts</li> </ul>	994	1,264	1,488	1,538	1,669	1,748	1,748	1,818	1,818	1,818
<ul> <li>Biomass (including Tembec)</li> </ul>	181	265	326	376	376	376	376	376	376	376
• Windpower: 4,000 MW	766	935	1,098	1,098	1,229	1,308	1,308	1,378	1,378	1,378
<ul> <li>Minihydraulics: 150 MW</li> </ul>	48	64	64	64	64	64	64	64	64	64
<ul> <li>Management of power demand</li> </ul>	1,000	1,000	1,000	1,200	1,250	1,300	1,500	1,550	1,600	1,600
<ul> <li>Interruptible electricity</li> </ul>	850	850	850	850	850	850	850	850	850	850
<ul> <li>Interruptible agreement with Alouette</li> </ul>	150	150	150	300	300	300	450	450	450	450
<ul> <li>Other interventions in power demand management</li> </ul>	0	0	0	50	100	150	200	250	300	300
<ul> <li>Voltage reduction</li> </ul>	250	250	250	250	250	250	250	250	250	250
=Additional power required	650	360	750	1,050	1,290	1,530	1,830	2,070	2,370	2,700
Contribution of short-term markets	650	360	750	1,050	1,290	1,500	1,500	1,500	1,500	1,500
= Additional power required	0	0	0	0	0	30	330	570	870	1,200
(demands rounded off to the nearest 10 MW)										

#### Table 4-3 Power Budget

Note (1): The power associated with wind farm supplies reflect growing capacity associated with the integrated service that establishes a guaranteed total contribution equal to 35% of the contracted capacity.

The means at the Distributor's disposal, combined with the contribution of short-term markets, suffice to cover the capacity needs for the first years of the Plan. Over the longer term, the Distributor's capacity strategy relies first on managing the power demand, then on the contribution of short-term markets.

#### Power demand management

Essentially, the Distributor's power supply strategy relies on reducing and displacing its customers' consumption of electricity during peak periods. To that end, the measures detailed in section 3.2 seek, among other things, to maximize (sic)

#### Contribution of short-term markets

The Distributor's strategy includes acquiring power products on the short-term markets, which are needed to meet the reliability criterion. These purchases ensure the availability of resources to meet peak needs. Without (sic)

## Schedule B

Schedule inserted by the Régie de l'énergie in its request for information regarding reference (iv) in question 7.2 Hydro-Québec TransÉnergie

(sic) format of table R7.2-1 filed with Exhibit B-16, HQT-13, Document 1.1, page 18 of request R-3706-2009).

In the following table, the Transmission Provider presents the evaluation that was requested for 2011, 2012, 2013 and 2014. According to this evaluation, a contribution from the Distributor would be required for 2013 and 2014. However, these will only be confirmed at the beginning of the following years, namely in the first quarter of 2014 and 2015, respectively, with the actual costs of the commissionings that were actually carried out in 2013 and 2014.

Number of Régie's decision	Project	Upgrade of additional MWs 20 years	Maximum allowance of the Transmission Provider	Update of costs in March 2012	Difference between the max. allowance and the costs
		MW	In \$M	In \$M	In \$M
D-200S-140	Chomedev source substation – 315-120kV power lines	0.0	-	7.1	(7.1>
D-2QDS-D75	Mistissini / Wâoonlchi satellite substation	7.3	4.2	3S.3	(a2.st
D-201C-115	Beauceville - Ste-Marie 20 kV power line	0.0		33.a	025t
D-201C-D29	Notre-Dame and Berri power line	5.0	-	3.9	:3.9}
-25	L'Annonciation satellite substation	14.3	8.1	9.0	fl.oi
-25	Bois-Francs satellite substation	1B.5	10.5	9.5	ОВ
-25 Mî	Ste-Agathe satellite substation	32. B	18.6	5.1	13.5
-25 1.1\$	Saraguay 315-25 kV	8B.0	43.8	12.4	37.5
-25ti1\$	Ste-Thérése satellite substation	24.2	13.7	5.3	Ë.4
-251.1\$	Other projects < \$5M	44.a	24.9	4.2	M.7
	Total	22S.2	129.7	125.9	3.9

 Table 6

 Evaluation of the contribution required from the Distributor for 2011

No contribution from the Distributor is required

## Table 7Evaluation of the contribution required from the Distributor for 2012

#### Actual contribution required from the Distributor for 2012

Number of Régie's decision	Project	Upgrade of additional MWs 20 years	Maximum allowance of the Transmission Provider	Additional costs in April 2013	Difference between the max. allowance and the costs
		MW	In M\$	In M\$	In M\$
D-2009-140	Chomedey – 315-120kV power lines – source	0.0	-	22.4	(22.4)

	substation				
D-2010-115	Beauceville - Ste-Marie	0.0	-	1.0	(1.0)
	120 kV power line				
-25 \$M	St-Lin satellite substation		33.7	7.3	26.4
D-2011-120	Reinforcement of the	0.0	-	30.3	(30.3)
	Bécancour system				
-25 \$M	Permanent connection of the	34,0	19.2	11.8	7.4
	lac Bloom mining project				
D-2008-073	Permanent connection of the	48.0	27.4	27.4	(0.0)
	Éléonore project (Note 1)				
-25 \$M	Other projects < \$5 M	88.9	50.8	4.9	45.9
	Subtotal	230.0	131.1	105.1	26.0

Note 1: The costs presented are net of the contributions paid by the Distributor to the Transmission Provider.

#### No contribution required from the Distributor