

**TRANSMISSION PROVIDER'S RESPONSES TO REQUEST
FOR INFORMATION NO. 1 OF NEWFOUNDLAND AND LABRADOR HYDRO
("NLH")**

Translation commissioned by
NEWFOUNDLAND AND LABRADOR HYDRO (NLH)

**TRANSMISSION PROVIDER'S REQUEST RESPECTING
THE NETWORK UPGRADE POLICY****FILE R-3888-2014****Part 1 - Questions of the NLH****Preamble to Questions 1-2**

Questions related to system usage.

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

Part 1**R1**

The Transmission Provider notes that the preamble to this question refers to a separate case and that the indicated value is not part of this matter. Because the question is not related to an element of the upgrade policy, the request exceeds the scope of this case.

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

Part 1**R2**

See the response to question 1.

The transmission services offered by the Transmission Provider in the context of its *Open Access Transmission Tariff* are invoiced to all of its customers in accordance therewith.

Preamble to Questions 3 - 5

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

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

In accordance with this legislation:

- Q3 - Does HQT believe that the phrase "uniform rates throughout the territory" makes it impossible to charge rates which can differ based on the physical location of the customer's load or generation resource? Please comment.

Part 1**R3**

The request exceeds the scope of this case, which bears on the Transmission Provider's transmission network upgrade policy, not on the transmission service rates. Moreover, the Transmission Provider notes that the preamble to this question refers to the *Act respecting the Régie* (the "Act"). This question seeks to interpret the scope of Section 49 of the Act. This is a legal question that cannot be addressed by a request for information.

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

Part 1**R4**

See also the response to question 3.

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

Part 1**R5**

See the response to question 3.

Preamble to Questions 6 - 9

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

"Hydro-Québec proposes a transmission service rate based on average costs. Under the average cost approach, transmission costs can be recovered from all customers for the transmission services needed to respond to their use of the system. This approach is also in line with the rate practice in use in Québec and elsewhere, both in the transmission and distribution sector, and with the principle of the territorial uniformity of rates. Hydro- Québec proposes using a postage-stamp rate applicable throughout its transmission system. As it is established based only on the cost of service for all transmission activities, this rate reflects the fact that the network is integrated and used to deliver all transmission services, including the point-to-point service. By maintaining a postage-stamp type rate that applies uniformly throughout Hydro-Québec's transmission system, all transmission customers maintain their right to the same rate, regardless of their geographical location, the route used to go from one point to another or the distance over which the electricity transmitted. Moreover, the proposed rate offers the advantage of being easy to understand and implement, and is in keeping with what is found elsewhere in the electricity and gas industries. The rates that apply to additional services also apply uniformly throughout the network, regardless of the geographical location of the customer using the services or the generator that is providing them. Hydro-Québec's proposal therefore complies with the *Act respecting the Régie de l'énergie*, which stipulates in section 11 (sic), clause 11, that the Régie must, when fixing or modifying rates for the transmission of

electric power, 'maintain, subject to any government order to the contrary, uniform rates throughout the territory served by the electric power transmission system'. For Hydro-Québec, the uniform rate it proposes is in keeping with the territorial uniformity principles specified in the act."

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

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

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

"HQT's proposed Network Upgrade Policy is consistent with the principles associated with FERC's "higher of" transmission pricing policy."

Part 1

R6

- Q6 - Is HQT seeking permission to charge a rate that is NOT based on the average of the embedded costs of all the transmission system assets? Please comment.
This Transmission Provider's request regards the transmission network upgrade policy, as it indicates in the documents that were filed. It deals with the subjects identified by the Régie in its procedural decision D-2014-117. The amendment and setting of transmission rates by the Régie is not one of those subjects. Moreover, in the context of this request, the Transmission Provider has not filed a transmission rate modification proposal.
- Q7 - Please explain how HQT's Network upgrade policy is consistent with FERC's "higher of" policy, in particular explain how the embedded cost and incremental methodology alternatives are both incorporated into HQT's policy

