

RÉGIE DE L'ÉNERGIE

DEMANDE DU TRANSPORTEUR RELATIVE À LA
POLITIQUE D'AJOUTS AU RÉSEAU DE TRANSPORT

DOSSIER : R-3888-2014

RÉGISSEURS : **Me LISE DUQUETTE, présidente**
 M. LAURENT PILOTTO
 Mme LOUISE PELLETIER

AUDIENCE DU 10 FÉVRIER 2015

VOLUME 8

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1 L'AN DEUX MILLE QUINZE, ce dixième (10e) jour du
2 mois de février :

3

4 PRÉLIMINAIRES

5

6 LA GREFFIÈRE :

7 Protocole d'ouverture. Audience du dix (10) février
8 deux mille quinze (2015). Dossier R-3888-2014 -
9 Audience concernant la demande du Transporteur
10 relative à la politique d'ajouts au réseau de
11 transport. Poursuite de l'audience.

12

13 PREUVE NLH

14

15 L'an deux mille quinze (2015), ce dixième (10e)
16 jour du mois de février, A COMPARU :

17

18 SEABRON ADAMSON,

19

20 LEQUEL témoigne sous la même affirmation
21 solennelle, dépose et dit :

22

23

24

25

1 CONTRE-INTERROGÉ PAR Me ÉRIC DUNBERRY

2

3 LA PRÉSIDENTE :

4 Bonjour, Maître Dunberry. Excusez-moi! L'engagement
5 était? Je me demandais si l'engagement 5, qui avait
6 été pris, si...

7 Me ANDRÉ TURMEL :

8 Je n'en ai aucune idée, parce que je n'ai pas parlé
9 à monsieur Adamson depuis hier.

10 LA PRÉSIDENTE :

11 O.K.

12 Me ANDRÉ TURMEL :

13 Et, Mr. Adamson, yesterday, there was an
14 undertaking to provide what you did consult, what
15 you did not, were you able to do that?

16 Mr. SEABRON ADAMSON :

17 A. Yes.

18 Me ANDRÉ TURMEL :

19 Okay. So if you can give the answer now, I suppose
20 that you could do it now, or later, when it is
21 ready.

22 LA PRÉSIDENTE :

23 Thank you.

24 A. Okay, let me just get to where I made the notes, so
25 I make sure I use the right document numbers.

1 LA PRÉSIDENTE :

2 Alors je voulais juste vérifier parce que ça
3 pouvait sembler pertinent au contre-interrogatoire.
4 Sinon, on va...

5 A. Okay, so the first question, I think, was about
6 English translations of HQT-4, Documents 2, 3, 4,
7 5, and 7, which I believe were the responses of HQT
8 to other intervenors' questions. I did not have
9 English translations of HQT-4, 2, 3, 4, 5, and 7.
10 And the second question, or the second part of the
11 same question was about the revised policy, dated
12 October tenth (10th), twenty fourteen (2014), is
13 that the date, I think that is the date you gave
14 me?

15 Me ÉRIC DUNBERRY :

16 October two thousand fourteen (2014).

17 A. Yes, okay. I have in my notes from what you asked
18 me October tenth (10th), but okay. I don't seem to
19 have a translated version of that, I think I
20 remember some discussion of it, but I don't
21 remember, I don't, I can't find a translated
22 version of that anyway.

23 With respect to the second set of
24 questions, which was around the English
25 translations of the HQT responses to the Régie IRs

1 Nos. 1 through 4, and I have English translations
2 of all of those.

3 Me ÉRIC DUNBERRY :

4 Thank you.

5 A. You are welcome.

6 Me ÉRIC DUNBERRY :

7 So, Madame la Présidente, avec votre permission,
8 nous poursuivons?

9 LA PRÉSIDENTE :

10 Allez-y.

11 Me ÉRIC DUNBERRY :

12 Q. **[1]** Mr. Adamson, could you please take a copy again
13 of your report, page 31, in the "Conclusions"
14 section. Item No. 7, on page 31...

15 A. Uh-huh.

16 Q. **[2]** ... is a conclusion concerning the 20-year term
17 for the calculation of the maximum allowance. When
18 I read lines 10 to 13, I understood, and please
19 correct my understanding, that your proposal would
20 apply to all point-to-point customers, correct?

21 A. Yes.

22 Q. **[3]** And would that proposal also apply to
23 industrial clients directly connected to HQT's
24 transmission network?

25 A. I haven't looked into whether those are counted as

1 point-to-point customers, so I'll plead ignorance
2 on that.

3 Q. **[4]** You don't know if industrial consumers are
4 point-to-point customers?

5 A. I haven't seen them listed as point-to-point
6 customers like in the documentation and the list of
7 point-to-point customers, but I haven't confirmed
8 that they are not somehow.

9 Q. **[5]** Would your proposal apply to the native load?

10 A. I didn't discuss that.

11 Q. **[6]** I am asking you whether your proposal would or
12 would not apply to the native load, in other words,
13 this 20-year term to be extended to a different
14 term, a longer term depending on the contracts of
15 the point-to-point customers, would that feature be
16 available for the native load, namely the
17 Distributor?

18 A. I didn't make that recommendation...

19 Q. **[7]** So your answer is no, it would not apply?

20 A. Not as I have recommended it, no.

21 (9 h 06)

22 Q. **[8]** So your proposal, essentially, is to extend the
23 maximum allowance or increase the maximum allowance
24 for point to point customers willing to enter into
25 longer term contracts in excess of twenty (20)

1 years while, at the same time, keeping the maximum
2 allowance for the native load calculated on the
3 basis of a twenty (20) year term. So these
4 allowances could be different for native load
5 customers than they would be for point-to-point
6 customers?

7 A. They could be. Remember, this is a small, this
8 could be a subset of point-to-point customers
9 entering into these long term contracts just as
10 there's a subset of point-to-point customers
11 entering into shorter than twenty (20) year
12 contracts.

13 Q. **[9]** Okay. But again, looking at the maximum
14 allowance, I understand that there is a pro rata, a
15 calculation for shorter term contract but on the
16 maximum allowance available, your proposal would
17 result in a maximum allowance shorter or lower for
18 the native load than it could be for point-to-point
19 customers.

