# HYDRO-QUÉBEC DISTRIBUTION'S RESPONSE TO THE RÉGIE'S INFORMATION REQUEST #1

**pages 13 to 41**

Translation commissioned by
Association québécoise des consommateurs industriels d'électricité (AQCIE)
and
Québec Forest Industry Council (QFIC)

## REGULATORY PRINCIPLES AND ACCOUNTING POLICIES
## International Financial Reporting Standards (IFRS)

**4. Documents:** Exhibit B-0011, pp. 5-7

**Preamble:**

*"The various components of the Distributor's revenue requirement are determined on the basis of International Financial Reporting Standards ("IFRS") and the accounting policies, methods and practices approved by the Régie."*

**Requests:**

4.1 Please indicate whether Hydro-Québec's statutory financial statements will transition to IFRS as of January 1, 2015. If not, please explain.

**Response:**

**As of January 1, 2015, Hydro-Québec's general-purpose financial statements and the Distributor's regulatory financial statements will be prepared in accordance with generally accepted accounting principles in the U.S. (US GAAP).**

4.2 Please indicate whether the introduction of the new IFRS 14 standard, "Regulatory Deferral Accounts," will affect Hydro-Québec's statutory financial statements and the Distributor's regulatory financial statements for the test years 2015 and 2016. If so, please explain.

**Response:**

**See answer to question 4.1.**

### Return on variance and deferral accounts (VDAs)

**5. Documents:** (i) Exhibit B-0012, p. 6-7

(ii) Exhibit B-0016, p. 6

(iii) Exhibit B-0017, p. 29

(iv) Exhibit B-0017, p. 13

**Preamble:**

(i) *"Table 1 shows the variance accounts authorized by the Régie and the main arguments in support of their creation."*

**Table 1:**
**Regulatory variance accounts authorized by the Régie**

| Account | Date authorized | Decision | Justification |
|---|---|---|---|
| Variance account – transmission service for native load | 2003 | D-2003-93, p. 15-21 | Factor beyond the Distributor's control<br>- Potential discrepancy between the transmission rates recognized by the Régie and their inclusion in the revenue requirement<br>Significant monetary issues |
| Pass-on account for electricity purchases | 2005 | D-2005-34, p. 36-50 | Factor beyond the Distributor's control<br>- Electricity price volatility<br>- Climate conditions and fluctuations in demand<br>- Other residual risks and uncertainties such as supplier equipment breakdown<br>Significant monetary issues |
| Stabilization account for climate conditions | 2006 | D-2006-34, p. 19-21 | Factor beyond the Distributor's control<br>- Impact of climate conditions on transmission and distribution revenues |
| Variance account - fuel | 2009 | D-2009-016, p. 60-62 | Factor beyond the Distributor's control<br>- Price volatility |
| Variance account – load retention rate | 2009 | D-2010-022, p. 42-45 | Factor beyond the Distributor's control<br>- Impossibility of predicting use of rate by customers<br>- Equitable treatment of all parties |
| Variance account – major outages | 2009 | D-2009-016, p.14-16<br>R-3644-2008, HQD-04-04 | Impact of climate conditions on frequency and size of major outages<br>Intergenerational equity<br>Cost levelization<br>Potentially significant monetary issues |
| Variance account – major projects | 2010 | D-2010-022, p. 45-47 | Equitable treatment of all parties<br>- Accelerating the inclusion of all project costs in the revenue requirement<br>- Minimizing financing costs |
| Variance account – pension costs | 2011 | D-2011-028, p. 36-42 | Factor beyond the Distributor's control<br>- Unstable financial markets<br>- Cost volatility (difficulty of forecasting factors such as the discount rate and return on assets)<br>Significant monetary issues |
| Variance account - Bureau de l'efficacité et de l'innovation énergétiques (BEIÉ) | 2013 | D-2013-037, p. 74-77 | Factor beyond the Distributor's control<br>- Charge fixed by government decree<br>Significant monetary issues |
| Variance account - Costs related to suspension of TCE deliveries | 2014 | D-2014-086 p.14 | Intergenerational equity<br>- Maintaining cost recognition on an annual basis |

(ii) In Table 3, Rate of Return on the Distributor's Rate Base, the Distributor shows an average cost of debt of 6.511% and a rate of return on the rate base of 7.102% for the 2015 test year.

(iii) In Table E-1, Projected Economic Variables, 2014 and 2015, the Distributor shows a yield on Hydro-Québec 5-year bonds denominated in Canadian dollars of 3.051% for 2015.

(iv) In Table A-2, Projected Cost of Capital Inputs, 2015, the Distributor shows a bankers' acceptance rate (3 months), including a 23-basis-point credit spread, of 1.607%.

**Requests:**

5.1 For each of the variance accounts listed in Table 1 and in total, please produce, in tabular form, a simulation of the rate impact of using the following rates of return for the 2015 test year:

(a) weighted average cost of capital, as shown in document (ii) (7.102%);

(b) average cost of debt, as shown in document (ii) (6.511%);

(c) projected yield on Hydro-Québec 5-year bonds for the test year, as shown in document (iii) (3.051%);

(d) projected bankers' acceptance rate (3 months), plus 23-basis-point credit spread, as shown in document (iv) (1.607%);

(e) projected bankers' acceptance rate (3 months), plus 23-basis-point credit spread, plus 50-basis-point guarantee fee (2.107%).

Please provide the Excel spreadsheet.

**Response:**

**Table R-5.1 shows how application of the various rates of return listed by the Régie would impact the 2015 interest calculation for the variance accounts outside the rate base.**

**The simulated return on these accounts, using the various rates, has no impact on the revenue requirement for 2015 but would have an impact in subsequent years.**

**The rate impact of the variance accounts included in the rate base is presented in response 7.1.**

**Table R-5.1**
**Interest on accounts outside the rate base ($ million) - 2015**

| Accounts outside rate base | Forecasted balance at December 31, 2014[1] | Included in 2015 revenue requirement or rate base | Balance bearing interest in 2015 | Interest for 2015 at rate: | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | (a) 7.102% | (b) 6.511% | (c) 3.051% | (d) 1.607% | (e) 2.107% |
| Stabilization account for climate conditions | (44.0) | 44.0 | - | - | - | - | - | - |
| Variance account – transmission service for native load | (5.1) | 5.1 | - | - | - | - | - | - |
| Pass-on account for electricity purchases, 2012 | - | - | - | - | - | - | - | - |
| Pass-on account for electricity purchases, 2013 | 54.9 | - | 54.9 | 3.9 | 3.6 | 1.7 | 0.9 | 1.2 |
| Pass-on account for electricity purchases, 2014 | 325.1 | - | 325.1 | 23.1 | 21.2 | 9.9 | 5.2 | 6.8 |
| Variance account - fuel | 12.1 | (12.1) | - | - | - | - | - | - |
| Variance account – load retention rate | - | - | - | - | - | - | - | - |
| Variance account – pension costs | (13.2) | 13.2 | - | - | - | - | - | - |
| Variance account – major outages | 27.4 | (27.4) | - | - | - | - | - | - |
| Variance account - BEIÉ | (28.7) | 8.0 | (20.7) | (1.5) | (1.3) | (0.6) | (0.3) | (0.4) |
| Variance account – major projects | 34.2 | (34.2) | - | - | - | - | - | - |
| Variance account – Amount to be refunded to customers following change to rate base | (1.9) | 1.9 | - | - | - | - | - | - |
| | 360.8 | (1.5) | 359.3 | 25.5 | 23.4 | 11.0 | 5.8 | 7.6 |

(a) Weighted average cost of capital
(b) Average cost of debt
(c) Projected yield on Hydro-Québec 5-year bonds for the test year
(d) Projected bankers' acceptance rate (3 months), plus 23-basis-point credit spread
(e) Projected bankers' acceptance rate (3 months), plus 23-basis-point credit spread, plus 50-basis-point guarantee fee

1. Source: Table 1, Exhibit HQD-9, Document 7 (B-0037)

**The Distributor notes that the impacts presented in Table R-5.1 do not take into account the consequences that the change in the return on the various variance accounts would have on the cost of debt and the weighted average cost of capital, as explained in Exhibit HQD-3, Document 3 (B-0012) and in the response to questions 9.1 to 9.4.**

**The Distributor also notes that the projected 3.051% yield on Hydro-Québec 5-year bonds shown in Document (iii) includes neither the cost of the government guarantee (0.5%) nor the issuance fees Hydro-Québec would incur on 5-year bonds.**

5.2 Please confirm that, had the Régie not authorized the creation of these variance and deferral accounts (VDAs), the costs related to these accounts would have been fully included in the revenue requirement for the year in question. If not, please explain.

**Response:**

**If the Régie had not authorized the creation of theses variance accounts, the costs incurred in a given year would have been recognized in actual results for that year, thereby affecting the Distributor's return as presented in its annual report. The difference between those actual costs and authorized costs would therefore have no upward impact on rates in the years in question.**

**6. Documents:** Exhibit B-0012, pp. 8-17

**Requests:**

6.1 Please complete the submitted survey by indicating the method by which each of the Canadian regulatory bodies described grants a return on pass-on accounts, stabilization accounts for climate conditions, connection contribution accounts and energy efficiency accounts. Please specify whether they are included in the rate base and what rate of return is used in each case.

**Response:**

**The Distributor is unable to complete the survey filed in Exhibit HQD-3, Document 3 (B-0012) within the prescribed deadline given the very high level of precision that is being requested. However, it will make every effort to file the additional information by October 23, i.e. together with the responses to the Régie's and intervenors' information requests.**

**7. Documents:** Exhibit B-0037, p. 6

**Preamble:**

**Table 1**
**Evolution of variance accounts and other assets ($ million)**

| Description | Section | At December 31 | | |
|---|---|---|---|---|
| | | 2013 historic year | 2014 base year | 2015 test year |
| **Included in rate base** | | | | |
| Contributions to connection projects | 2 | 103.9 | 95.5 | 299.2 |
| Stabilization account for climate conditions | 3 | 135.2 | 222.9 | 142.3 |
| | | **239.1** | **318.4** | **441.5** |

**Requests:**

7.1 For each of the variance accounts and other assets included in the rate base listed in Table 1, please produce, in tabular form, a simulation of the rate impact of using the following rates of return for the 2015 test year:

(a) weighted average cost of capital, as shown in document (ii) (7.102%);

(b) average cost of debt, as shown in document (ii) (6.511%);

(c) projected yield on Hydro-Québec 5-year bonds for the test year, as shown in document (iii) (3.051%);

(d) projected bankers' acceptance rate (3 months), plus 23-basis-point credit spread, as shown in document (iv) (1.607%);

(e) projected bankers' acceptance rate (3 months), plus 23-basis-point credit spread, plus 50-basis-point guarantee fee (2.107%).

