CHANGES TO METHODOLOGY FOR DISPOSAL OF 2013 AND 2014 PASS-ON ACCOUNT BALANCES

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1. BACKGROUND

In Decision D-2005-34,[1] the Régie approved the principle of supply cost transfer, whereby supply costs and any difference between actual and forecasted costs, for both heritage pool electricity and electricity in excess of the heritage pool, are recognized in the Distributor's cost of service.

Decision D-2005-132[2] specified the scope of the authorized transfer for supply volume in excess of heritage pool electricity. All volume in excess of the heritage pool is recognized and must be reflected in rates. As a result, all variances (volume and price) between actual and forecasted supply costs during a year, net of supply revenues, are recorded in a deferred charge account, the pass-on account, for later recovery.

In Decision D-2006-34,[3] the Régie renewed the pass-on account for 2006 and subsequent years and authorized a return on the account balance pegged to the average cost of capital. It also authorized a methodology for recording variances on the basis of actual data covering a 12-month period, January 1 to December 31, in the account in the rate case for the second subsequent year, those variances accurately reflecting actually incurred costs in accordance with subsection 52.2 of the *Act respecting the Régie de l'énergie*.

In Decision D-2007-12,[4] the Régie approved the Distributor's application to:

- Permanently change the disposal methodology so as to dispose of variances in post-heritage supply costs recorded for a given year, based on four months of actual variances and eight months of forecasted variances, in the following year, and to record the adjustments required to reflect final actual variances in the second subsequent year. This application was based on, among other things, the significant amounts involved and a desire to better match costs with customer generations. Exceptionally however, for the purpose of setting rates for the year 2007, the Régie asked the Distributor to use actual figures for nine months and forecasted figures for three months[5];
- Calculate variances related to the deferred charge account for purchases of post-heritage electricity on a yearly rather than a monthly basis. Variances related to the account have since been calculated on an annual basis and, as requested by the Régie, allocated to consumer categories using an hourly method;
- And finally calculate interest, pegged to the average cost of capital, on the final balance of the account as at December 31 of a given year, starting January 1 of the

1 D-2005-34, page 49.
2 D-2005-132, pages 23-24.
3 D-2006-34, page 22.
4 D-2007-12, pages 16, 19.
5 The Régie concluded that in view of the exceptional retroactive increase in transmission costs for the years 2005 and 2006, an exceptional measure was called for.

following year.

In Decision D-2008-024,[6] the Régie:

- Accepted the Distributor's proposal not to distinguish, in the pass-on account, between variances due to weather conditions and variances in demand;
- Adopted a case-by-case approach to amortization of the pass-on account;
- Accepted the adjustments to calculation of the pass-on account submitted by the Distributor with respect to billed/delivered and unit revenues;
- To simplify calculation of the pass-on account and treat the interruptible power option in the same way as other supply management tools, asked the Distributor to merge the two accounts;

Determined that an exceptional measure was again warranted and allowed the Distributor's application to use figures based on actual data for nine months and forecasted data for three months.

The Distributor therefore observes that, over the years, the Régie has twice deemed it appropriate to adjust the disposal methodology according to circumstances, using a case-by-case approach.

2. Proposed Changes to Disposal Methodology for 2013 and 2014 Balances

Given the exceptional nature of the supply costs incurred during winter 2013-2014 due to harsh weather, substantial variances were recorded in the pass-on account for 2013 and 2014, to be recovered from customers at December 31, 2014. The account balance, as presented in Exhibit HQD-9, Document 7,[7] is as follows:

- 2013 pass-on: $54.9 million, reflecting the difference between the amount recognized in the revenue requirement for 2014 and the costs actually incurred in 2013, plus a $3.7 million interest expense in 2014;
- 2014 pass-on: $325.1 million, based on actual figures for four months and forecasted figures for eight months.

Under the pass-on account disposal methodology currently in effect, this entire sum, $380.0 million, should be included in the 2015 revenue requirement, increasing it from $11.857 billion to $12.237 billion.

The Distributor believes that the size of the amounts in question warrants an *ad hoc* change to the disposal methodology for the 2013 and 2014 pass-on accounts[8] in order to spread the balance over five years, starting in 2016, rather than including the entire amount in the revenue requirement for 2015, in accordance with established practice. By deferring the beginning of recovery to 2016 rather than 2015, the Distributor can limit the

6 D-2008-024, pages 14-17, 39.
7 See HQD-9, document 7, section 5.
8 Based on actual data.

impact of the variances on the rate adjustment for 2015. This methodology will also spread out the cost impact of the winter 2013-2014 climate conditions over several years.

This proposal relies on Decision D-2008-024,[9] in which the Régie stated that it would adopt a case-by-case approach in order to secure the flexibility needed to deal with possible situations that could arise. It therefore favoured a fact-based approach, after having considered the pass-on account balance and the principles of intergenerational equity and rate stability. That Decision was based on the proposal filed by the Distributor, which had examined, at the Régie's request, the possibility of implementing a mechanism for mitigating the impact of variance account fluctuations.[10]

In Decisions D-2007-12 and D-2008-024, the Régie recognized the merits of adopting special methodologies in response to the circumstances of those rate cases.

The Distributor's proposal not to include any portion of the pass-on account balances for 2013 and 2014 in the 2015 revenue requirement would therefore limit the April 1, 2015 rate adjustment to 3.9% for all customers, except for large power industrial customers, for which the rate adjustment would be 3.5%.

3. CONCLUSION

Whereas:

- The Régie has adopted, in a previous decision, a case-by-case approach to pass-on accounts;
- The Régie has previously approved the principle of spreading out the balance of some accounts over several years (such as the variance account for native load transmission);
- This is an exceptional measure for dealing with an equally exceptional situation;

the Distributor proposes to introduce an *ad hoc* measure to dispose of the exceptional pass-on account balances for 2013 and 2014 over a five-year period starting in 2016, while maintaining the current approach for future balances.

This application is consistent with the Régie's concern with maintaining rate stability and upholding the principle of intergenerational equity, as set out in Decision D-2008-024, in which it recognized the importance of taking a case-by-case approach.

9 D-2008-024, pages 14-15.

10 The following mechanisms were assessed:

- Automatic amortization of the account balance over a fixed period,
- Automatic amortization of the account balance if a threshold is reached,
- Amortization, if necessary and required, based on the size of the pass-on balance (case-by-case approach).