20 A. Yes, it could be and that's based on the,
21 basically, on the revenue recognition under the
22 long term point-to-point service agreement.

23 Q. **[10]** Now...

24 A. Which also has... Sorry.

25 Q. **[11]** Go ahead.

1 A. Which also has somewhat different characteristics.

2 We heard, the other day, talking about how the
3 native load growth is kind of phased in and, well,
4 not phased in but it grows more gradually over
5 time. The point-to-point customer who signs a firm
6 contract starting in year 1 is paying the full
7 amount from year 1.

8 Q. [12] Now, the Board has ruled some time ago that
9 having a different maximum allowance for native
10 load and point-to-point customers was unduly
11 discriminatory and this is why, in fact, they
12 subjected the native load not only to the upgrade
13 policy but also to the same maximum allowance.
14 Would you find that this decision of the Board was
15 misguided?

16 Me ANDRÉ TURMEL:

17 Maybe... Objection là-dessus. Peut-être qu'on
18 pourrait préciser. Quand on dit le Board, la Régie
19 a décidé, peut-être qu'on pourrait donner l'année,
20 la décision. C'est un peu... Il y a quinze (15) ans
21 de décisions derrière la Régie, peut-être qu'on
22 pourrait dire « a décidé en telle année » ou guider
23 à une décision précise, me semble-t-il, pour qu'on
24 puisse savoir si ce que notre confrère nous dit est
25 bel et bien exact. Il me semble que moi je

1 préciserai au moins pour aider le client, pour
2 aider, pardon, le témoin à au moins contextualiser
3 la question.

4 Me ÉRIC DUNBERRY :

5 Madame la Présidente, je pense que tous dans cette
6 salle qui ont été ici, comme monsieur Adamson,
7 cette semaine et la semaine dernière savent que la
8 politique d'ajouts s'applique à la fois à la charge
9 locale et aux clients point à point et que la même
10 allocation maximale s'applique également. La
11 décision est la D-2002-95, à la page 299, les deux
12 paragraphes à droite, en haut de la page. J'ai une
13 copie, mais je n'en ai pas trente (30) alors si
14 l'objectif ici est de prendre une pause et
15 d'attendre que trente (30) copies soient
16 disponibles, je pense que ça ne serait pas
17 nécessaire, Madame la Présidente.

18 Je peux référer mais je pense que tous
19 savons que c'est la réalité telle que décrite dans
20 la décision D-2002-95.

21 LA PRÉSIDENTE :

22 Il n'y a pas de problème. Écoutez, Maître Turmel,
23 si le témoin a besoin de contexte, je pense qu'il
24 peut peut-être redemander au procureur, à ce
25 moment-là, de lui préciser mais je pense que,

1 effectivement, la référence D-2002-95 dans le cadre
2 de cette audience est connue.

3 Me ÉRIC DUNBERRY:

4 Q. **[13]** So, Mr. Adamson, I was asking you to accept a
5 fact and then I had a question. The fact is that
6 this board has ruled in a decision, D-2002-95, that
7 it would be unduly discriminatory to offer point-
8 to-point customers and/or native load customers a
9 different maximum allowance. Now, I'm asking you
10 whether your proposal, which has the effect, as you
11 recognize, of allowing point to point customers to
12 benefit from a higher maximum allowance than the
13 native load would, recognizing that native load may
14 be there forever - that's another issue that was
15 raised. Would you not find this not only
16 inconsistent with the Board policy decision but
17 also discriminatory?

18 A. Well, I do remember the discussion about the 2002-
19 95 thing so we'll build on that discussion without
20 sacrificing any more trees to photocopies.

21 (9 h 11)

22 The... clearly, what I'm discussing does involve a
23 maximum allowance that would be higher. And the
24 question to me is whether that's appropriate, you
25 say - and I'll take your word for it - that that

1 was viewed as discriminatory. I actually view it,
2 from my... from an economic perspective, it is
3 discriminatory not to recognize all the revenues
4 that the customers contracts are actually
5 guaranteed to pay. I mean, discrimination is a
6 principle, not an outcome, in my mind. And, you
7 know, you're discriminating against a customer
8 willing to sign a long-term contract, as clearly
9 some people have, who's contractually guaranteed to
10 pay, and you won't recognize all of the revenues.
11 As I illustrated in my presentation, I think that
12 kind of gets to a double payment type problem
13 which, to me, actually illustrates the problem of
14 discrimination because I view discrimination as
15 a... as whether you're getting comparable treatment
16 based on the circumstances, not just an outcome.

17 Q. **[14]** So, if I understand your answer, it is your
18 view that when this Board decided twice, in fact,
19 that the same maximum allowance was to apply to
20 both native load and point-to-point customers, this
21 Board entered into a discriminatory mode and, in
22 fact, sanctioned a discriminatory policy. Is
23 that...

24 A. Well, for...

25 Q. **[15]** ... your view that this Board actually created

1 a discriminatory environment for your clients, such
2 as NLH...

3 A. Well...

4 Q. **[16]** ... even though the native load might be there
5 for a long, long time?

6 A. The native load may be there for a long, long time.
7 It also comes in quite gradually, as we've heard.
8 So, there is a question on all these methodologies
9 that are based on levelized costs of what's fair
10 treatment of existing versus older. None of these
11 terms are tied, as far as I can see, to you know
12 actual links of the assets to be put in place,
13 depreciation policies, analysis of how long these
14 things are going to be useful. These are just
15 numbers. So, the... having a longer term for
16 people... for the probably relatively small set of
17 point-to-point customers willing to enter into
18 longer-term contracts, to have all that revenue
19 recognized, to me, seems sensible because it just
20 ties costs and revenues. And it would be
21 discriminatory to me not to put that in there.
22 Perhaps the Board in the past has felt differently
23 and perhaps the Board now feels differently. I'm
24 not... obviously, I can only offer my opinion.

25 Q. **[17]** That's right. So, the net beneficiary of your

1 proposal, the only beneficiary of your proposal,
2 would be NLH, Hydro-Québec Production and
3 Brookfield. Correct?

4 A. Well, that assumes that they're the only future
5 point-to-point customers. I mean, if there's a
6 policy that applies to point-to-point customers, I
7 assume it would apply to all point-to-point
8 customers, not just those who are the historical
9 point-to-point customers.