Please provide the Excel spreadsheet.

**Response:**

**Table R-7.1 shows the impact that application of the various rates of return listed by the Régie would have on calculation of the return on the variance accounts included in the rate base.**

**Table R-7.1**
**2015 return on accounts included in the rate base ($ million)**

| Description | Average of 13 balances, 2015 | 2015 interest at: | | | | |
|---|---|---|---|---|---|---|
| | | (a) 7.102% | (b) 6.511% | (c) 3.051% | (d) 1.607% | (e) 2.107% |
| **Included in rate base** | | | | | | |
| Contributions to connection projects | 256.2 | 18.2 | 16.7 | 7.8 | 4.1 | 5.4 |
| Stabilization account for climate conditions | 142.3 | 10.1 | 9.3 | 4.3 | 2.3 | 3.0 |
| | 398.6 | 28.3 | 25.9 | 12.2 | 6.4 | 8.4 |

**The Distributor notes that the impacts presented in Table R-7.1 do not take into account the consequences that the change in the return on the various variance accounts would have on the cost of debt and the weighted average cost of capital, as explained in Exhibit HQD-3, Document 3 (B-0012) and in the response to questions 9.1 to 9.4.**

**The Distributor also notes that the projected 3.051% yield on Hydro-Québec 5-year bonds shown in Document (iii) includes neither the cost of the government guarantee (0.5%) nor the issuance fees Hydro-Québec would incur on 5-year bonds.**

7.2 Please confirm that, had the Régie not authorized the creation of the stabilization account for climate conditions, the amounts in that account would have been fully included in the revenue requirement for the year in question. If not, please explain.

**Response:**

**See answer to question 5.2.**

7.3 Please specify the accounting treatment of contributions to connection projects under IFRS and their presentation in the financial statements.

**Response:**

**Contributions to connection projects are presented in the divisions' other assets, in accordance with IFRS 8, "Operating Segments." These interdivision transactions are eliminated in Hydro-Québec's consolidated financial statements.**

**8. Documents:** Exhibit B-0012, p. 11.

**Preamble:**

The Distributor stated:

*"In 2012, the BCUC also ruled on the issue in its decision G-110-12 concerning the rates of electric power distributor FortisBC for 2012-2013. The BCUC decided that VDAs should not be included in the rate base or earn the weighted average cost of capital. Its view was that, if operating and other costs are deferred for purposes of rate smoothing instead of being*

*recorded in current expenses, as would normally be the case, they do not become capital expenditures simply because they have been deferred, and that the most appropriate recovery mechanism is an interest rate of return."*

The Régie notes that in Decision G-110-12, the BCUC made a clear distinction between operating costs and their deferral for purposes of smoothing, on the one hand, and capital expenditures on the other.

**Requests:**

8.1 Please explain whether the Distributor considers the risks associated with VDA recovery to be similar, in nature and extent, to the risks associated with a capital expenditure for an asset with an estimated useful life of 40 years.

**Response:**

**See answer to question 9.1.**

**9. Documents:** (i) Exhibit B-0012, pp. 17-18

(ii) Exhibit B-0012, p. 18

(iii) Exhibit B-0012, p. 18

(iv) Exhibit B-0012, p. 17

**Preamble:**

*(i) "With respect to the cost of debt, given that Hydro-Québec manages its debt financing programs in a comprehensive, integrated manner, which means that <u>there is no financing specifically for any of its operating segments</u> (i.e. generation, transmission and distribution) <u>or related specifically to a particular asset</u>, the company's integrated cost of debt has been used to calculate the cost of debt for its regulated divisions since decision D-2002-95." [emphasis added]*

*(ii) "The cash deficits and surpluses associated with the assets and liabilities generated by the VDAs are included in consolidated cash flows provided by operating activities of Hydro-Québec and therefore factored into Hydro-Québec's capital requirement. As Hydro-Québec establishes and manages its financing program in an integrated manner, <u>it is not possible to connect the cash deficits and surpluses associated with the VDAs to a specific source of financing</u>." [emphasis added]*

*(iii) <u>VDA-linked assets, like the Distributor's other assets, are therefore financed by Hydro-Québec by means of a mix of equity and debt</u>. This applies to both long-term assets and current assets, the term of which may be similar to that of the VDAs, such as vehicles and accounts receivable arising from billed electricity sales." [emphasis added]*

*(iv) "The Distributor therefore believes that the weighted average cost of capital should be used to calculate the return on its VDAs."*

**Requests:**

9.1 Taking the hypothetical cases of a new $400 million VDA to be recovered over 3 years or less and a $400 million investment in equipment with a useful life of 40 years, are we to understand from the statements quoted in paragraphs (i) to (iii) above that Hydro-Québec would finance the two in exactly the same way, regardless of their radically different natures? Please elaborate.

**Response:**

**Hydro-Québec finances all of its activities, including the Distributor's operations, on an overall basis. Its borrowings are made for all of its activities and are not linked to a specific asset, whether its cost is recovered over 3 years or 40 years.**

**Obtaining financing on terms and conditions based on the specific nature of an asset would entail providing specific security for that financing, to the benefit of the issuers of that specific debt.**

**It should be borne in mind that under the provisions of Hydro-Québec's financing agreements, providing an asset as security, e.g. a mortgage on a building to guarantee repayment of a loan, would constitute a default on Hydro-Québec's debt. In that event, the creditors would all be ranked as ordinary creditors and would have a claim on all of the company's assets to ensure payment of the debt.**

**Financial risk is therefore managed on an overall basis for both current and long-term assets. Hydro-Québec's debt is serviced not by the specific cash flows generated by an asset but rather by all the cash flows provided by its activities. Therefore, lenders to not make any distinctions based on asset type when they assess the risk associated with Hydro-Québec's debt.**

**The manner in which Hydro-Québec finances its activities is related to its financing objectives and strategies. One strategy consists in creating benchmark bonds maturing in 2035, 2040, 2045 and 2050, increasing their market liquidity. Through these issues, the useful lives of the bulk of the company's assets are matched with its debt maturities. These long-term issues are complemented by 3- to 5-year issues. For example, at December 31, 2013, the average maturity of Hydro-Québec's outstanding debt was approximately 19 years.**

**To stabilize year-to-year financing costs, Hydro-Québec also strives to stagger its debt maturities.**

**Hydro-Québec's short- and long-term financial requirements are considered in developing an optimal financing program. The factors that influence borrowing needs in a given year include debt maturities, cash flows provided by operations and cash needed for capital expenditures.**

**Hydro-Québec manages its debt effectively by, among other things, maintaining a targeted mix of fixed- and floating-rate debt. Hydro-Québec also monitors its capital structure with particular attention to its capitalization ratio, which may be affected by, among other things, changes in the match between the useful life of assets and debt maturities.**

**Finally, it should be noted that, overall, Hydro-Québec's comprehensive approach to financing yields benefits for its regulated divisions and their customers, such as co-insurance among the company's various activities and the government guarantee, with a favourable impact on the cost of debt.**

9.2 In its financing decisions, does Hydro-Québec take maturity or the useful life of the financed assets into account? Please elaborate.

**Response:**

**See answer to question 9.1.**

9.3 In its financing decisions, does Hydro-Québec take the risk associated with the financed assets into account? Please elaborate.

**Response:**

**See answer to question 9.1.**

9.4 Taking the hypothetical case of a new $400 million VDA account, please explain why, in the Distributor's view, it should be financed at the weighted average cost of capital, which includes the historic cost of debt, rather than a rate that reflects current interest rates and at current market conditions.

**Response:**

**The weighted average cost of capital (WACC) includes the historic cost of debt as well as the cost of projected new financing. The use of WACC to finance a new variance account (VDA) is warranted insofar as all other components of the rate base also earn that rate. Therefore, while the components of the rate base were acquired over previous years, their rate of return is reviewed each year to incorporate recent financing costs.**

**As the example in Table R-9.4 shows, this method is simple. It also ensures the same recovery of financial expenses as would a calculation that assigned a distinct return to variance accounts at an interest rate based on current market conditions, after correcting the return on the rate base to exclude this "deemed" specific financing. In the example in Table R-9.4, this would increase the cost of debt applicable to the assets in the rate base, other than VDAs, from 6.511% to 6.676%.**

## Table R-9.4

## Illustration of calculation of return on $400 million variance account using current method and a specific rate

| **Assumptions** | |
|---|---|
| New VDA account | $400 million |
| Rate base (other than VDA) | $10.7 billion |
| Short-term interest rate | 2.107% |
| Historic debt rate (integrated cost of debt) | 6.511% |
| Historic debt rate excluding "deemed" specific financing | 6.676% [1] |

**Calculations**

| | Asset value | Debt portion | Value of debt-financed assets | Rate of return | Return |
|---|---|---|---|---|---|
| ***In $ million*** | **A** | **B** | **A x B** | **C** | **A x B x C** |
| **<u>Return on VDAs pegged to integrated cost of debt</u>** *(current method)* | | | | | |
| **Return-earning assets** | | | | | |
| Rate base (other than VDAs) | 10,700 | 65% | 6,955 | 6.511% | 452.8 |
| VDAs | 400 | 65% | 260 | 6.511% | 16.9 |
| | 11,100 | | | | |
| | | | | | **469.8** |
| **<u>Return on VDAs pegged to short-term interest rate</u>** | | | | | |
| **Return-earning assets** | | | | | |
| Rate base (other than VDAs) | 10,700 | 65% | 6,955 | 6.676% | 464.3 |
| VDAs | 400 | 65% | 260 | 2.107% | 5.5 |
| | 11,100 | | | | |
| | | | | | **469.8** |

1. Historic debt rate excluding "deemed" specific financing

| | Distributor's share | Minus: VDA share | |
|---|---|---|---|
| Numerator | 470 | 5.5 | 464 |
| Denominator | 7215 [2] | 260 | 6955 |
| Cost of debt | **6.511%** | | **6.676%** |

2. 65% of total $11.1 billion in assets

**Changes to Methodology for Disposal of 2013 and 2014 Pass-On Account Balances**

**10. Documents:** Exhibit B-0013, pp. 4 and 5.

**Preamble:**

*"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 at December 31, 2014, to be recovered from customers. The account balance, as presented in Exhibit HQD-9, Document 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 additional 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'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%."*

**Requests:**

10.1 Please specify the requested rate increase for all customers and for industrial customers, based on the current methodology for disposal of pass-on account balances. Please file updated versions of the following Exhibits:

- Additional revenue requirement and rate increase as of April 1, 2015 (Exhibit B-0008, tables 1, 2 and 3);
- Revenue requirement (Exhibit B-0019, tables 1 and 2);
- Regulatory cash requirement (Exhibit B-0033, tables 1, 2 and 5) and rate base (Exhibit B-0031);
- Variance account (Exhibit B-0037, Table 5).