Part 1

R7

HQT's application of the maximum allowance is consistent with FERC's "higher of" policy. As with the FERC's "higher of" policy, the requesting customer either pays a) the embedded system rate if the cost of the upgrade is at or below the embedded cost or b) the incremental cost of the upgrade if the cost of the upgrade is above the embedded cost. The maximum allowance relates to the "embedded cost." Therefore, if the cost of the upgrade is less than or equal to the maximum allowance, the customer does not make any contribution but covers the cost of the upgrade by paying HQT's transmission tariff. Similarly, if the cost of the upgrade is greater than the maximum allowance, the customer makes a contribution for the

amount above the maximum allowance and pays HQT's transmission tariff to cover the cost of the rolled-in portion of the upgrade costs.

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

Part 1

R8

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

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

Part 1

R9

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

Preamble to Question 10 – 13

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

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

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

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

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

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

Part 1**R10**

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

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

Part 1**R11**

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

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

Part 1**R12**

HQT has one long-term transmission tariff for all transmission customers, thus is the same as having a "corporate postage stamp rate" for all of HQT's system.

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

Part 1**R13**

The "higher of" pricing refers to a transmission provider charging the higher of the embedded system rate with the cost of the network upgrade included or the incremental rate, but not both.

Preamble to Questions 14 to 16

The four questions below are related to Maximum allowance:

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

Part 1**R14**

As indicated in Exhibit HQT-3, Document 1, the maximum allowance corresponds to the discounted value of the annual rate over a 20-year period, minus operating and maintenance fees as well as applicable taxes. The rate reflects all of the transmission network's assets included in the rate base at the time the Régie renders its decision.

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

Part 1**R15**

The Transmission Provider notes that the intervenor uses “rate” in its question and understands that the intervenor is referring to the transmission rate. The Transmission Provider believes it is useful to point out that the maximum allowance is not a rate.

The calculation of the maximum allowance is explained in Exhibit HQT-3, Document 1.

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

Part 1**R16**

See the response to question 15.

Preamble to Question17

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

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

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

FERC Order 96 FERC 61,132 states:

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

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

Part 1**R17**

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

Preamble to Questions 18 - 19

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

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

- Q18 - Is Ms. Chang saying that the phrases "direct contributions" and "incremental rates" are mutually exclusive, mean the same, neither or both? Please comment.

Part 1

R18

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

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

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

Part 1

R19

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

Preamble to Questions 20 – 24

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

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

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

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

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

Part 1**R20**

Please see the response to question 17.

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

Part 1**R21**

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

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

Part 1**R22**

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

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

Part 1**R23**

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

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

Part 1**R24**

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

Preamble to Questions 25 - 28

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

"1. Transmission Pricing Must Meet the Traditional Revenue Requirement

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

- Q25 - Does HQT consider its pricing proposal to be "conforming" or "non- conforming" as the terms are used in the FERC policy document referenced? Please comment.

Part 1

R25

The question relates to the application and interpretation of a FERC text in respect of the Transmission Provider's proposal. Subject to any legal interpretation, which does not fall within the purview of a request for information, the Transmission Provider only falls under the jurisdiction of the Régie, not the FERC. In its decision D-2012-010, the Régie moreover confirmed the following regarding the exercise of its jurisdiction:

"[74] The Régie considers that by virtue of the powers granted under sections 31, 48 and 49 of the Act, it has full jurisdiction to fix rates and conditions that are fair and reasonable. The Régie may, to that end, take into consideration the proposals and modifications resulting from orders of the FERC to reflect the changing regulatory texts and business practices in North America. However, before incorporating them into the *OATT*, the Régie must, among other things, ensure that they are relevant and applicable to the Québec context, and this with a view to adopting a text that offers transmission service customers open and non-discriminatory access to the Transmission Provider's network.

The question is not relevant to this issue. The text of the *Open Access Transmission Tariff* and policies recorded therein result from the regulatory process that led to their approval by the Régie.

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

Part 1

R26

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

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

Please comment.