10 Q. **[18]** Now, are you aware of the fact that the native
11 load and the point-to-point customers pay the same
12 tariff?

13 A. Yes.

14 Q. **[19]** So, they would pay the same tariff but they
15 would not have the ability to enjoy the same
16 maximum allowance, under your proposal.

17 A. Yes, because the contribution would be different,
18 even though the tariff is the same.

19 Q. **[20]** And you don't find that discriminatory like
20 everybody else has found it discriminatory in the
21 past?

22 A. No, I don't find that, because we're only really
23 talking about the calculation of the contribution
24 element through the maximum allowance. That doesn't
25 strike me as discriminatory at all.

1 Q. **[21]** Are you familiar with part 4 of our OATT, Mr.
2 Adamson?

3 A. Broadly.

4 Q. **[22]** Do you know whether there's an agreement
5 between Hydro-Québec TransÉnergie and the
6 Distributor with respect to the native load?

7 A. I don't know the details of that.

8 Q. **[23]** Have you reviewed any of that material?

9 A. I have looked through part 4 of the OATT as this
10 process started though, just to familiarize myself
11 with the OATT. But part 4 certainly wasn't the
12 focus of my analysis.

13 (9 h 12)

14 Q. **[24]** Thank you. That was our first topic. I'd like
15 now to ask you a different question. And that would
16 start with page 26 of your report. Llines 14 to 18,
17 we're in the annual follow-up section. And you
18 start with, at line 14, the following statement:

19 First, from the description provided and
20 responses to IRs by HQT, it is unclear that
21 this annual follow-up is actually required.

22 So is it your understanding that this annual
23 follow-up is an initiative taken by TransÉnergie,
24 and that there is actually no requirement to do an
25 annual follow-up?

- 1 A. I know there was an interest about the Régie, about
2 having an annual follow-up. What I'm saying here is
3 it seems like this is an annual follow-up task
4 that's, at least, in the last years, where the IR
5 response came in, that had always been met.
- 6 Q. **[25]** So you understand that there is an annual
7 follow-up process for certain types of commitments,
8 under 12A.2 of our tariff. Correct?
- 9 A. There's a... For some, yes.
- 10 Q. **[26]** Which ones?
- 11 A. I'm not sure I can specify all of them. I know
12 there's been a focus on having an annual follow-up
13 process.
- 14 Q. **[27]** Now, you say you're not clear as to why it's
15 required. Why are you not clear?
- 16 A. Because I wasn't clear.
- 17 Q. **[28]** Now, when you wrote that, did you try to
18 understand why an annual follow-up might be
19 required? Did you do any readings...
- 20 A. Yes. But...
- 21 Q. **[29]** ... of decisions?
- 22 A. Maybe I was not... It just wasn't really clear why,
23 under the structure, that that was a necessary
24 economic construct.
- 25 Q. **[30]** Now, your recommendation, essentially, is to

1 drop this annual follow-up process. Correct?

2 Eliminate, page 31, bullet 8: your recommendation
3 to this Board is to, essentially, forget about it,
4 eliminate any aspect of a follow-up. Is that your
5 recommendation?

6 A. Well, this is where, I think, I've actually learned
7 a lot last week, as I mentioned in my presentation.
8 We had, I gained a lot of understanding. And as I
9 think I think I said, I'll be the first to admit
10 that a lot of things are unclear. And actually,
11 until we had, to me at least, we had the
12 presentation from the HQT panel and we had the
13 whole discussion, and I got a better understanding,
14 in my mind, of the difference between the
15 transitional proposal and the final proposal. I was
16 not, did not have this clear in my mind before
17 this. And I thought that the discussion following
18 the presentation by the HQT panel kind of really
19 helped kind of clear some of that stuff up.

20 So my comment here about getting rid of
21 this, I think, is specifically around what I now
22 call the kind of transitional proposal with the
23 complementary repayment feature.

24 Q. **[31]** Now, I'm looking at your PowerPoint
25 presentation, and this was done yesterday; so this

1 was done after you had this additional
2 understanding coming from Hydro-Québec's
3 presentation, as you say. But your recommendation
4 yesterday to the Board is to reject revenue pooling
5 mechanism for annual follow-up policy.

6 A. Yes. I think...

7 Q. **[32]** In your... The question's coming. In your
8 report, I think, you went a bit beyond that. And if
9 I look at the conclusion, again, is to eliminate
10 any aspect of the follow-up. And I can read...

11 A. Yes.

12 Q. **[33]** ... the rest of these lines. So I just want to
13 be clear. It's my turn to be clear as to what
14 you're recommending. Are you, yes or no,
15 recommending that there would not be an annual
16 follow-up for the commitments under 12A.2 i)? Is
17 that your recommendation?

18 A. I now understand that you're talking about a
19 permanent annual follow-up mechanism that's... So
20 there was a transitional one, and there was the
21 final in-state mechanism, let's call it that,
22 perhaps.

23 Q. **[34]** Now, are you suggesting that the permanent
24 regime be abolished; in other words, that there
25 wouldn't be any annual follow-up for the 12A.2 i)

1 commitments...

2 A. I'm...

3 Q. [35] ... once the transition is over. Is that your
4 recommendation?

5 (9 h 23)

6 A. Let's start with the final one, and then come back.
7 So my understanding of the final is that you have
8 annual follow-up of the commitments, and that, that
9 will be represented... I mean, those will be, the
10 need for those will explicitly tie, in agreements,
11 the revenues to annualized costs to the extent... I
12 think that's fine, with the caveat I mentioned
13 yesterday. One of the questions is where you have
14 these mechanisms, you need to tie marginal revenues
15 to marginal costs, and not aggregate revenues to
16 costs. Aggregate revenues to costs doesn't really
17 generate necessarily any new income. So, having an
18 aggregation in your annual permanent regime, I
19 think, is actually problematic. I think it doesn't
20 achieve the kind of actual objective. I suspect
21 that the problems will be less because the
22 transmission agreements may specifically say "There
23 shall be revenue of X year", of how it was
24 described, so maybe there will be less of a
25 problem.

1 But I still think that the aggregation of
2 all revenues, from all point-to-point contracts,
3 against incremental costs, it just doesn't really
4 work. So that's the final thing. And I agree, that
5 will be annualized, and if that's what is decided
6 is needed, that's what is needed, but you need to
7 have a design for it that works. Before that, there
8 was a transitional one.