**Response:**

**Based on the current methodology for disposal of pass-on account balances, the requested rate increase for all customers would be 7.6%, except large power industrial customers, for which it would be 7.3%.**

**The following tables have been updated on the basis of this hypothesis.**

**Table R-10.1-A**
**Additional revenue requirement and rate increase at April 1, 2015 based on current methodology for disposal of pass-on balances ($ million)**

| | |
|---|---|
| **2015 sales revenues (without rate increase)** | **11,405.1** |
| **Revenues other than electricity sales** | **182.2** |
| **2014 adjustment – regulatory provision** | **-135.4**[1] |
| **Total revenues for purpose of additional revenue requirement calculation** | **11,451.9** |
| **Revenue requirement** | |
| Purchases | |
| Electricity purchases | 6,181.6 |
| Transmission service | 2,816.9 |
| Distribution costs and customer service | |
| Operating expenses | 1,355.4 |
| Other expenses | 1,080.4 |
| Corporate expenses | 30.8 |
| Return on rate base and discount accretion | 785.8 |
| **Revenue requirement** | **12,250.9** |
| **2015 additional revenue requirement** | **-799.0** |
| **Sales revenues before increase** | |
| - Excluding special contracts | 10,531.2 |
| - Excluding special contracts and Rate L | 9,102.2 |
| **Requested increase - April 1, 2015** | |
| - Rate L customers | 7.3% |
| - Other customers | 7.6% |
| **Revenues generated in 2015 by the requested increase** | **541.7** |
| **2015 regulatory provision recovered in 2016** | **257.4**[2] |

1. Shortfall from January to March 2014 related to rate increase applied as of April 1, 2014, to be recovered in 2015.

2. Shortfall from January to March 2015 related to rate increase applied as of April 1, 2015, to be recovered in 2016.

**Table R-10.1-B**
**Component of revenue requirement and sales revenues derived from applicable rates, based on current methodology for disposal of pass-on balances ($ million)**

| | |
|---|---|
| **Connected network** | |
| Sales (GWh) | 171,952 |
| Sales revenues | 11,372.2 |
| Revenue requirement | 11,998.8 |
| Difference | (626.6) |
| **Independent networks** | |
| Sales (GWh) | 389 |
| Sales revenues | 32.9 |
| Revenue requirement | 252.1 |
| Difference | (219.3) |
| **Total distribution networks** | |
| Sales (GWh) | 172,341 |
| Sales revenues | 405.1 |
| Revenue requirement | 250.9 |
| Difference | (845.8) |
| ***Reconciliation with Table 1*** | |
| Plus: Other revenues | 182.2 |
| Plus: Regulatory provision | (135.4) |
| Additional revenue requirement | (799.0) |

## Table R-10.1-C
## Forecasted 2015 revenues, before and after the rate increase, and regulatory provision based on current methodology for disposal of pass-on balances

| 2015 | Contracts | Sales | Revenues before increase | | | Revenues after increase at January 1, 2015 | | | | | | | | | Revenues after increase at April 1, 2015 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Variances | | | | | | | | |
| | | | January to March | April to December | Total | January to March | April to December | Total | January to March | April to December | Total | January to March | April to December | Total | Total | Variances | |
| | (number) | (GWh) | ($ M) | ($ M) | ($ M) | ($ M) | ($ M) | ($ M) | ($ M) | ($ M) | ($ M) | (%) | (%) | (%) | ($ M) | | (%) |
| **Domestic** | **3,632,62** | **66,326** | **1,915** | **3,180** | **5,096** | **2,061** | **3,423** | **5,485** | **146** | **243** | **389** | **7.6%** | **7.6%** | **7.6%** | **5,339** | **243** | **4.8%** |
| Rates D and DM | 3,508,77 | 63,328 | 1,848 | 3,067 | 4,915 | 1,989 | 3,301 | 5,290 | 141 | 234 | 375 | | | | 5,149 | 234 | |
| Rate DT | 123,842 | 2,997 | 67 | 114 | 181 | 72 | 123 | 194 | 5 | 9 | 14 | | | | 189 | 9 | |
| **General** | **322,046** | **50,655** | **1,129** | **2,878** | **4,007** | **1,214** | **3,099** | **4,313** | **85** | **221** | **306** | **7.6%** | **7.7%** | **7.6%** | **4,227** | **221** | **5.5%** |
| Rates G, T1, T2, T3 | 292,876 | 9,812 | 304 | 665 | 969 | 327 | 716 | 1,043 | 23 | 51 | 74 | | | | 1,020 | 51 | |
| Public and Sentinel lighting | 4,210 | 612 | 16 | 47 | 62 | 17 | 50 | 67 | 1 | 4 | 5 | | | | 66 | 4 | |
| Rate G-9 | 3,270 | 1,067 | 38 | 99 | 137 | 41 | 107 | 148 | 3 | 7 | 10 | | | | 145 | 7 | |
| Rate M | 21,600 | 30,448 | 630 | 1,726 | 2,356 | 677 | 1,856 | 2,533 | 47 | 130 | 177 | | | | 2,485 | 130 | |
| Rate LG | 89 | 8,708 | 141 | 340 | 482 | 152 | 369 | 522 | 11 | 29 | 40 | | | | 511 | 29 | |
| Rate H | 1 | 7 | 0 | 1 | 1 | 0 | 1 | 1 | 0 | 0 | 0 | | | | 1 | 0 | |
| **Major industrial** | **157** | **55,361** | **567** | **1,736** | **2,303** | **593** | **1,814** | **2,407** | **26** | **78** | **104** | **N/A** | **N/A** | **N/A** | **2,381** | **78** | **N/A** |
| Rate L | 146 | 29,957 | 354 | 1,075 | 1,429 | 379 | 1,154 | 1,533 | 26 | 78 | 104 | 7.3% | 7.3% | 7.3% | 1,507 | 78 | 5.5% |
| Special contracts | 11 | 25,404 | 213 | 661 | 874 | 213 | 661 | 874 | 0 | 0 | 0 | N/A | N/A | N/A | 874 | 0 | N/A |
| **Total** | **3,954,823** | **172,341** | **3,611** | **7,794** | **11,405** | **3,868** | **8,336** | **12,204** | **257.4,**[1] | **541.7** | **799.0** | **N/A** | **N/A** | **N/A** | **11,947** | **542** | **N/A** |

1. Regulatory provision for 2015.

**Table R-10.1-D**
**Revenue requirement components**
**based on current methodology for disposal of pass-on balances ($ million)**

| | 2013 historic year | 2014 | | 2015 test year |
|---|---|---|---|---|
| | | D-2014-037 | Base year | |
| **REVENUE REQUIREMENT** | **11,046.7** | **11,302.7** | **11,504.6** | **12,250.9** |
| **ELECTRICITY PURCHASES AND TRANSMISSION SERVICE** | **7,937.8** | **8,193.3** | **8,336.8** | **8,998.5** |
| Electricity purchases | **5,330.9** | **5,454.0** | **5,597.5** | **6,181.6** |
| Transmission service | **2,606.9** | **2,739.3** | **2,739.3** | **2,816.9** |
| **DISTRIBUTION COSTS AND CUSTOMER SERVICE** | **3,108.9** | **3,109.4** | **3,167.8** | **3,252.4** |
| Operating expenses | **1,245.0** | **1,318.6** | **1,330.2** | **1,355.4** |
| Other expenses | **968.5** | **1,001.2** | **1,004.3** | **1,080.4** |
| Corporate expenses | **30.9** | **33.5** | **31.2** | **30.8** |
| Return on rate base and discount accretion | **864.5** | **756.1** | **802.1** | **785.8** |
| **RETURN ON RATE BASE**[1] | **8.51%** | **7.13%** | **7.57%** | **7.10%** |
| **Rate** | | | | |
| Debt | 6.56% | 6.56% | 6.54% | 6.51% |
| Equity | 12.13% | 8.20% | 9.47% | 8.20% |
| **Rate base (13-month average)** | **10,138.8** | **10,601.8** | **10,579.6** | **11,040.6** |

1.Based on a 65% debt / 35% equity capital structure (D-2003-093, page 51).