Part 1**R27**

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

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

Part 1**R28**

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

Preamble to Questions 29 -37

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

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

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

The FERC pro forma OATT defines Network Upgrades as:

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

The HQT OATT defines Network Upgrades as:

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

- Q29 - One difference between the two Network Upgrade definitions is that the pro forma OATT definition speaks to the fact that Network Upgrades 'support' the Transmission Provider's overall system for the benefit of all users while the HQT

OATT does not include this concept of „support' for all customers.

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

Part 1

R29a

See the response to question 25.

Moreover, the investment category cited by the intervenor is not covered by the transmission network upgrade policy.

In the wake of Decision D-2014-199, the Transmission Provider gives the following specifications and additional information.

The definition of “network upgrades” described in Section 1.4 of the *Open Access Transmission Tariff* contemplates network upgrades resulting from Part II - Point-to-Point Transmission Service, from Part III - Network Integration Transmission Service and Part IV - Native-Load Transmission Service. These upgrades are carried out by the Transmission Provider to meet the demand of transmission customers under the abovementioned parts of the *Open Access Transmission Tariff*.

This definition does not include network upgrades associated with the “asset maintenance”, “maintenance and improvement of service quality” and “compliance with requirements” investment categories.

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

Part 1

R29b

See the response to question 25.

In the wake of Decision D-2014-1999, the Transmission Provider gives the following specifications and additional information.

Section 1.4 of the *Open Access Transmission Tariff* contemplates network upgrades carried out to meet the demand from transmission customers under Part II, Part III and Part IV. This section is coherent with the framework that applies in Québec.

According to the Transmission Provider's understanding, section 1.27 of the FERC's *pro forma*, for its part, defines all network upgrades without any distinction as to the manner in which they are treated.

This difference results from the fact that the regulatory framework that applies to the handling of network upgrades evolved separately in Québec since Decision D-2002-95.

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

Part 1

R30

The reference to decision D-2002-95 seeks solely to support the statement declaring that works carried out to maintain and improve service quality or to maintain assets, including works required to comply with requirements, the whole to ensure the proper performance and reliability of the system, are not covered by the provisions of the transmission network upgrade policy. The Régie indicates that it is “[TRANSLATION] fair that all clients contribute to the payment of these upgrades.”

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

Part 1

R31

The terms and conditions regarding transmission network upgrades that result from a customer's transmission service request are included in the *Open Access Transmission Tariff*.

Upgrades to ensure the network's longevity and reliability that do not result from a customer's transmission service request are not subject to the provisions of the upgrade policy, as indicated in the response to question 29a.

Moreover, if a network upgrade seeks to respond both to a customer's request and ensure the network's longevity and reliability, the

Transmission Provider will apply the method presented in Exhibit HQT-3, Document 1.¹

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

Part 1

R32

The Régie determines the fair value of the assets it believes to be a useful and prudent acquisition and approves the rate base including such assets.

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

Part 1

R33

As indicated in Section A of Attachment J to the *Open Access Transmission Tariff*, the Transmission Provider's upgrade policy applies to any network system upgrade required to satisfy transmission service needs under Parts II, III and IV of the *Open Access Transmission Tariff*.

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

Part 1

R34

The cost of network upgrades needed to transmit an additional load in a given region is subject to the network upgrade policy, even if there is a simultaneous load decrease in another region.

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

Part 1

R35

Each long-term point-to-point transmission service request is examined based on the current state of the entire transmission system and the developments foreseen for the period contemplated by the service

¹ Exhibit HQT-3, Document 1, Section 7.2.

request, based on the native load growth forecast and scheduling of the point-to-point transmission service requests. This way, the impact study also takes into consideration any native load variations on the horizon of the point-to-point transmission service request. The impact study also takes investments in longevity into account. The requisite upgrades to respond to growing demand does not replace investments in longevity.

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

Part 1

R36

See response to question 25.

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

Part 1

R37

See response to question 25.

Preamble to Questions 38 - 41

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

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

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

Part 1

R38

See the response to question 4.3 of the request for information number 1 of the Régie in Exhibit HQT-4, Document 1.

In the wake of Decision D-2414-199, the Transmission Provider gives the following specifications and additional information.