9 Q. [36] Now, Mr. Adamson, my first question was
10 whether you understood why an annual follow-up
11 proposal was made, and I understood perhaps, but
12 please confirm, that now you understand that a
13 requirement was made by the Board for an annual
14 follow-up. Correct?

15 A. Yes. Well, I certainly understand there was an
16 interest for it. I don't know that I understood
17 that it was an absolute requirement. But that I
18 certainly knew there was a need to develop a
19 proposal for annual follow-up.

20 Q. [37] Okay. Now, in your PowerPoint presentation
21 yesterday, on page 1 or 2, there is a list of
22 objectives, or policy objectives, on page 2. One
23 element that we do not see there, and in fact that
24 we do not find in your report, is the concept of
25 rate neutrality. Correct? We don't find these

1 words, or this concept, in your report, nor in your
2 PowerPoint presentation. Am I correct?

3 A. You do not find those... You do not find the term
4 "rate neutrality", no.

5 Q. **[38]** Have you reviewed the Board's decision... I
6 think the answer is no, based on your previous
7 testimony yesterday, but I understood that you were
8 not provided with previous copies of the Board's
9 decision, so you have not read the Board's
10 decisions concerning this concept of rate
11 neutrality, Mr. Adamson?

12 A. I'm not sure I remember which ones those were, so,
13 as I said, I had only reviewed a small number. But
14 I don't know the numbers you're talking about,
15 so...

16 Q. **[39]** Well, do you recall reading a decision
17 referring to the concept of rate neutrality,
18 Mr. Adamson? Do you recall that?

19 A. I think we discussed that last week?

20 Q. **[40]** No. I mean when you prepared your report.

21 A. When I prepared my report? No.

22 Q. **[41]** Okay. So you're not familiar with the Board's
23 concept of rate neutrality and how it was defined.
24 It would... It's not something you've reviewed.

25 A. Well, I think we discussed that last week.

1 Q. **[42]** I know, but for the purposes of preparing your
2 report, you did not review that concept.

3 A. No.

4 Q. **[43]** Thank you. I'd like now to go back to a place
5 we've been before. FERC Order 1000, Mr. Adamson.
6 Could you please take a copy of your... your copy
7 of FERC Order 1000?

8 A. You mean the...

9 Q. **[44]** The Order...

10 A. ... excerpted thing...

11 Q. **[45]** Yes. Yes.

12 A. ... you gave me yesterday.

13 Q. **[46]** Yes. Please.

14 A. Okay. I have that.

15 Q. **[47]** The Order number 1000, and I'd like to invite
16 you to join me at paragraph 503. So, as you know,
17 FERC sometimes is seized with very specific
18 questions asked by interveners and, in this case,
19 it was Northern Tier Transmission Group. So on
20 paragraph 503, this is what FERC says:

21 In response to Northern Tier
22 Transmission Group's concern that
23 applying the new cost allocation
24 requirements to existing transmission
25 projects covered by existing tariff-

1 based and contract-based cost
2 allocation procedures will shift costs
3 and create unnecessary burdens, we
4 clarify...

5 So that's FERC,

6 ... we clarify that the cost
7 allocation requirements of this Final
8 Rule apply only to new transmission
9 facilities selected in regional
10 transmission plans for purposes of
11 cost allocation.

12 This is your understanding as well of FERC's
13 application, correct?

14 A. Yes.

15 (9 h 30)

16 Q. **[48]** Okay. Now, if we go to paragraph 539, not far
17 from there, you can read all of it, but my question
18 really focuses on another statement of FERC that
19 you find four lines to the end, where FERC says,
20 and I quote:

21 Our cost allocation reforms are tied to our
22 transmission planning reforms...

23 I assume this is as well your understanding of
24 FERC's position that this new cost allocation
25 methodology, which is, as you call it in your

1 report, a benefit-based cost allocation
2 methodology, is in fact tied to firms' reform
3 concerning transmission planning as well, correct?

4 A. Well, yes, in the sense that there is, obviously,
5 they, their process defines it. You have this
6 efficiently developed plan with stakeholder inputs,
7 and those are the ones that are relevant for cost
8 allocation...

9 Q. **[49]** But my point is that they are connected, in
10 other words, this cost allocation methodology is
11 tied to something else, they come together, and
12 that something else is FERC's transmission planning
13 reform as described in FERC Order 890 and 1000,
14 correct?

15 A. Yes, they are clearly tied. My objective was not to
16 obviously insinuate that all these things get
17 pasted in, it was simply to say that there is cost
18 allocation ideas and concepts here that are worth
19 looking at. But, yes, these are clearly, Order 1000
20 builds off 890 and a bunch of other stuff.

21 Q. **[50]** And then, FERC continues, so it is,
22 ... tied to our transmission planning
23 reforms, which require that, to be
24 eligible for regional cost
25 allocation...

1 this is this so called benefits based cost
2 allocation,
3 ... a proposed new transmission
4 facility first must be selected in a
5 regional transmission plan for
6 purposes of cost allocation, which
7 depends on a full assessment by a
8 broad range of regional stakeholders
9 of the benefits accruing from
10 transmission facilities planned
11 according to the reformed transmission
12 planning processes.

13 I assume that this is also your understanding on
14 how things would work under that order, correct?

15 A. Yes.

16 Q. **[51]** I would like now to read with you one last
17 paragraph, 552, page 402. And there, the Board, the
18 FERC says,

19 552. The Commission stated in the
20 Proposed Rule that with regard to a
21 new transmission facility that is
22 located entirely within one
23 transmission owner's service
24 territory, a transmission owner may
25 not unilaterally invoke the regional

1 cost allocation method to require the
2 allocation of the costs of a new
3 transmission facility to other
4 entities in its transmission planning
5 region.

6 Would you also agree that is, this is also your
7 understanding on the scope and application of FERC
8 Order 1000?

9 A. Yes. And you should follow with the "However...",
10 which is also part of the process...

11 Q. **[52]** Sure, let's read, let's read that, if you
12 want.

13 A. However, if the regional transmission
14 planning process determines that a new
15 facility located solely within...