## Table R-10.1-E
## Breakdown of revenue requirement
## based on current methodology for disposal of pass-on balances ($ million)

| | 2013 historic year | 2014 D-2014-037 (1) | 2014 D-2014-037 (2) | 2014 Base year | 2015 test year |
|---|---|---|---|---|---|
| **REVENUE REQUIREMENT** | **11,046.7** | **11,303.3** | **11,302.7** | **11,504.6** | **12,250.9** |
| **ELECTRICITY PURCHASES AND TRANSMISSION SERVICE** | **7,937.8** | **8,193.3** | **8,193.3** | **8,336.8** | **8,998.5** |
| • Electricity purchases | **5,330.9** | **5,454.0** | **5,454.0** | **5,597.5** | **6,181.6** |
| Heritage | 4,497.0 | 4,485.8 | 4,485.8 | 4,553.8 | 4,538.7 |
| Post-heritage | 1,060.9 | 1,199.2 | 1,199.2 | 1,675.8 | 1,445.4 |
| Demand-side management tariff | 21.8 | | | 10.9 | |
| Special contracts adjustment | -239.9 | -198.8 | -198.8 | -285.7 | -182.5 |
| Pass-on account for electricity purchases 2011 | 6.1 | | | | |
| Pass-on account for electricity purchases 2012 | 8.3 | -4.3 | -4.3 | -4.3 | |
| Pass-on account for electricity purchases 2013 | -23.3 | -27.9 | -27.9 | -27.9 | 54.9 |
| Pass-on account for electricity purchases 2014 | | | | -325.1 | 325.1 |
| • Transmission service | **2,606.9** | **2,739.3** | **2,739.3** | **2,739.3** | **2,816.9** |
| Native load | 2,585.7 | 2,760.7 | 2,760.7 | 2,756.4 | 2,829.5 |
| Adjustment for Transmission Provider's point-to-point revenues | 8.9 | 8.9 | 8.9 | 8.9 | -7.5 |
| 2012 variance account (native load) | -17.5 | | | | |
| 2013 variance account (native load and point-to-point revenues) | 29.8 | -30.3 | -30.3 | -30.3 | -0.6 |
| 2014 variance account (native load and point-to-point revenues) | | | | 4.3 | -4.5 |
| **DISTRIBUTION COSTS AND CUSTOMER SERVICE** | **3,108.9** | **3,110.0** | **3,109.4** | **3,167.8** | **3,252.4** |
| **Operating expenses** | **1,245.0** | **1,319.2** | **1,318.6** | **1,330.2** | **1,355.4** |
| • Direct gross charges | 1,016.6 | 1,117.3 | 1,110.4 | 1,095.0 | 1,134.9 |
| Payroll | 682.3 | 737.2 | 734.7 | 716.8 | 695.3 |
| Basic salary | 422.2 | 434.4 | 433.1 | 422.6 | 448.6 |
| Overtime | 49.5 | 31.8 | 31.1 | 40.5 | 35.0 |
| Premiums and miscellaneous revenues | 45.8 | 42.0 | 41.7 | 26.9 | 28.4 |
| Corporate incentive plan | 16.0 | 14.1 | 14.0 | | |
| Performance-based compensation | 4.5 | 5.1 | 5.1 | 4.3 | 4.4 |
| Other premiums | 25.3 | 22.8 | 22.6 | 22.6 | 24.0 |
| Employee benefits | 164.8 | 229.0 | 228.8 | 226.8 | 183.3 |
| Employee benefits - pension costs | 141.3 | 108.8 | 108.8 | 90.4 | 107.1 |
| Variance account – pension costs | -46.8 | 35.9 | 35.9 | 54.3 | -10.0 |
| Employee benefits - other | 62.3 | 76.5 | 76.3 | 73.8 | 78.0 |
| Other complementary retirement benefits - pensioners | 8.0 | 7.8 | 7.8 | 8.3 | 8.2 |
| Other direct expenses | 389.5 | 426.2 | 421.8 | 427.9 | 486.1 |
| Staff expenses and allowances | 17.7 | 15.3 | 14.9 | 14.3 | 14.7 |
| External services and financial resources | 247.7 | 282.5 | 277.8 | 284.9 | 337.6 |
| External services | 169.4 | 177.8 | 167.0 | 174.6 | 184.9 |
| Vegetation control | 67.1 | 58.1 | 58.1 | 61.9 | 63.1 |
| Mail, courier | 19.9 | 20.0 | 20.0 | 22.0 | 23.0 |
| Professional and other services | 82.4 | 99.7 | 88.9 | 90.7 | 98.8 |
| Financial resources | 78.3 | 104.7 | 110.8 | 110.3 | 152.7 |
| Bad debts | 92.9 | 89.8 | 89.8 | 99.0 | 107.5 |
| Accounts receivable, interest, and other | -4.3 | 3.5 | 4.4 | 1.5 | 2.6 |
| Provision – major outages | | 8.0 | 8.0 | 8.0 | 8.0 |
| Variance account – major outages | -19.5 | 8.6 | 8.6 | 8.6 | 27.4 |
| Variance account – major projects | 9.2 | -5.2 | 0.0 | -6.8 | 7.2 |
| *Variance account - smart meter project* | *9.2* | *-5.2* | | *-6.8* | *7.2* |
| Inventory, purchases, leasing and other | 124.1 | 128.4 | 129.1 | 128.7 | 133.8 |
| Cost recovery | -55.2 | -46.1 | -46.1 | -49.7 | -46.5 |
| Attachment installation, pole space, ducts | -25.0 | -25.1 | -25.1 | -24.8 | -25.8 |
| Third-party and other claims | -30.2 | -21.0 | -21.0 | -24.9 | -20.7 |

***(continued next page)***

(1) Based on updated information produced by the Distributor following Régie Decision D-2014-037.
(2) D-2014-037, including reallocation of the overall reduction in operating expenses and in amortization. Withdrawal of charges related to phases 2 and 3 of the smart meter project is presented under the respective headings.

## Table R-10.1-E (continued)
## Breakdown of revenue requirement
## based on current methodology for disposal of pass-on balances ($ million)

| | 2013 historic year | 2014 D-2014-037 (1) | 2014 D-2014-037 (2) | 2014 Transaction year- | 2015 test year |
|---|---|---|---|---|---|
| • Shared service costs | 538.2 | 572.6 | 560.4 | 565.0 | 549.3 |
| Shared services centre | 158.7 | 168.0 | 168.0 | 171.3 | 166.7 |
| Acquisitions | 6.0 | 5.8 | 5.8 | 5.8 | 5.7 |
| Real estate | 63.6 | 68.9 | 68.9 | 68.4 | 68.2 |
| Materiel management | 33.8 | 36.2 | 36.2 | 36.2 | 36.4 |
| Meals and accommodation | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 |
| Food services | 1.0 | 1.4 | 1.4 | 1.4 | 1.3 |
| Air transport | 0.6 | 0.9 | 0.9 | 0.9 | 0.6 |
| Records management | 4.6 | 5.5 | 5.5 | 5.5 | 5.1 |
| Environment | 3.6 | | | 3.8 | |
| Transportation | 45.2 | 49.1 | 49.1 | 49.1 | 49.2 |
| Technology group | 223.7 | 245.2 | 233.0 | 230.8 | 242.9 |
| Innovation | 22.8 | 24.6 | 24.6 | 21.9 | 25.1 |
| Technological innovation | 19.5 | 19.5 | 19.5 | 17.9 | 21.0 |
| Technical support | 3.3 | 5.1 | 5.1 | 4.0 | 4.1 |
| Information and communication technologies (ICT) | 200.9 | 220.6 | 208.4 | 208.9 | 217.8 |
| Workstations – ICT | | | | | 47.7 |
| Enterprise products – ICT | | | | | 33.8 |
| Operating products – ICT | | | | | 57.0 |
| Network control | 4.4 | 3.2 | 3.2 | 3.2 | 2.2 |
| Mobile radios | 22.5 | 19.1 | 19.1 | 19.1 | 17.6 |
| Substations and generating stations | 1.1 | 0.9 | 0.9 | 0.9 | 0.7 |
| Call centre, telephone consoles and other | 15.7 | 21.7 | 20.0 | 20.2 | 28.8 |
| Development services – ICT | | | | | 30.0 |
| Basic communications | 26.0 | 28.3 | 28.3 | 28.3 | |
| Basic services – IT | 18.0 | 16.1 | 16.1 | 16.1 | |
| Office automation services – IT | 18.1 | 18.7 | 18.7 | 18.7 | |
| Development services – IT | 13.6 | 27.9 | 22.9 | 17.7 | |
| Operating services – IT | 73.6 | 77.0 | 71.5 | 77.0 | |
| Cybersecurity - Telecommunications | 0.9 | 0.7 | 0.7 | 0.7 | |
| Cybersecurity – IT | 7.0 | 7.0 | 7.0 | 7.0 | |
| Corporate units | 130.6 | 126.5 | 126.5 | 127.4 | 123.3 |
| Finance | 26.2 | 26.4 | 26.4 | 26.4 | 26.5 |
| Human resources | 73.4 | 69.0 | 69.0 | 68.9 | 66.4 |
| Corporate affairs and general secretariat | 31.0 | 31.1 | 31.1 | 32.1 | 30.4 |
| Industrial security | 16.6 | 16.9 | 16.9 | 16.9 | 16.8 |
| Legal affairs | 4.6 | 4.8 | 4.8 | 4.8 | 5.0 |
| Other units | 9.8 | 9.4 | 9.4 | 10.4 | 8.6 |
| Hydro-Québec TransÉnergie | 5.2 | 4.8 | 4.8 | 4.5 | 5.0 |
| Hydro-Québec Production | 2.2 | 2.0 | 2.0 | 2.0 | 1.8 |
| Hydro-Québec Équipement | 4.7 | 2.6 | 2.6 | 5.1 | 3.3 |
| Variance in pension costs not allocated to products | 14.4 | 8.2 | 8.2 | 1.7 | |
| Variance account – pension costs | -6.6 | 7.7 | 7.7 | 14.2 | -4.8 |
| Return for suppliers | 5.3 | 7.6 | 7.6 | 8.0 | 11.1 |
| Shared services centre | 1.9 | 3.0 | 3.0 | 2.7 | 3.1 |
| Technology Group | 3.4 | 4.6 | 4.6 | 5.3 | 8.0 |
| *(continued next page)* | | | | | |

(1) Based on updated information produced by the Distributor following Régie Decision D-2014-037.

(2) D-2014-037, including reallocation of the overall reduction in operating expenses and in amortization. Withdrawal of charges related to phases 2 and 3 of the smart meter project is presented under the respective headings..