According to its understanding, the Transmission Provider presumes that the hypothetical scenario presented in the question, as regards connecting the generating station, refers to Section 12A.2(i) of the *Open Access Transmission Tariff*. For more details regarding the application of

this section, see the response to question 16.1 of Request for Information No. 1 of the Régie in Exhibit HQT-4, Document 1.

As regards the connection of generating stations pursuant to Section 12a.2(i), that provision stipulates that at least one service agreement must be executed for long-term firm transmission service by the point-to-point transmission service customer. The text of the *Open Access Transmission Tariff* does not provide for the execution of a new service agreement. According to the Transmission Provider's proposal, in the case of a network upgrade requested by a customer, that customer must cover the costs of the upgrade by means of transmission revenues and, where applicable, contributions.

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

Part 1

R39

The upgrade policy applies to all upgrades resulting from customer requests for transmission service, whether it involves connecting a generating station or point-to-point transmission service.

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

Part 1

R40

The Transmission Provider insists on the specific nature of the native load transmission service,² specifically the fact that the native load consists of a multitude of loads served by a multitude of resources that have no particular association amongst themselves. For the Transmission Provider, the native load, represented by the Distributor, constitutes a whole.

Moreover, in the aggregation of resource and load projects proposed by the Transmission Provider, no MW is attributed to the resource connection projects.

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

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

Part 1**R41**

The Transmission Provider reminds us that the upgrade policy covers the connection of generating stations and the upgrades required to meet customer requests for point-to-point transmission service and native load transmission service.

Preamble to questions 42 - 43

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

"In response to these petitioners, we first reaffirm that an important objective of our interconnection pricing policy continues to be the protection of existing Transmission Customers, including the Transmission Provider's native load, from adverse rate implications associated with Interconnection Facilities and Network Upgrades required to interconnect a new Generating Facility. Despite the unsupported hypothetical generalizations of some petitioners, we have not been presented with any evidence that native load and other Transmission Customers cannot be held harmless under our existing pricing policy. If a Transmission Provider (or an existing Transmission Customer) believes that, for an actual interconnection, it faces circumstances where native load and other customers are not held harmless, it should make that demonstration in an actual transmission rate filing. The Transmission Provider must explain the facts of the case and the assumptions on which its calculation is based and provide evidentiary support. While we cannot envision any circumstances where our existing pricing policy will not fully protect native load and other Transmission Customers, we are willing to consider alternative pricing proposals under the facts of a specific case. We emphasize that the Transmission Provider bears the full burden of showing that any such proposal is just and reasonable and not unduly discriminatory or preferential, and is appropriate under the circumstances." (We underlined.)

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

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

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

Part 1**R42**

See response to question 25.

Demande R-3888-2014

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

Part 1**R43**

As mentioned in Exhibit HQT-3, Document 1, "[TRANSLATION] the Transmission Provider does not identify a case where the proposed method does not apply."³

Preamble to Question 44

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

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

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

Part 1**R 44**

See the response to question 25.

Preamble to Question 45

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

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

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

³ Exhibit HQT-3, Document 1, page 18.

Part 1**R45**

See the response to question 25.

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

Preamble to Question 46

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

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

Part 1**R46**

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

Preamble to Questions 47 - 48

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

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

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

Part 1**R47**

The Transmission Provider first specifies that the upgrade policy applies to all customers. The Transmission Provider's proposal consists of ensuring, on an annual basis, that the revenues generated by all agreements can cover all of the undertakings of a customer.

See also the response to question 4.3 of the request for information number 1 of the Régie to Exhibit HQT-4, Document 1.

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

Part 1**R48**

For each upgrade subject to the provisions of the upgrade policy, the Transmission Provider calculates the maximum amount that it can bear under Attachment J to the *Open Access Transmission Tariff*.

The project costs, up to the maximum amount, must be covered by the revenues generated by the point-to-point transmission customer that gave rise to the upgrade. If the costs of the project are greater than the maximum amount, the customer will have to pay the surplus by means of a contribution.

See also the response to question 47.

Preamble to questions 49 - 50

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

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

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

Part 1**R49**

See the response to question 40.

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

Part 1**R50**

See the response to question 14.9 of the request for information number 1 of the Régie to the Exhibit HQT-4, Document 1.