16 sorry, I am probably speaking too fast for the
17 translator, I will start again,

18 However, if the regional transmission
19 planning process determines that a new
20 facility located solely within a
21 transmission owner's service territory
22 would provide benefits to others in
23 the region, allocating the facility's
24 costs according to that region's
25 regional cost allocation method or

1 methods would be permitted.

2 Q. [53] So there is no prohibition, that is what you
3 mean, there is no prohibition?

4 A. Yes, there's...

5 Q. [54] "Would be permitted" means it is not
6 prohibited?

7 A. "Would be permitted" sounds like it means it would
8 not be prohibited. I think we are all kind of
9 agreeing about the same general thing, which is
10 that, you know, directly, this exactly does not
11 mirror image into the system here.

12 Q. [55] Now I would like to get back to madame
13 LaFleur's statement of yesterday, that you have
14 already, it is, as you remember, question 22.

15 A. Can you give me the page number?

16 Q. [56] Yes, it is page 12, question 22 of madame
17 LaFleur, the Chairman of FERC. So now, after
18 reviewed together, Mr. Adamson, some of the actual
19 wording of Order 1000, and it is always good to go
20 back to the actual wording, I would like to re-read
21 a few lines of that declaration that we read
22 yesterday -- actually, not a declaration but a
23 written answer to a Federal Commission. So again,
24 this is what madame Fleury said,

25 More recently, in Order Nos. 890 and

1 1000, the Commission adopted cost
2 allocation requirements for
3 transmission facilities that are
4 identified in a regional transmission
5 planning process as needed to meet
6 reliability requirements, provide
7 economic benefits, or address
8 transmission needs driven by public
9 policy requirements enacted by
10 federal, state or local governmental
11 authorities.

12 So do you agree with me that this is a fair
13 description of what is intended here by Orders 890
14 and 1000 based on what you and I have reviewed
15 together? Would you agree that...

16 A. I mean, it's a fair description of that part.

17 (9 h 35)

18 Q. **[57]** Yes, thank you. Now "Notably, these types of
19 transmission facilities..." now, these types of
20 transmission facilities, Mr. Adamson, that refers
21 to the previous paragraph which has identified
22 those facilities as being those identified in a
23 regional transmission planning process and we know
24 now in a plan as well, correct?

25 A. Uh, huh.

1 Q. **[58]** These are the transmission facilities she's
2 referring to, correct?

3 A. Yes.

4 Q. **[59]** Okay. "... are not driven by a specific
5 service request." So we're not talking here about
6 transmission facilities that are triggered by a
7 service request, correct?

8 A. Yes, and as we discussed, I think, or as I
9 discussed at some length yesterday, on an
10 integrated system, you have expansion of the system
11 and you still have a transmission service request
12 which creates the right to use those facilities in
13 a contractual relationship. Those two things are
14 very interrelated, they're not separable because
15 we're talking about a single transmission system
16 but, yes, these things that are in the plan do not
17 explicitly, just because it's put in a plan, it
18 does not tie it to anyone's specific transmission
19 service request.

20 Q. **[60]** Now, yesterday, you agreed with me that the
21 policy that is being discussed in this room, HQT's
22 upgrade policy, only applies to load growth
23 projects triggered by a customer's request. You
24 understand that surely?

25 A. Yes and as we also discussed, and I don't remember

1 if it was yesterday or last week, you have the
2 unusual system, relatively unusual system of having
3 native load make these upgrade requests and...

4 Q. **[61]** And... Yes? Sorry.

5 A. So I'm, you know, to the extent you're looking for
6 concepts on how to improve cost allocation, clearly
7 you're going to have to adapt because you do have
8 those peculiarities of your existing rules.

9 Q. **[62]** Now, madame LaFleur continues by saying "To
10 address these types of facilities..." so we're
11 always talking about these facilities covered by a
12 plan that are not triggered by a service request,
13 "... I supported adopting the cost allocation
14 principles of Order No. 1000" and that's the
15 chairman of FERC that says that, correct? You don't
16 disagree with that statement, Mr. Adamson?

17 A. I assume she supported adopting the cost allocation
18 principles.

19 Q. **[63]** For these facilities, those she's describing,
20 correct?

21 A. Yes.

22 Q. **[64]** Okay. And then she ends by saying "while
23 giving each region the flexibility to design its
24 own cost allocation". Surely you recognize that
25 discretion that boards may have as well, correct?

1 A. Well, this was the flexibility to transmission
2 owners in the U.S. and those regions is, I assume,
3 what she's referring to here. I mean, those were
4 the people who had to...

5 Q. [65] Yes.

6 A. ... comply with this order.

7 Q. [66] Now, all this, Mr. Adamson, is driven - this
8 is line 4 - "by public policy requirements enacted
9 by federal, state or local governmental
10 authorities" in the U.S., correct? It's driven by
11 U.S. public policies at the federal or at the state
12 level?

13 A. Wait, where are you?

14 Q. [67] Line 4 "driven by public policy requirements
15 enacted by federal, state or local governmental
16 authorities". This is driven by public policies in
17 the United States at these various governmental
18 levels, correct?

19 A. Well, once again...

20 Q. [68] You will agree with that statement too?

21 A. I think you're reading part of a sentence here.

22 "More recently, da, da, da... transmission..."

23 ...adopted cost allocation

24 requirements for transmission

25 facilities that are identified in a

1 regional transmission planning process
2 as needed to meet reliability
3 requirements, provide economic
4 benefits, or address needs driven by
5 public policy requirements enacted by
6 federal, state or local governmental
7 authorities.

8 It seems like there's a couple of things in that
9 list there.

10 Q. **[69]** Okay. But would you dispute the fact that this
11 reform in the United States is driven by public
12 policies in the United States?

13 A. Well, FERC is a federal agency and, as I said
14 yesterday, I think it's blindingly obvious that
15 FERC's actions are designed to focus on benefits to
16 the industry and the citizens of the United States.

17 Q. **[70]** Okay. Now, I would like to go back to your
18 conclusion, it's on page 15. I think it wraps up
19 your thinking on this. So you end this analysis of
20 FERC 1000 by saying, on page 15 "In summary...",
21 line 3. Page 15, line 3,

22 In summary, Order 1000 and its
23 subsequent FERC compliance orders have
24 changed the very nature of
25 transmission upgrade policy in the

1 United States, and the relationship
2 between the transmission-owning
3 utility and its transmission
4 customers. These changes have
5 important lessons for Québec.