## Table R-10.1-E (continued)
## Breakdown of revenue requirement
## based on current methodology for disposal of pass-on balances ($ million)

| | 2013 historic year | 2014 D-2014-037 (1) | 2014 D-2014-037 (2) | 2014 Transaction year- | 2015 test year |
|---|---|---|---|---|---|
| • Capitalized costs | -309.8 | -360.7 | -352.2 | -329.8 | -328.8 |
| Labour inputs | -266.3 | -310.0 | -301.5 | -284.5 | -283.5 |
| Labour inputs | -276.7 | -303.5 | -295.0 | -273.6 | -285.6 |
| Variance account – pension costs | 10.4 | -6.5 | -6.5 | -10.9 | 2.1 |
| Materiel management | -43.5 | -50.7 | -50.7 | -45.3 | -45.3 |
| • Overall reduction in operating expenses | | -10.0 | | | |
| **Other expenses** | **968.5** | **999.1** | **1,001.2** | **1,004.3** | **1,080.4** |
| • Fuel purchases | 100.8 | 93.8 | 93.8 | 93.8 | 117.3 |
| Fuel purchases | 98.9 | 98.1 | 98.1 | 110.5 | 105.2 |
| 2011 variance account | -5.0 | | | | |
| 2012 variance account | 5.8 | -3.5 | -3.5 | -3.5 | |
| 2013 variance account | 1.1 | -0.8 | -0.8 | -0.8 | -0.3 |
| 2014 variance account | | | | -12.4 | 12.4 |
| • Amortization and decommissioning | 773.0 | 825.5 | 804.9 | 835.6 | 863.0 |
| Fixed assets in service | 468.1 | 485.5 | 471.2 | 488.8 | 518.7 |
| Finance lease | 2.5 | 2.0 | 2.0 | 2.2 | 2.3 |
| Intangible assets | 215.1 | 242.3 | 235.0 | 235.8 | 256.4 |
| Global Energy Efficiency Plan | 125.1 | 138.1 | 136.3 | 136.4 | 145.4 |
| Bureau de l'efficacité et de l'innovation énergétiques (BEIE) | 15.4 | 15.4 | 15.4 | 15.4 | 15.4 |
| Software and other intangible assets | 74.6 | 88.8 | 83.3 | 84.0 | 95.6 |
| Other assets | 2.2 | 4.0 | 4.0 | 3.8 | 8.3 |
| Contributions to connection projects | 2.2 | 4.0 | 4.0 | 3.8 | 8.3 |
| Net costs related to asset disposals | 26.4 | 58.5 | 39.5 | 56.5 | 40.7 |
| Stabilization account for climate conditions | 56.5 | 52.7 | 52.7 | 48.0 | 36.6 |
| Load retention rate | 2.2 | 0.5 | 0.5 | 0.5 | |
| Overall reduction in amortization | | -20.0 | | | |
| • Variance account – major projects | 4.8 | -22.7 | 0.0 | -27.0 | 27.0 |
| Variance account – smart meter project | 4.8 | -22.7 | | -27.0 | 27.0 |
| • Variance account – customer refund following change to rate base in 2014 | 0.0 | 1.8 | 1.8 | 1.8 | -1.9 |
| • Taxes | 89.9 | 100.7 | 100.7 | 100.1 | 75.0 |
| Public utilities | 40.7 | 42.6 | 42.6 | 41.6 | 43.3 |
| Municipal and school taxes | 14.9 | 13.5 | 13.5 | 13.9 | 15.2 |
| Bureau de l'efficacité et de l'innovation énergétiques (BEIE) | 34.3 | 44.6 | 44.6 | 44.6 | 16.5 |
| BEIE | 30.3 | 44.6 | 44.6 | 21.2 | 24.5 |
| 2013 variance account | 4.0 | | | 3.3 | -8.0 |
| 2014 variance account | | | | 20.1 | |
| **Corporate expenses** | **30.9** | **33.5** | **33.5** | **31.2** | **30.8** |
| • Corporate expenses | 31.7 | 32.6 | 32.6 | 29.8 | 31.3 |
| • Variance account – pension costs | -0.8 | 0.9 | 0.9 | 1.4 | -0.5 |
| **Return on rate base and discount accretion** | **864.5** | **758.2** | **756.1** | **802.1** | **785.8** |
| • Discount accretion | 1.9 | 1.8 | 1.8 | 1.6 | 1.6 |
| • Debt (regulated financial expenses) | 432.1 | 452.1 | 450.7 | 450.0 | 467.3 |
| • Equity (regulated earnings) | 430.5 | 304.3 | 303.6 | 350.5 | 316.9 |
| Return on rate base | **8.508%** | **7.135%** | **7.135%** | **7.567%** | **7.102%** |
| Cost of debt | 6.557% | 6.561% | 6.561% | 6.544% | 6.511% |
| Return on equity | 12.132% | 8.200% | 8.200% | 9.465% | 8.200% |
| Rate base (13-month average) | **10,138,771** | **10,601,762** | **10,568,545** | **10,579,623** | **11,040,609** |

(1) Based on updated information produced by the Distributor following Régie Decision D-2014-037.
(2) D-2014-037, including reallocation of the overall reduction in operating expenses and in amortization. Withdrawal of charges related to phases 2 and 3 of the smart meter project is presented under the respective headings..

**Table R-10.1-F**
**2015 collection time adjusted by regulatory provision, based on current methodology for disposal of pass-on balances (in days)**

| | Bi-monthly billing | Monthly billing |
|---|---|---|
| Average consumption lag | 30.5 | 15.5 |
| Payment lag | 21 | 21 |
| **Collection time before adjustment for regulatory provision** | **51.5** | **36.5** |
| Adjustment for regulatory provision | 14.1 | 7.3 |
| **Adjusted collection time** | **65.6** | **43.8** |

**Table R-10.1-G**
**Collection time adjustment arising from regulatory provision, based on current methodology for disposal of pass-on balances (in days)**

| | Bi-monthly billing | Monthly billing |
|---|---|---|
| Sales (in $ million) | 9,055.0 | 2,891.7 |
| Provision (in $ million) | 221 | 37 |
| **Adjustment (585 days X Provision / Sales)** | **14.1** | **7.3** |

## Table R-10.1-H
## 2015 regulatory cash requirement
## based on current methodology for disposal of pass-on balances (in $ thousand)

| VARIABLES | EXPENSES 2015 (1) | NET (2) | RATE (2) / 365 DAYS (3) | CASH REQUIREMENT |
|---|---|---|---|---|
| OPERATING AND MAINTENANCE EXPENSES | | | | |
| Net payroll | 218,903 | 43,73 | 11,98% | 26,223 |
| Government remittances | 190,797 | 36,73 | 10,06% | 19,197 |
| Other expenses | 396,400 | 28,06 | 7,69% | 30,479 |
| | 806,100 | | | |
| TAXES | | | | |
| Tax on public utilities | 43,300 | 183,38 | 50,24% | 21,755 |
| Property taxes | 15,200 | 122,69 | 33,61% | 5,109 |
| Bureau de l'efficacité et de l'innovation énergétiques (BEIÉ) | 16,500 | 15,36 | 4,21% | 694 |
| PURCHASES | | | | |
| Electricity purchases | 6,181,600 | 26,36 | 7,22% | 446,410 |
| Purchases of transmission services | 2,816,900 | 26,36 | 7,22% | 203,422 |
| Purchases of fuel | 117,300 | 26,36 | 7,22% | 8,471 |
| EFFECT OF CONSUMPTION TAXES | | | | (68,900) |
| PROVISION POUR DOUBTFUL ACCOUNTS | | | | (315,644) |
| **TOTAL REGULATORY CASH REQUIREMENT** | | | | **377,217** |

# Table R-10.1-I

## According to the current methodology for disposal of pass-on balances

### RATE BASE - SUMMARY OF 2015 TEST YEAR

**(Forecasts, in $ thousand)**

| | January 1 | January 31 | February 28 | March 31 | April 30 | May 31 | June 30 |
|---|---|---|---|---|---|---|---|
| Fixed assets in service | 16,501,755 | 16,541,259 | 16,589,798 | 16,635,860 | 16,676,949 | 16,725,549 | 16,773,867 |
| Accumulated amortization | 7,627,446 | 7,659,406 | 7,691,568 | 7,723,972 | 7,756,595 | 7,789,425 | 7,822,489 |
| **Net value** | **8,874,309** | **8,881,854** | **8,898,230** | **8,911,887** | **8,920,355** | **8,936,125** | **8,951,379** |
| Finance lease | 48,509 | 48,670 | 48,831 | 49,047 | 49,316 | 49,692 | 50,015 |
| Accumulated amortization | 14,808 | 14,992 | 15,177 | 15,362 | 15,548 | 15,735 | 15,923 |
| **Net value** | **33,701** | **33,678** | **33,655** | **33,685** | **33,768** | **33,957** | **34,092** |
| Intangible assets in service | 2,585,633 | 2,586,378 | 2,590,553 | 2,596,924 | 2,599,126 | 2,599,001 | 2,604,680 |
| Accumulated amortization | 1,354,703 | 1,375,785 | 1,396,743 | 1,417,820 | 1,439,021 | 1,460,260 | 1,481,500 |
| **Net value** | **1,230,930** | **1,210,593** | **1,193,810** | **1,179,104** | **1,160,105** | **1,138,740** | **1,123,180** |
| **Other assets** | **261,083** | **260,781** | **260,480** | **477,362** | **476,526** | **475,622** | **474,472** |
| **Working capital** | **338,470** | **512,038** | **511,758** | **511,564** | **511,355** | **511,125** | **511,441** |
| **TOTAL RATE BASE** | **10,738,493** | **10,898,944** | **10,897,932** | **11,113,601** | **11,102,108** | **11,095,570** | **11,094,563** |

| | July 31 | August 31 | September 30 | October 31 | November 30 | December 31 | Average |
|---|---|---|---|---|---|---|---|
| Fixed assets in service | 16,824,878 | 16,863,294 | 16,915,047 | 16,963,631 | 17,008,016 | 17,155,570 | 16,782,729 |
| Accumulated amortization | 7,855,780 | 7,889,306 | 7,923,018 | 7,956,935 | 7,991,040 | 8,025,326 | 7,824,023 |
| **Net value** | **8,969,097** | **8,973,988** | **8,992,030** | **9,006,696** | **9,016,976** | **9,130,244** | **8,958,705** |
| Finance lease | 50,284 | 50,661 | 51,468 | 52,275 | 53,082 | 53,889 | 50,441 |
| Accumulated amortization | 16,112 | 16,302 | 16,494 | 16,688 | 16,885 | 17,084 | 15,931 |
| **Net value** | **34,172** | **34,358** | **34,974** | **35,587** | **36,197** | **36,804** | **34,510** |
| Intangible assets in service | 2,604,555 | 2,604,430 | 2,611,662 | 2,611,537 | 2,611,412 | 2,742,984 | 2,611,451 |
| Accumulated amortization | 1,502,877 | 1,524,255 | 1,545,633 | 1,567,133 | 1,588,633 | 1,610,133 | 1,481,884 |
| **Net value** | **1,101,677** | **1,080,174** | **1,066,029** | **1,044,404** | **1,022,778** | **1,132,850** | **1,129,567** |
| **Other assets** | **472,109** | **471,139** | **466,976** | **461,782** | **460,776** | **464,776** | **421,837** |
| **Working capital** | **507,161** | **506,967** | **506,758** | **506,528** | **506,384** | **506,317** | **495,990** |
| **TOTAL RATE BASE** | **11,084,217** | **11,066,626** | **11,066,766** | **11,054,996** | **11,043,110** | **11,270,991** | **11,040,609** |