Preamble to Question 51 - 54

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

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

Part 1

R51

The Transmission Provider emphasizes that only projects carried out at the request of customers, such as “customer demand growth” projects, are contemplated by the upgrade policy. If there is no growth component, the costs are shared between the categories contemplated by the project’s objectives.

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

Part 1

R52

The Transmission Provider reminds us that only projects that respond to customer requests, namely “customer demand growth” projects, are contemplated by the upgrade policy.

The projects with objectives of “asset maintenance”, “maintenance and improvement of service quality” and “compliance with requirements” are dealt with as was decided by the Régie in its decision D-2002-95 cited in the response to question 30.

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

Part 1

R53

The investments are categorized based on their objectives. As regards upgrades carried out with a view to responding to “customer demand growth”, the Transmission Provider reminds us that only those upgrades are contemplated by the provisions of the upgrade policy.

For more information, see Exhibit HQT-3, Document 1, page 19.

- Q54 - If an upgrade for customer demand growth results in a significant deferral of an upgrade that would otherwise be required in the short to medium term to maintain or extend the service

delivery from a facility, would this cost sharing be considered as "asset maintenance" or "maintenance and improvement of service quality"? Please explain.

Part 1**R54**

The Transmission Provider refers to section 7.2(a) of Exhibit HQT-3, Document 1, to understand how costs for integrated multiple-objective projects are allocated to investment categories.

See also the response to question 35.

Preamble to Questions 55 - 59

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

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

In opinion 69 FERC 61,168 the commission stated:

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

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

Part 1**R55**

See the response to question 25.

Moreover, the sequential allocation of costs, by difference, is a valid approach for identifying and justifying the network upgrade costs in integrated multiple-objective projects, when each piece of equipment or component of the project contributes to satisfy more than one objective without distinction.

The Transmission Provider reminds us that it is with a view to optimizing its interventions that it carries out projects the main components of which contribute to simultaneously satisfying multiple objectives in an integrated manner.

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

Part 1**R56**

Investments are categorized based on their objectives. If all or part of the objective of an investment is to respond to a “customer demand growth”, and it is thus contemplated by the provisions of the upgrade policy, the cost of that investment will be allocated, in whole or in part, to that category. In the case of an integrated multiple-objective project, the sequential cost sharing method described by the Transmission Provider in Exhibit HQT-3, Document 1, section 7.2(a) applies.

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

Part 1**R57**

Investments are categorized based on their objective. Depreciation has no effect on whether a project is allocated to the “customer demand growth” category or any other category.

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

Part 1**R58**

For projects carried out at a customer’s request, it is the application of the maximum allowance and, where applicable, the contribution that results therefrom that protect existing customers from the impacts that these projects will have on the rate.

Moreover, depreciation of the existing base rate helps to lessen the impact on the revenues required from the commissionings.

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

Part 1**R59**

The Transmission Provider is not able to provide examples originating from the *Open Access Transmission Tariffs* in force in other jurisdictions.

Preamble to Question 60

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

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

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

Part 1

R60

At this time, as indicated in Exhibit HQT-3, Document 1, the Transmission Provider has not identified any instance where the proposed method would not apply. If such an instance were to arise, the Transmission Provider would present a proposal to the Régie.

Preamble to Questions 61 - 62

The HQT OATT defines a third Party sale as:

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

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

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

Also in, Reference 3 of HQT-2, Document 1, under the heading "Transmission Pricing

Should Promote Fairness" FERC states that:

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

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

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

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

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

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

Part 1

R61

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

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

Part 1

R62

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

Part2 - Questions de M. Seabron Adamson pour NLH**Preamble to Questions 1:**

Testimony of Judy Chang, page 4:

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

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

Part2**R1**

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

Preamble to Question 2:

Testimony of Judy Chang, page 7:

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

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

Part2**R2**

The Transmission Provider is of the opinion that it does not need to produce the information requested to appreciate the scope of its proposal and understand the approach described in the preamble.

In the wake of Decision D-2014-199, the Transmission Provider gives the following specifications and additional information.