6 (9 h 41)

7 Now, the reference made here to the relationship
8 between transmission-owning utilities and
9 transmission customers is, I believe, a reference
10 to the terms and conditions that we find in the
11 OATT of that utility.

12 A. Well, when I talk about transmission customers
13 here, I mean, this is broadly all the users of the
14 transmission system.

15 Q. [71] You're not referring to the terms and
16 conditions that, for instance, in Québec would
17 govern the relationship between Hydro-Québec and
18 its point-to-point customers such as Brookfield and
19 NLH, at a local level.

20 A. No, I think you're reading something pretty
21 specific here. I mean, to me, this is the...
22 talking broadly about the transmission utility and
23 the, you know, final beneficiaries of the
24 transmission system. Obviously, I think, in the
25 U.S. context, given its implementation, Order 1000,

1 obviously, has had very important impacts on the
2 transmission customer relationships more
3 specifically as well. I you want to give... if you
4 want to try to give my sentence a very specif
5 reading, I think my kind of summing up sentence
6 here was pretty broad, but if you want to give it a
7 specific reading, I think a specific reading
8 applies as well.

9 Q. **[72]** Alright. So, you're suggesting... are you
10 suggesting that Order 1000 has changed the very
11 nature of the relationship between the transmission
12 owning utility and its local customers? Is that the
13 interpretation we should hear? Are you suggesting
14 that Order 1000, which we all know deals with
15 regional and interregional planning processes...

16 A. Hmm, hmm.

17 Q. **[73]** ... has changed the very nature of the
18 relationship between, let's say, a company such as
19 HQT and its customers, such as Brookfield and NLH,
20 at that local level?

21 A. When you mean "local level", you mean...

22 Q. **[74]** I mean the relationship is governed by the
23 OATT. Are you suggesting that Order 1000 has
24 changed the very nature of the terms and conditions
25 that govern the relationship between the equivalent

1 of TransÉnergie in the United States and its
2 customers, its point-to-point customers, such as
3 NLH?

4 A. It has changed the relationship with its point-to-
5 point customers. Go look at the OATTs. Go look at
6 the filed OATTs and you'll see that now, for
7 example, the point-to-point customers have the
8 ability to engage in a process that they did not or
9 wouldn't have the ability to engage in before.

10 Q. **[75]** Yesterday, I told you that we have reviewed
11 the compliance filings, and there are no changes to
12 the OATT with respect to the very nature of the
13 relationship between the utility and its customers
14 for point-to-point service requests. It's still
15 governed by the same OATTs. For point-to-point
16 service request, how you deal with them, NLH files
17 a demand...

18 A. Hmm, hmm.

19 Q. **[76]** ... there is an analysis of that demand; there
20 might be an upgrade, which is the result of a
21 study, any of that has not changed. Correct?

22 A. No, those parts haven't changed but there's now
23 this process for determining if there's an
24 efficient expansion plan to which stakeholders can
25 propose projects and which can be then allocated,

1 which then improve the transfer capability of the
2 system, which obviously then affects the ability of
3 people to secure point-to-point service, or other
4 service.

5 Q. [77] Mr. Adamson, we just saw Madam LaFleur,
6 chairman of FERC, saying that all of this does not
7 apply to facilities triggered by service requests.
8 It does not apply in the United States to
9 transmission facilities driven by a specific
10 service request. How can you say seriously that
11 this has changed the very nature of the
12 relationship between a company and a customer at a
13 local level for a facility that is the result of a
14 specific customer request, when everything we have
15 read, including FERC's chairman declaration to the
16 Federal Bureau of Energy, is to effect that it does
17 not apply to facilities triggered by a service
18 request.

19 (9 h 47)

20 A. I think we're talking in circles but I'll give you
21 my understanding; you're going to agree with it or
22 just... I'll give you my big picture and you can
23 agree with it or disagree with it. If you have a
24 transmission service request, like a part 2
25 transmission service request, right, you may have

1 facilities. Okay? I agree, those are not part of
2 the cost allocation plan. However, the ability to
3 get point-to-point transmission service or any
4 other transmission service is conditioned on the
5 amount of transmission that has been added to the
6 system as a whole. It... whether there are new
7 point-to-point transmission facilities required
8 depends on the transmission system that has been
9 expanded. I think that's a reasonable predicate.
10 They Order 1000 processes say, "Everyone gets to
11 participate in helping identify project to expand
12 the system that therefore make new, or may make new
13 capacity, or may may not, may not make new capacity
14 available that would allow point-to-point service,
15 native load service, whatever other service. To me,
16 it's a single transmission system. I agree with you
17 that, for specific facility, transmission
18 facilities identified under the transmission
19 service requests, those aren't eligible for cost
20 allocation. But remember, usually, you're talking
21 about in an integrated system; if you're talking
22 about large projects, you've got expansion that
23 allows all different, lots of different
24 transmission service requests, or increase native
25 load use of the same facilities, which can be cost

1 allocated. It's all part of the same, part and
2 parcel of the same process.

3 Q. **[78]** Mr. Adamson, thank you. I hear what you said.
4 Page 4 of your PowerPoint presentation. That slide
5 refers to lessons that we can learn from the
6 American experience. The second bullet refers to
7 transmission grids that are integrated. Is it your
8 understanding that Hydro-Québec's transmission grid
9 is integrated?

10 A. In the sense that I'm using here? Yes. Because it
11 does form one single transmission system within
12 itself. I'm talking about a transmission system
13 that does not consist entirely of individual lines
14 within Québec. If there was no integrated
15 transmission system within Québec, I don't think we
16 would be here.

17 Q. **[79]** So the notion, here, of transmission grids
18 being integrated, is not a reference to an
19 integration of the... Well, is it? Well, first of
20 all, what kind of interconnections do we have with
21 the other interconnections? Do you know?

22 A. Generally, I think you have HVDC connections to
23 Ontario and the U.S. connections.

24 Q. **[80]** So we're not synchronized?

25 A. And those would be asynchronous. I think it's that.

1 Q. **[81]** So we're not synchronized with the other
2 interconnections, we're not integrated in that
3 sense, like in the U.S., where you have multiple
4 transmission utilities all synchronized. Here, we
5 have this interconnection. You understand that HQT
6 is, and of itself, an interconnection?