## Table R-10.1-I (continued)
## Based on current methodology for disposal of pass-on balances

**BREAKDOWN OF FIXED ASSETS IN SERVICE AND FINANCE LEASES FOR THE 2015 TEST YEAR**
**(Forecasted figures, in $ thousand)**

| | January 1 | January 31 | February 28 | March 31 | April 30 | May 31 | June 30 | July 31 | August 31 | September 30 | October 31 | November 30 | December 31 | Average |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Fixed assets in service** | | | | | | | | | | | | | | |
| Metering equipment | 886,572 | 902,723 | 924,114 | 939,721 | 955,546 | 974,020 | 990,071 | 1,006,359 | 1,017,260 | 1,023,707 | 1,027,125 | 1,030,507 | 1,033,771 | 977,807 |
| Distribution substations | 62,160 | 62,160 | 62,160 | 62,160 | 62,160 | 62,160 | 62,160 | 62,160 | 62,160 | 62,160 | 62,160 | 62,160 | 62,160 | 62,160 |
| Overhead distribution lines | 9,487,710 | 9,504,526 | 9,524,948 | 9,547,096 | 9,565,187 | 9,585,905 | 9,607,992 | 9,633,161 | 9,652,299 | 9,680,838 | 9,709,171 | 9,733,311 | 9,815,323 | 9,619,036 |
| Underground distribution lines | 3,780,233 | 3,785,021 | 3,791,075 | 3,798,119 | 3,803,826 | 3,810,572 | 3,817,704 | 3,825,021 | 3,830,926 | 3,840,998 | 3,851,017 | 3,861,119 | 3,870,061 | 3,820,438 |
| Independent networks | 1,063,817 | 1,064,542 | 1,065,342 | 1,066,321 | 1,067,349 | 1,068,699 | 1,070,565 | 1,071,698 | 1,073,000 | 1,075,550 | 1,078,098 | 1,080,641 | 1,127,638 | 1,074,866 |
| Other network assets | 20,733 | 20,733 | 20,733 | 20,733 | 20,733 | 20,733 | 20,733 | 20,733 | 20,733 | 20,733 | 20,733 | 20,733 | 20,733 | 20,733 |
| Support facilities | 1,232,943 | 1,233,966 | 1,233,837 | 1,234,122 | 1,234,560 | 1,235,873 | 1,237,056 | 1,238,157 | 1,239,327 | 1,243,474 | 1,247,738 | 1,251,956 | 1,263,090 | 1,240,469 |
| Contributions to private switchyards and other third-party contributions | (32,412) | (32,412) | (32,412) | (32,412) | (32,412) | (32,412) | (32,412) | (32,412) | (32,412) | (32,412) | (32,412) | (32,412) | (37,206) | (32,781) |
| **Total** | **16,501,755** | **16,541,259** | **16,589,798** | **16,635,860** | **16,676,949** | **16,725,549** | **16,773,867** | **16,824,878** | **16,863,294** | **16,915,047** | **16,963,631** | **17,008,016** | **17,1 55,570** | **16,782,729** |
| *Monthly commissionings and transfers* | | *39,504* | *48,538* | *46,062* | *41,090* | *48,600* | *48,318* | *51,010* | *38,416* | *51,754* | *48,583* | *44,385* | *147,554* | |
| **Accumulated amortization** | | | | | | | | | | | | | | |
| Metering equipment | 299,981 | 302,031 | 304,209 | 306,544 | 309,004 | 311,591 | 314,319 | 317,175 | 320,160 | 323,244 | 326,402 | 329,618 | 332,891 | 315,167 |
| Distribution substations | 59,228 | 59,245 | 59,263 | 59,281 | 59,298 | 59,316 | 59,334 | 59,352 | 59,369 | 59,387 | 59,405 | 59,422 | 59,440 | 59,334 |
| Overhead distribution lines | 4,489,917 | 4,506,251 | 4,522,623 | 4,539,039 | 4,555,503 | 4,572,006 | 4,588,555 | 4,605,152 | 4,621,804 | 4,638,497 | 4,655,252 | 4,672,068 | 4,688,936 | 4,588,893 |
| Underground distribution lines | 1,513,139 | 1,522,292 | 1,531,464 | 1,540,658 | 1,549,876 | 1,559,116 | 1,568,380 | 1,577,669 | 1,586,983 | 1,596,318 | 1,605,686 | 1,615,086 | 1,624,519 | 1,568,553 |
| Independent networks | 600,696 | 602,583 | 604,473 | 606,365 | 608,260 | 610,157 | 612,059 | 613,966 | 615,877 | 617,791 | 619,713 | 621,642 | 623,578 | 612,089 |
| Other network assets | 12,163 | 12,216 | 12,268 | 12,321 | 12,374 | 12,426 | 12,479 | 12,532 | 12,584 | 12,637 | 12,690 | 12,742 | 12,795 | 12,479 |
| Support facilities | 652,690 | 655,192 | 657,711 | 660,246 | 662,797 | 665,366 | 667,955 | 670,565 | 673,197 | 675,849 | 678,530 | 681,243 | 683,986 | 668,102 |
| Contributions to private switchyards and other third-party contributions | (367) | (405) | (443) | (480) | (518) | (555) | (593) | (631) | (668) | (706) | (743) | (781) | (818) | (593) |
| **Total** | **7,627,446** | **7,659,406** | **7,691,568** | **7,723,972** | **7,756,595** | **7,789,425** | **7,822,489** | **7,855,780** | **7,889,306** | **7,923,018** | **7,956,935** | **7,991,040** | **8,025,326** | **7,824,023** |
| *Monthly amortization expense and transfers* | | *31,960* | *32,162* | *32,404* | *32,622* | *32,830* | *33,064* | *33,292* | *33,526* | *33,712* | *33,917* | *34,106* | *34,285* | |
| **Net value** | | | | | | | | | | | | | | |
| Metering equipment | 586,591 | 600,693 | 619,906 | 633,177 | 646,541 | 662,428 | 675,751 | 689,183 | 697,099 | 700,463 | 700,723 | 700,889 | 700,880 | 662,640 |
| Distribution substations | 2,932 | 2,915 | 2,897 | 2,879 | 2,862 | 2,844 | 2,826 | 2,809 | 2,791 | 2,773 | 2,756 | 2,738 | 2,720 | 2,826 |
| Overhead distribution lines | 4,997,793 | 4,998,275 | 5,002,325 | 5,008,057 | 5,009,684 | 5,013,899 | 5,019,436 | 5,028,009 | 5,030,496 | 5,042,340 | 5,053,920 | 5,061,244 | 5,126,387 | 5,030,143 |
| Underground distribution lines | 2,267,094 | 2,262,730 | 2,259,611 | 2,257,461 | 2,253,950 | 2,251,455 | 2,249,324 | 2,247,353 | 2,243,943 | 2,244,679 | 2,245,331 | 2,246,033 | 2,245,542 | 2,251,885 |
| Independent networks | 463,121 | 461,959 | 460,869 | 459,956 | 459,089 | 458,542 | 458,506 | 457,732 | 457,123 | 457,759 | 458,385 | 459,000 | 504,061 | 462,777 |
| Other network assets | 8,570 | 8,518 | 8,465 | 8,412 | 8,360 | 8,307 | 8,254 | 8,202 | 8,149 | 8,096 | 8,044 | 7,991 | 7,938 | 8,254 |
| Support facilities | 580,253 | 578,773 | 576,126 | 573,877 | 571,763 | 570,507 | 569,101 | 567,592 | 566,130 | 567,625 | 569,208 | 570,713 | 579,104 | 572,367 |
| Contributions to private switchyards and other third-party contributions | (32,045) | (32,007) | (31,970) | (31,932) | (31,895) | (31,857) | (31,819) | (31,782) | (31,744) | (31,707) | (31,669) | (31,632) | (36,388) | (32,188) |
| **Total** | **8,874,309** | **8,881,854** | **8,898,230** | **8,911,887** | **8,920,355** | **8,936,125** | **8,951,379** | **8,969,097** | **8,973,988** | **8,992,030** | **9,006,696** | **9,016,976** | **9,130,244** | **8,958,705** |
| **Finance lease** | | | | | | | | | | | | | | |
| Present value | 48,509 | 48,670 | 48,831 | 49,047 | 49,316 | 49,692 | 50,015 | 50,284 | 50,661 | 51,468 | 52,275 | 53,082 | 53,889 | 50,441 |
| Accumulated amortization | 14,808 | 14,992 | 15,177 | 15,362 | 15,548 | 15,735 | 15,923 | 16,112 | 16,302 | 16,494 | 16,688 | 16,885 | 17,084 | 15,931 |
| **Net value** | **33,701** | **33,678** | **33,655** | **33,685** | **33,768** | **33,957** | **34,092** | **34,172** | **34,358** | **34,974** | **35,587** | **36,197** | **36,804** | **34,510** |