Detailed information relating to the annual contributions of customers over the last five years, namely 2009 to 2013, associated with the native-load transmission service in the context of load growth projects and resource projects, as well as to the point-to-point transmission service, are presented below.

Native-Load Transmission Service

As is presented in the Transmission Provider's evidence, the Distributor's contributions in the context of load growth projects for 2009 to 2013 are the following:

- For 2009 to 2012, as indicated in pages 39 through 42 of Exhibit HQT-1, Document 1 revised October 31, 2014, there are no contribution amounts seeing as the total cost of the projects is less than the sum of the maximum amounts calculated for such projects.
- For 2013, as indicated on pages 13 and 43 of Exhibit HQT-1, Document 1 revised October 31, 2014, contributions are estimated at \$8.6 million,⁴ to which are added the operating and maintenance costs, for a total of \$9.9 million.

As presented in the Transmission Provider's evidence, the Distributor made the following contributions in the context of the resource projects relating to the integration of wind farms⁵ for 2009 to 2013:

- For 2009 to 2012, as indicated in pages 39 through 42 of Exhibit HQT-1, Document 1 revised October 31, 2014, there are no contributions.
- For 2013, as indicated on page 43 of Exhibit HQT-1, Document 1 revised October 31, 2014, the estimated amount of the Distributor's contribution for the 1st RFP stands at \$26.4 million, to which are added the operating and maintenance costs, for a total of \$30.4 million.

⁴ The amounts presented in the evidence for 2014 constitute estimates that are based on the Transmission Provider's 2013 and 2014 rate application, R-3823-2012, Exhibit HQT-12, Document 2.

⁵ There are no contribution amounts for other native-load resource projects.

Point-to-Point Transmission Service

- For 2009 to 2012, no contribution was required from the point-to-point transmission service customers.
- For 2013, the Generator's contribution stands at \$40.2 million,⁶ including operating and maintenance costs for the project integrating the Eastmain-1-A and Sarcelle generating stations. No contribution was required from the other point-to-point service customers.

Preamble to Questions 3 and 4:

Testimony of Judy Chang, page 14:

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

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

Part2**R3**

The Transmission Provider refers to the tables in Schedule 1 to the revised Exhibit HQT-1, Document 1.

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

Part2**R4**

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

Preamble to Question 5:

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

"When a point-to-point customer requests transmission service for which transmission network upgrades are necessary, the amount of the allowance granted by the Transmission Provider is based on the term of the transmission service agreement executed by the customer. Customers are granted an

⁶ Table 20 of Exhibit HQT-7, Document 1, R-3823-2012.

allowance over a maximum period of 20 years, or based on the term of their service agreement, and they must pay, if applicable, a contribution if the cost of their network upgrades exceeds the allowance. "

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

Part2

R5

All point-to-point service requests are entered in the Transmission Provider's OASIS system. The list of the sequencing impact is accessible in the public portion of the OASIS system. See also the response to question 16.2 of the Régie's request for information.

Preamble to Questions 6 and 7:

Testimony of Judy Chang, page 7:

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

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

Part2

R6

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

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

Part2**R7**

The Transmission Provider believes that this question does not fall under the scope of this request, which was retained by the Régie in order to deal with subjects identified in the procedural decision D-2014-117. Moreover, the Transmission Provider has not claimed any such financial losses in its evidence.

Preamble to Question 8:

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

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

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

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

Part2**R8**

The Transmission Provider refers to the tables of Schedule 1 of the revised Exhibit HQT-1, Document 1.

Preamble to Question 9:

HQT Evidence, "Transmission Provider Policy on Network Upgrades", page 13.

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

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

Part2

R9

The Transmission Provider's proposal is to maintain the period for establishing the maximum allowance at 20 years. The Transmission Provider indicates that its role is not to proceed with analyses or simulations for the benefit of the demonstrations that the intervenor wishes to carry out.

Preamble to Question 10:

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

"Transmission Provider 's Proposals

Include all of the Distributor's projects in the annual aggregation of projects used to calculate the "annual aggregation (loads and resources) " contribution, i.e. add resource projects to the aggregation currently used for native load growth projects in order to limit the total capital costs borne by the Transmission Provider to the maximum allowance based on forecasted 20-year growth in satellite substations and customers connected directly to the transmission system.