7 A. Yes.

8 Q. **[82]** All right. And that interconnection is not
9 integrated, in the sense that it's not synchronized
10 with American or other Canadian utilities. Correct?

11 A. Yes. I don't know about all the other Canadian, the
12 interactions between Québec and all the other
13 Canadian interconnections. I won't speak to those.

14 Q. **[83]** You don't know if they're synchronized or not?

15 A. Yes. Like the connection with Labrador, I don't
16 know. Ontario, I'm pretty sure, is DC, and the U.S.
17 ones.

18 Q. **[84]** Okay. So there's no integration, per se,
19 between Hydro-Québec's transmission system and
20 American systems. There is a connection, which is a
21 DC connection, it's a DC intertie, but it's not
22 synchronized. You understand that?

23 A. I understand that. That's not, however, what bullet
24 point 2 was trying to convey.

25 Q. **[85]** I'm just clarifying here. On page 11 of your

1 PowerPoint presentation, there is a, we see these
2 three blocks, and the second block, you have a
3 maximum allowance of five ninety-eight (5,96) and a
4 contribution of two o two (202), and the third
5 block, you have a contribution of two o two (202),
6 and a maximum allowance of seven seventy-two
7 dollars per kilowatt (\$7.72/kW), and that seven
8 seventy-two dollars per kilowatt (\$7.72/kW), I
9 assume, is the result of the calculation of a
10 maximum allowance over forty (40) years. Correct?

11 A. Yes.

12 (9 h 53)

13 Q. **[86]** Now, are you under the impression that, under
14 our proposal, the contribution would remain at two
15 hundred and two dollars per kilowatt (\$202/kW),
16 even though the upgrade cost is only eight hundred
17 dollars per kilowatt (\$800/kW)? In other words, are
18 you suggesting that the contribution would not be
19 reduced to twenty-eight kilowatts (28 kW), to total
20 eight hundred kilowatts (800 kW), if the maximum
21 allowance was increased to seven seventy-two
22 dollars a kilowatt (\$772/kW)?

23 A. Sorry, I think you... you meant to say that the
24 contribution would have been reduced to twenty-
25 eight dollars per kilowatt (\$28/kW)?

- 1 Q. **[87]** Yes.
- 2 A. Yes, and that would be fine, if the maximum
3 allowance was set to seven seventy-two (772). The
4 point of the little chart was to show that at...
5 When the contribution is calculated at five ninety-
6 eight (598), that you're over... that the point-to-
7 point customer is overpaying. So if the
8 contribution was reduced, that would be... that
9 would be appropriate.
- 10 Q. **[88]** So the third block really doesn't represent
11 the reality. The reality is the contribution would
12 be reduced to twenty dollars a kilowatt (\$20/kW).
- 13 A. Yes. The contribution would be reduced to twenty
14 (20)...
- 15 Q. **[89]** To twenty-eight dollars (\$28).
- 16 A. Twenty-eight dollars per kilowatt (\$28/kW), if the
17 maximum allowance was set to seven seventy-two
18 (772).
- 19 Q. **[90]** On page 12, transitional proposal, are you
20 under the understanding that the complementary
21 reimbursement would apply to all future projects?
- 22 A. No. My understanding is, is that they were for
23 the... I believe there were six in the famous
24 appendix 2.
- 25 Q. **[91]** Now, is it your understanding that there is a

1 carry-over feature of surpluses going forward in a
2 permanent regime for this follow-up, annual follow-
3 up? That surpluses could be carried forward to, as
4 you say here, pay down the mortgage for future
5 projects.

6 A. Sorry. Your question is about the final state
7 proposal?

8 Q. **[92]** Yes.

9 A. Not the transitional state proposal.

10 Q. **[93]** The transitional...

11 A. I think we got a lot of confusion, the other day,
12 'cause we weren't sure...

13 Q. **[94]** The regime, the permanent regime.

14 A. The permanent regime, my understanding was, would
15 not have the pay-down-the-mortgage feature.

16 Q. **[95]** Okay.

17 A. As I understood it.

18 Q. **[96]** Madame la Présidente, je prendrais peut-être
19 une minute ou deux, vérifier...

20 LA PRÉSIDENTE :

21 Pas de problème.

22 Me ÉRIC DUNBERRY :

23 Alors Madame la Présidente, nous terminons ici,
24 dans le délai, à quatre minutes (4 min) du délai,
25 alors... Nous nous en tenons au temps annoncé. Nous

1 sommes de bons étudiants. Alors Madame la
2 Présidente, je vous remercie, Messieurs, Madame les
3 régisseurs, Pelletier et Pilotto. Le contre-
4 interrogatoire est terminé.

5 LA PRÉSIDENTE :

6 Je vous remercie beaucoup.

7 Me ÉRIC DUNBERRY :

8 Est-ce que j'ai produit tous les documents, par
9 contre? Est-ce que j'ai...

10 LA PRÉSIDENTE :

11 Oui.

12 Me ÉRIC DUNBERRY :

13 Je ne pense pas avoir rien oublié, hein? Non. Ça
14 va.

15 Q. [97] Mr. Adamson, thank you.

16 A. Thank you.

17 LA PRÉSIDENTE :

18 Alors, merci beaucoup. Bonjour.

19 Me STÉPHANIE LUSSIER :

20 Bonjour, Madame la Présidente. Stéphanie Lussier
21 pour l'ACEF de l'Outaouais. Simplement une question
22 d'intendance et de technicalité. Je viens de me
23 rendre compte qu'au niveau de la traduction...

24 Parce que je vois souvent les témoins ou les gens
25 qui utilisent la traduction, mettre et enlever leur

1 casque, selon que la question leur est posée en
2 anglais ou en français. Pour faciliter la vie à
3 tous, il y a des canaux. Le 5 c'est en anglais, le
4 6 c'est en français. Donc, plus besoin d'enlever
5 son casque. On peut avoir vraiment tout... Vous
6 voyez? Vous voyez?