# Table R-10.1-I (continued)
## Based on current methodology for disposal of pass-on balances

**BREAKDOWN OF OTHER LINE ITEMS FOR 2015 TEST YEAR**
**(Forecasted figures, in $ thousand)**

| | January 1 | January 31 | February 28 | March 31 | April 30 | May 31 | June 30 | July 31 | August 31 | September 30 | October 31 | November 30 | December 31 | Average |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Intangible assets in service** | | | | | | | | | | | | | | |
| Energy efficiency programs and activities | | | | | | | | | | | | | | |
| Comprehensive energy efficiency plan | 1,598,270 | 1,598,270 | 1,598,270 | 1,598,270 | 1,598,270 | 1,598,270 | 1,598,270 | 1,598,270 | 1,598,270 | 1,598,270 | 1,598,270 | 1,598,270 | 1,698,270 | 1,605,962 |
| BEIÉ programs and activities | 154,296 | 154,296 | 154,296 | 154,296 | 154,296 | 154,296 | 154,296 | 154,296 | 154,296 | 154,296 | 154,296 | 154,296 | 154,296 | 154,296 |
| Software | 773,323 | 774,068 | 778,243 | 784,614 | 786,816 | 786,691 | 792,370 | 792,245 | 792,120 | 799,352 | 799,227 | 799,102 | 827,174 | 791,181 |
| Other intangible assets | 59,744 | 59,744 | 59,744 | 59,744 | 59,744 | 59,744 | 59,744 | 59,744 | 59,744 | 59,744 | 59,744 | 59,744 | 63,244 | 60,013 |
| **Total** | **2,585,633** | **2,586,378** | **2,590,553** | **2,596,924** | **2,599,126** | **2,599,001** | **2,604,680** | **2,604,555** | **2,604,430** | **2,611,662** | **2,611,537** | **2,611,412** | **2,742,984** | **2,611,451** |
| *Monthly commissionings and transfers* | | *745* | *4,175* | *6,371* | *2,202* | *(125)* | *5,679* | *(125)* | *(125)* | *7,232* | *(125)* | *(125)* | *131,572* | |
| **Accumulated amortization** | | | | | | | | | | | | | | |
| Energy efficiency programs and activities | | | | | | | | | | | | | | |
| Comprehensive energy efficiency plan | 783,949 | 796,069 | 808,190 | 820,310 | 832,430 | 844,550 | 856,670 | 868,790 | 880,910 | 893,030 | 905,150 | 917,270 | 929,390 | 856,670 |
| BEIÉ programs and activities | 63,177 | 64,463 | 65,749 | 67,034 | 68,320 | 69,606 | 70,892 | 72,178 | 73,463 | 74,749 | 76,035 | 77,321 | 78,606 | 70,892 |
| Software | 489,760 | 497,253 | 504,622 | 512,110 | 519,721 | 527,372 | 535,022 | 542,811 | 550,599 | 558,388 | 566,299 | 574,210 | 582,122 | 535,407 |
| Other intangible assets | 17,817 | 18,000 | 18,183 | 18,366 | 18,550 | 18,733 | 18,916 | 19,099 | 19,283 | 19,466 | 19,649 | 19,832 | 20,015 | 18,916 |
| **Total** | **1,354,703** | **1,375,785** | **1,396,743** | **1,417,820** | **1,439,021** | **1,460,260** | **1,481,500** | **1,502,877** | **1,524,255** | **1,545,633** | **1,567,133** | **1,588,633** | **1,610,133** | **1,481,884** |
| *Monthly amortization expense and transfers* | | *21,082* | *20,958* | *21,077* | *21,201* | *21,240* | *21,240* | *21,378* | *21,378* | *21,378* | *21,500* | *21,500* | *2,500* | |
| **Net value** | | | | | | | | | | | | | | |
| Energy efficiency programs and activities | | | | | | | | | | | | | | |
| Comprehensive energy efficiency plan | 814,320 | 802,200 | 790,080 | 777,960 | 765,840 | 753,720 | 741,600 | 729,480 | 717,360 | 705,240 | 693,120 | 681,000 | 768,880 | 749,292 |
| BEIÉ programs and activities | 91,119 | 89,833 | 88,547 | 87,261 | 85,976 | 84,690 | 83,404 | 82,118 | 80,832 | 79,547 | 78,261 | 76,975 | 75,689 | 83,404 |
| Software | 283,564 | 276,816 | 273,622 | 272,505 | 267,095 | 259,320 | 257,348 | 249,435 | 241,521 | 240,964 | 232,928 | 224,892 | 245,053 | 255,774 |
| Other intangible assets | 41,927 | 41,744 | 41,561 | 41,378 | 41,194 | 41,011 | 40,828 | 40,645 | 40,461 | 40,278 | 40,095 | 39,912 | 43,228 | 41,097 |
| **Total** | **1,230,930** | **1,210,593** | **1,193,810** | **1,179,104** | **1,160,105** | **1,138,740** | **1,123,180** | **1,101,677** | **1,080,174** | **1,066,029** | **1,044,404** | **1,022,778** | **1,132,850** | **1,129,567** |
| **Other assets** | | | | | | | | | | | | | | |
| Contributions to connection projects | 95,474 | 95,172 | 94,871 | 311,753 | 310,917 | 310,013 | 308,863 | 306,500 | 305,530 | 301,367 | 296,173 | 295,167 | 299,167 | 256,228 |
| Stabilization account for climate conditions | 142,327 | 142,327 | 142,327 | 142,327 | 142,327 | 142,327 | 142,327 | 142,327 | 142,327 | 142,327 | 142,327 | 142,327 | 142,327 | 142,327 |
| Government refund | 23,282 | 23,282 | 23,282 | 23,282 | 23,282 | 23,282 | 23,282 | 23,282 | 23,282 | 23,282 | 23,282 | 23,282 | 23,282 | 23,282 |
| **Total** | **261,083** | **260,781** | **260,480** | **477,362** | **476,526** | **475,622** | **474,472** | **472,109** | **471,139** | **466,976** | **461,782** | **460,776** | **464,776** | **421,837** |
| **Working capital** | | | | | | | | | | | | | | |
| Working capital | 192,997 | 377,217 | 377,217 | 377,217 | 377,217 | 377,217 | 377,217 | 377,217 | 377,217 | 377,217 | 377,217 | 377,217 | 377,217 | 363,046 |
| Materials, fuel and supplies | 145,473 | 134,821 | 134,542 | 134,347 | 134,138 | 133,908 | 134,224 | 129,945 | 129,750 | 129,541 | 129,311 | 129,167 | 129,100 | 132,944 |
| **Total** | **338,470** | **512,038** | **511,758** | **511,564** | **511,355** | **511,125** | **511,441** | **507,161** | **506,967** | **506,758** | **506,528** | **506,384** | **506,317** | **495,990** |

**Table R-10.1-J**
**Evolution of pass-on account**
**based on current disposal methodology ($ million)**

| OUTSIDE RATE BASE | Pass-on 2011 | Pass-on 2012 | Pass-on 2013 | Pass-on 2014 | Total | Impact on revenue requirement |
|---|---|---|---|---|---|---|
| **Balance at December 31, 2012** | **6.1** | **4.2** | | | **10.4** | **19.4** |
| **Operations in 2013** | | | | | | |
| Transferred to revenue requirement | (6.1) | (8.3) | | | (14.4) | |
| Interest | | (0.3) | | | (0.3) | 14.4 |
| Variance for year | | | 23.3 | | 23.3 | |
| **Balance at December 31, 2013** | **-** | **(4.3)** | **23.3** | | **19.0** | **14.4** |
| **Operations in 2014** | | | | | | |
| Transferred to revenue requirement | | 4.3 | 27.9 | | 32.2 | |
| Interest | | | 3.7 | | 3.7 | (32.2) |
| Variance for year (4/8 estimate) | | | | 325.1 | 325.1 | |
| **Balance at December 31, 2014** | **-** | **-** | **54.9** | **325.1** | **380.0** | **(32.2)** |
| **Operations in 2015** | | | | | | |
| Transferred to revenue requirement | | | (54.9) | (325.1) | (380.0) | 380.0 |
| **Balance at December 31, 2015** | **-** | **-** | **-** | **-** | **-** | **380.0** |

**11. Documents:** Exhibit B-0013, p. 5.

***Preamble:***

*"The Distributor believes that the size of the amounts in question warrants an ad hoc change to <u>the disposal methodology for the 2013 and 2014 pass-on accounts 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</u>. By deferring the beginning of recovery to 2016 rather than 2015, the Distributor can limit the impact of the variances on the rate adjustment for 2015. <u>This methodology will also spread out the cost impact of the winter 2013-2014 climate conditions over several years</u>."* (emphasis added)

**Requests:**

11.1 Please explain and support the criteria on which the Distributor determined a 5-year amortization period.

**Response:**

**In view of the exceptional nature of the amounts recorded in the pass-on account, basically due to the very harsh winter of 2013-2014, the Distributor deemed it most appropriate to propose an *ad hoc* disposal methodology similar to what is used for the stabilization account for climate conditions, for which the 2014 variances will be**

**amortized and included in the revenue requirement over a five-year period, starting in 2016.**

**The Distributor believes that the 7.6% rate increase that would result from application of the current disposal methodology for the pass-on account is considerable and therefore recovery of the 2013 and 2014 balances over a longer period is warranted in order to ensure a measure of rate stability.**

11.2 Please provide an overview of the size of the forecasted rate increases for the 2016-2020 period, with and without the impact of the pass-on account disposal methodology proposed by the Distributor. Please comment.

**Response:**

**As an indication only and subject to possible changes to some parameters and/or factors in the coming years, the projected rate increases, based on the proposed pass-on account disposal methodology, would be 3.9% in 2015, in the order of 3% for the years 2016 and 2017, and in the order of 2% for the years 2018 to 2020.**

**With the current pass-on account disposal methodology, the forecasted rate increases would be 7.6% in 2015, less than 0.5% in 2016 and 2017, and in the order of 2.5% in 2018 to 2020.**

11.3 Please present, in tabular form, the rate impact for each of the years 2015 to 2020 of the current pass-on account disposal methodology compared with that proposed by the Distributor in this rate case. Please present the following information separately:

- The amortization expense, distinctly, for the 2013 and 2014 pass-on accounts on an annual and cumulative basis;
- Interest on the 2013 and 2014 pass-on accounts on an annual and cumulative basis, using the rate base rate (7.102%).