Carry forward positive balances from the annual aggregation of the Distributor's projects to cover its contribution in subsequent years, if applicable. "

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

a. HQD Contributions

Part2

R10a

See note 1 to the tables R7.3.1 and R7.3.2 of the response to question 7.3 of the request for information number 1 of the Régie to Exhibit HQT-4, Document 1.

b. Maximum Allowance and

Part2

R10b

The Transmission Provider specifies that the maximum amount allocated to satellite substation growth projects and projects that connect the Distributor's customers directly to the transmission system is not affected by the cumulation of positive balances.

Moreover, the Transmission Provider underscores that the maximum allowance (in \$/kW) approved by the Régie in Section E of Attachment J to the *Open Access Transmission Tariff* of the last years will not be amended, as these have been contemplated by final decisions.

c. the Network Service Rate

Part2

R10c

See the response to question 7.3 of the request for information number 1 of the Régie to Exhibit HQT-4, Document 1.

Preamble to Questions 11-14:

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

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

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

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

Part2

R11

To date, the follow up on the Touloustouc-type commitments and based on Section 12.A(ii) is presented to the Régie on an annual basis. These commitments are presented in Schedule 2 to Exhibit HQT-1, Document 1.

Until now, projects already authorized under Section 12A.2(i) and Attachment J to the *Open Access Transmission Tariff* are not likened to annual commitments. Such projects have been contemplated by a demonstration of revenues at the time the project authorization request was presented to the Régie based on the rate impact and at the Régie's request, based on the discounted value of the revenues of at least one long-term transmission service agreement.

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

Part2**R12**

This question is not clear as regards the term “total additional customer cost amounts”.

The Transmission Provider mentions that it collected sufficient transmission revenues to cover the commitments. It has not collected other amounts resulting from a follow-up of the commitments.

In the wake of Decision D-2014-199, the Transmission Provider gives the following specifications and additional information.

In the November 7, 2014 letter from NLH’s counsel, the Transmission Provider notes that the intervenor modifies its question as follows: “total amount paid by customer under ‘follow-up’ over each of the last five years”. In the following paragraphs, the Transmission Provider presents the total amounts that were paid by the customer in keeping with the follow-up on commitments for each of the last five years.

The Transmission Provider specifies that the amounts pertaining to the commitments and to revenues generated by agreements for the last five years are presented in Schedule 2 to Exhibit HQT-1, Document 1, revised October 31, 2014.

In that respect, the detailed information regarding the total amounts that were paid by the customer, namely the Generator, based on the follow up of commitments for 2009 to 2013, are presented below.

For 2009 to 2013, the total revenues relating to commitments pursuant to Section 12A.2(ii) are indicated in Exhibit HQT-1, Document 1, revised October 31, 2014, page 45, in the section entitled “Revenus pour les engagements selon l’article 12A.2ii)” (revenues for commitments under Section 12A.2(ii)) on the line entitled “Revenus” (revenues), namely the amounts of \$1.5 million, \$1.7 million, \$1.8 million, \$1.8 M\$ and \$1.5 million, respectively. Moreover, the total revenues relating to the Touloustouc and other types of commitments are indicated in the same exhibit, page 45, in the section entitled “Revenus pour les engagements de type Touloustouc et autres engagements” (revenues for the Touloustouc and other types of commitments), namely the amounts of \$197.4 million, \$309.4 million, \$309.4 million, \$289.5 million and \$283.4 million, respectively. Consequently, the total revenues relating to the follow-up on commitments corresponds to the amounts of \$198.9 million, \$311.1 million, \$306.7 million, \$291.3 million and \$284.9 million, respectively, for each of these years.

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

Part2**R13**

The Transmission Provider specifies that Schedule 2 to revised Exhibit HQT-1, Document 1, provides details on the Transmission Provider's proposal.

In the wake of Decision D-2014-199, the Transmission Provider gives the following specifications and additional information.

The Transmission Provider presents the following detailed information regarding the description of the annual follow-up on commitments for a point-to-point service customer along with an example to that effect.

The Transmission Provider's proposal regarding the annual follow-up on future commitments for each of its point-to-point customers can essentially be described as follows:

- Establishment of the amount of the customer's annual point-to-point revenue, which corresponds to the amount of revenue generated by the customer's point-to-point transmission service agreements in effect during the year.
- Establishment of the amount of annual commitments of the point-to-point customer, which corresponds to the sum of the annuities calculated based on a maximum 20-year period for each network upgrade contemplating the customer.
- Determination, on an annual basis, that the amount of a customer's annual point-to-point revenue covers the annuities resulting from all of that customer's commitments.

The following table, provided for information purposes, gives an example, based on the Transmission Provider's proposal, of the annual follow-up on commitments for a point-to-point transmission service customer having commitments that were contracted under Section 12A.2(i) or under Part II of the *Open Access Transmission Tariff*.

Table R13.2**Example of a follow-up, based on the Transmission Provider's proposal, on the commitments for a point-to-point transmission service customer**

	Prospective Year
Point-to-Point Revenues (\$M)	
Service agreement signed before the prospective year ⁽¹⁾	80
Service agreement signed upon the prospective year ⁽¹⁾	20
Total revenues	100
Commitments (\$M)	
Annuity of project 1	60
Annuity of project 2	20
Annuity of project 3	10
Total commitments	90
Surplus or shortfall⁽²⁾	10

⁽¹⁾ The service agreements are in force in the prospective year.

⁽²⁾ When revenues are greater than or equal to commitments, there is a surplus. When revenues are lower than commitments, there is a shortfall.

In this example, the point-to-point transmission service customer has covered its commitments given that the total point-to-point revenues are greater than the total commitments in the form of annuities.

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

Part2**R14**

That is not the Transmission Provider's proposal.

Preamble to Question 15:

HQT additional evidence, page 13:

"In Decision D-2014-117, the Régie stated: [54] The Régie notes that the Transmission Provider does not specify the cases in which the proposed methodology would not apply. The Régie also believes that it would be relevant and appropriate to know, in the context of this case, what alternative methods the Transmission Provider might propose for the purpose of sharing costs among the various transmission service customers.

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

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

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

Part2

R15

See the response to question 17.b of the request for information number 1 of the AQCIE-CIFQ to Exhibit HQT-4, Document 2.

Preamble to Question 16:

HQT additional evidence, page 14:

"Capital projects are classified according to their objectives.

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

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

Part 2

R16

The Transmission Provider presents a summary of the commissionings, by category, for the 2009 to 2013 period in the following table.

Table Part 2 - Summary of commissionings by category - 2009 to 2013 (\$M)

Category of commissionings	2009	2010	2011	2012	2013
Asset maintenance	636	638	564	541	634
	60	76	221	81	248
Maintenance and improvement of service quality					
Compliance with requirements	25	51	17	47	58
Demand growth	718	388	460	373	1,012
Total	1,440	1,153	1,262	1,042	1,951

For the method used to attribute costs to the various categories, the Transmission Provider refers the intervenor to Exhibit HQT-3, Document 1, Section 7.2.

Preamble to Question 17:

HQT additional evidence, page 14:

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

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

Part2**R17**

The objectives of a project are determined based on the identified needs and the possibility of dealing with them within a same project, depending on whether they are concomitant. Consequently, the needs identified are converted into objectives.

Based on these objectives, the Transmission Provider uses four investment categories recognized by the Régie; these are the "customer demand growth" category, the "assets maintenance" category, the "maintenance and improvement of service quality" category and the "compliance with requirements" category.

For a description of the categorization of investment projects, see Section 7.2 of Exhibit HQT-3, Document 1.

Preamble to Question 18:

HQT additional evidence, page 18

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

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

Part2**R18**

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

Preamble to Question 19:

HQT additional evidence, page 18:

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

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

Part2**R19**

The Transmission Provider considers that the request of an entity that led to a network upgrade remains the beneficiary thereof. Moreover, the Transmission Provider specifies that the entire transmission system is used to provide all transmission services.