Please provide the Excel spreadsheet.

**Response:**

**Table R-11.3 shows the impact on the amortization expense and on the return on the rate base of the current and proposed methodologies for disposal of the 2013 and 2014 pass-on account balances.**

**Table R-11.3**
**Rate impact of current and proposed methodologies for disposal of pass-on balance**

| | | Forecasted balance at 2014/12/31 | Forecasted balance at 31/12/2015 | Transferred to revenue | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
| **Current methodology** | | | | | | | | | | |
| 2013 pass-on | | 54.9 | | 54.9 | | | | | | 54.9 |
| 2014 pass-on | | 325.1 | | 325.1 | | | | | | 325.1 |
| | | | | 380.0 | - | - | - | - | - | 380.0 |
| **Proposed methodology** | | | | | | | | | | |
| 2013 pass-on | Amortization | | 58.8 | - | 11.8 | 11.8 | 11.8 | 11.8 | 11.8 | 58.8 |
| | Return on rate base | | | - | 3.3 | 2.5 | 1.7 | 0.8 | - | 8.4 |
| 2014 pass-on | Amortization | | 348.2 | - | 69.6 | 69.6 | 69.6 | 69.6 | 69.6 | 348.2 |
| | Return on rate base | | | - | 19.8 | 14.8 | 9.9 | 4.9 | - | 49.5 |
| | | | | - | 104.5 | 98.7 | 93.0 | 87.2 | 81.4 | 464.8 |
| **Rate impact** | | | | | | | | | | |
| 2013 pass-on | Amortization | | | (54.9) | 11.8 | 11.8 | 11.8 | 11.8 | 11.8 | 3.9 |
| | Return on rate base | | | | 3.3 | 2.5 | 1.7 | 0.8 | - | 8.4 |
| 2014 pass-on | Amortization | | | (325.1) | 69.6 | 69.6 | 69.6 | 69.6 | 69.6 | 23.1 |
| | Return on rate base | | | | 19.8 | 14.8 | 9.9 | 4.9 | - | 49.5 |
| | | | | (380.0) | 104.5 | 98.7 | 93.0 | 87.2 | 81.4 | 84.8 |

11.4 Please present, in tabular form, the rate impact for each of the years 2015 to 2020 of the pass-on account disposal methodology proposed by the Distributor (5-year amortization starting in 2016), compared with 3-year amortization starting in 2016. Please present the following information separately:

- The amortization expense, distinctly, for the 2013 and 2014 pass-on accounts on an annual and cumulative basis;
- Interest on the 2013 and 2014 pass-on accounts on an annual and cumulative basis, using the rate base rate (7.102%).

Please provide the Excel spreadsheet.

**Response:**

**Table R-11.4 shows the impact on the amortization expense and on the return on the rate base of the disposal methodology for the 2013 and 2014 pass-on balances proposed by the Distributor compared with 3-year amortization starting in 2016.**

### Table R-11.4
### Rate impact of pass-on disposal methodologies
### Proposal vs disposal over 3 years ($ million)

| | | Forecasted balance at 2014/12/31 | Forecasted balance at 31/12/2015 | Transferred to revenue | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
| 2013 pass-on | | 54.9 | | | | | | | | |
| 2014 pass-on | | 325.1 | | | | | | | | |
| **Proposed methodology - 5 yr. amortization** | | | | | | | | | | |
| 2013 pass-on | Amortization | | 58.8 | - | 11.8 | 11.8 | 11.8 | 11.8 | 11.8 | 58.8 |
| | Return on rate base | | | - | 3.3 | 2.5 | 1.7 | 0.8 | - | 8.4 |
| 2014 pass-on | Amortization | | 348.2 | - | 69.6 | 69.6 | 69.6 | 69.6 | 69.6 | 348.2 |
| | Return on rate base | | | - | 19.8 | 14.8 | 9.9 | 4.9 | - | 49.5 |
| | | | | - | 104.5 | 98.7 | 93.0 | 87.2 | 81.4 | 464.8 |
| **Proposed methodology - 3 yr. amortization** | | | | | | | | | | |
| 2013 pass-on | Amortization | | 58.8 | - | 19.6 | 19.6 | 19.6 | - | - | 58.8 |
| | Return on rate base | | | - | 2.8 | 1.4 | - | - | - | 4.2 |
| 2014 pass-on | Amortization | | 348.2 | - | 116.1 | 116.1 | 116.1 | - | - | 348.2 |
| | Return on rate base | | | - | 16.5 | 8.2 | - | - | - | 24.7 |
| | | | | - | 154.9 | 145.3 | 135.7 | - | - | 435.9 |
| **Rate impact** | | | | | | | | | | |
| 2013 pass-on | Amortization | | | - | 7.8 | 7.8 | 7.8 | (11.8) | (11.8) | - |
| | Return on rate base | | | - | (0.6) | (1.1) | (1.7) | (0.8) | - | (4.2) |
| 2014 pass-on | Amortization | | | - | 46.4 | 46.4 | 46.4 | (69.6) | (69.6) | - |
| | Return on rate base | | | - | (3.3) | (6.6) | (9.9) | (4.9) | - | (24.7) |
| | | | | - | 50.4 | 46.6 | 42.7 | (87.2) | (81.4) | (28.9) |

11.5 Please present, at the same level of detail as in the table requested in question 11.3, a simulation of the impact of using the following interest rates for the years 2015 to 2020:

a. Weighted average cost of capital (7.102%);

b. Average cost of debt (6.511%);

c. Forecasted yield on Hydro-Québec 5-year bonds for 2015 test year (3.051%);

d. Projected bankers' acceptance rate (3 months) plus 25 basis point credit spread (1.607%)

e. Projected bankers' acceptance rate (3 months) plus 25 basis point credit spread plus 50-basis-point guarantee fee (2.107%).

Please provide the Excel spreadsheet.

**Response:**

Table R-11.5 shows, for the period 2015-2020, the impact on the revenue requirement of the various rates listed by the Régie.

## Table R-11.5
## Impact on revenue requirement at various interest rates ($ million)

| | | Forecasted balance at 2014/12/31 | Forecasted balance at 2015/12/31 | Transferred to revenue 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Current methodology** | | | | | | | | | | |
| 2013 pass-on | | 54.9 | | | | | | | | |
| 2014 pass-on | | 325.1 | | | | | | | | |
| **a. Proposed methodology at a rate of:** | **7.102%** | | | | | | | | | |
| 2013 pass-on | Amortization | | 58.8 | - | 11.8 | 11.8 | 11.8 | 11.8 | 11.8 | 58,8 |
| | Return on rate base | | | - | 3.3 | 2.5 | 1.7 | 0.8 | - | 8.4 |
| 2014 pass-on | Amortization | | 348.2 | - | 69.6 | 69.6 | 69.6 | 69.6 | 69.6 | 348.2 |
| | Return on rate base | | | - | 19.8 | 14.8 | 9.9 | 4.9 | - | 49.5 |
| Rate impact | | | | - | 104.5 | 98.7 | 93.0 | 87.2 | 81.4 | 464,8 |
| **b. Proposed methodology at a rate of:** | **6.511%** | | | | | | | | | |
| 2013 pass-on | Amortization | | 58.5 | - | 11.7 | 11.7 | 11.7 | 11.7 | 11.7 | 58,5 |
| | Return on rate base | | | - | 3.0 | 2.3 | 1.5 | 0.8 | - | 7.6 |
| 2014 pass-on | Amortization | | 346.3 | - | 69.3 | 69.3 | 69.3 | 69.3 | 69.3 | 346.3 |
| | Return on rate base | | | - | 18.0 | 13.5 | 9.0 | 4.5 | - | 45.1 |
| Rate impact | | | | - | 102.0 | 96.8 | 91.5 | 86.2 | 80.9 | 457,4 |
| **c. Proposed methodology at a rate of:** | **3.051%** | | | | | | | | | |
| 2013 pass-on | Amortization | | 56.6 | - | 11.3 | 11.3 | 11.3 | 11.3 | 11.3 | 56,6 |
| | Return on rate base | | | - | 1.4 | 1.0 | 0.7 | 0.3 | - | 3.5 |
| 2014 pass-on | Amortization | | 335.0 | - | 67.0 | 67.0 | 67.0 | 67.0 | 67.0 | 335.0 |
| | Return on rate base | | | - | 8.2 | 6.1 | 4.1 | 2.0 | - | 20.4 |
| Rate impact | | | | - | 87.9 | 85.5 | 83.1 | 80.7 | 78.3 | 415,5 |
| **d. Proposed methodology at a rate of:** | **1.607%** | | | | | | | | | |
| 2013 pass-on | Amortization | | 55.8 | - | 11.2 | 11.2 | 11.2 | 11.2 | 11.2 | 55,8 |
| | Return on rate base | | | - | 0.7 | 0.5 | 0.4 | 0.2 | - | 1.8 |
| 2014 pass-on | Amortization | | 330.3 | - | 66.1 | 66.1 | 66.1 | 66.1 | 66.1 | 330.3 |
| | Return on rate base | | | - | 4.2 | 3.2 | 2.1 | 1.1 | - | 10.6 |
| Rate impact | | | | - | 82.2 | 80.9 | 79.7 | 78.5 | 77.2 | 398,5 |
| **e. Proposed methodology at a rate of:** | **2.107%** | | | | | | | | | |
| 2013 pass-on | Amortization | | 56.1 | - | 11.2 | 11.2 | 11.2 | 11.2 | 11.2 | 56,1 |
| | Return on rate base | | | - | 0.9 | 0.7 | 0.5 | 0.2 | - | 2.4 |
| 2014 pass-on | Amortization | | 331.9 | - | 66.4 | 66.4 | 66.4 | 66.4 | 66.4 | 331.9 |
| | Return on rate base | | | - | 5.6 | 4.2 | 2.8 | 1.4 | - | 14.0 |
| Rate impact | | | | - | 84.1 | 82.5 | 80.9 | 79.2 | 77.6 | 404.4 |