7 A. Ah!

8 Q. **[98]** On peut avoir... You can keep your headset on.

9 A. Okay.

10 Q. **[99]** And by switching from 5 to 6, on...

11 A. Yes.

12 Q. **[100]** Now I'm listening to the translation. So on
13 one side you have the green button?

14 A. Hum, hum?

15 Q. **[101]** Which is the volume.

16 A. Yes.

17 Q. **[102]** On the other side, the blue?

18 A. Yes yes.

19 Q. **[103]** You just have to switch.

20 A. I got that. Okay. Thank you.

21 LA PRÉSIDENTE :

22 Merci beaucoup, Maître Lussier.

23 A. I was only trying to get away from... If you're not
24 on the right... If you're not on one of the
25 channels that's being used, you get this horrible

1 static.

2 Q. **[104]** Alors, c'est maintenant au tour du contre-
3 interrogatoire de la Régie. Maître Legault?

4 INTERROGÉ PAR Me LOUIS LEGAULT :

5 Quelques questions, Madame la Présidente.

6 (9 h 59)

7 Q. **[105]** Good morning, Mr. Adamson. We'll essentially
8 be revisiting some of the stuff, to use the word,
9 you've been using for a few days, that was dealt
10 with in the past two days, and some of the things
11 you probably already answered, but the questions
12 will come from another angle, we have been trying
13 to get more clarification on what your position is.
14 In your written evidence, on page 23, line 19, 20,
15 you don't really have to go to it, but you state,

16 In the U.S. such cost allocation based
17 on benefits is now the law...

18 Are you aware, is it of your knowledge that this
19 methodology has been used, or is to be used in the
20 Northeast, in New England, in New York, PJM?

21 A. Yes, I mean, the idea of benefits-based cost
22 allocation is very broad and is not tied to either
23 RTO, what I will call RTO markets, sorry, not... to
24 use that kind of acronym meaning that Regional
25 Transmission Organizations, like PJM, ISO New

1 England, NYISO, and so on, that is quite broad and
2 is not specific to RTOs, or non-RTOs, its
3 implementation can be different between them.

4 I obviously discuss more non-RTO markets as
5 being a little more parallel, but benefits-based
6 cost allocation mechanisms first off are a general
7 order of the FERC and follow a general set of court
8 decisions which are not specific to RTOs or non-
9 RTOs.

10 With respect to the individual RTOs, the
11 RTOs already had systems for transmission
12 expansions and upgrades that had to be... that had
13 to be made compliant with these principles. PJM is
14 the one I am more familiar with than New York,
15 because I have just been involved in the PJM
16 process more, so I am probably a little more kind
17 of "au fait" with some of the details of that
18 process than the New York ones. But my
19 understanding is, you know, New York, New England,
20 and so forth, still have, have to have a method
21 that meets the requirements.

22 The RTOs obviously have some flexibility in
23 how they do it, just like everyone else does, the
24 RTOs in fact are kind of given, I think, probably a
25 little more flexibility because they are

1 independent of the, of people who are vertically
2 integrated. But, yes, they have to have mechanisms
3 that are compliant with the broad, the principles
4 for Order 1000, and stuff.

5 Q. **[106]** In your best knowledge, what benefits are
6 used to base these allocations, on what benefits do
7 they...

8 A. That is a very good question, and that was actually
9 one of the questions, you say, "Well, the benefits,
10 how do you count them, what benefits do you
11 count?", right, A, B, C, D, E, and F. I think there
12 was a general... a general sense of, well, kind of
13 a minimum, everybody said, "Well, we are at least
14 going to account the benefits of avoided costs of
15 transmission upgrades that would otherwise be
16 necessary." So we definitely, everybody, I think,
17 counted those as being part of the minimum set of
18 the benefits.

19 There is, you know, bringing forward or
20 pushing back investments that would be required to
21 meet load growth, for example, is a benefit. There
22 could be reduction in production costs -- that can
23 be a benefit, that is again a relatively
24 straightforward one.

25 You know, what is the full range of

1 benefits? Well, the full range of benefits
2 obviously can be pretty broad, there can be
3 reliability benefits, there can be other economic
4 benefits, there can be environmental benefits. I
5 know Madam Chang and her colleagues at Brattle
6 Group, for example, had published some pieces,
7 which I happen to have liked and agreed with,
8 saying, actually, you need a pretty wide range of
9 benefits. So I think I referred to a presentation
10 in my original piece that Madam Chang and her
11 Brattle Group colleagues had done on this about the
12 need for a pretty expansive view of what the
13 benefits are.

14 (10 h 05)

15 But I at the minimum start with considering
16 kind of direct avoided cost type benefits, that is
17 a kind of a minimum set. You know, operational
18 economic saving type benefits, that definitely
19 would be kind of layered on there., you know, and
20 then you can move, then you can move further into
21 environmental benefits if there are any and kind of
22 other layers of benefits.

23 Q. **[107]** Do you have an example, concrete example of a
24 project where this methodology is being used and,
25 if that's the case, could you tell us how the costs

1 have been shared?

2 A. The names of individual projects other than one I
3 happen to know about from a matter which is kind of
4 ongoing so I probably am not to discuss. For the,
5 and in the RTO markets there's already sets of
6 projects that are moving through these processes.
7 For example, in ISO, in PJM through what's called
8 the RTEP process, there's quite a number of
9 projects that will all be eligible for this. I
10 might think if you go through the process Websites
11 - or I can probably even send you a link - you can
12 kind of get the names of all the individual
13 projects but those are the ones in the kind of RTO
14 type markets. For a lot of these, you know, the
15 companies...

16 I know this seems like a long time but FERC
17 made this order in two thousand eleven (2011), the
18 companies are still putting together, have still
19 been implementing all of the compliance filings for
20 a couple of years after this because they would
21 file and sometimes FERC would say "No, that's not
22 good enough" to that process is kind of still
23 coming together. But I think if you go through the,
24 if you wanted to, say, take New York as an example,
25 you can go through the NYISO Website and you can

1 identify the projects pretty easily.

2 Q. [108] But as an expert, I don't know if you
3 overlooked or took the time to look at the
4 different projects or these filings, compliance
5 filings, or any others, is there a tendency? Are
6 megawatts used as a basis for the sharing or is it
7 another methodology that's used?

8 A. Well, if you're going to go to a full benefits
9 based sharing, you're not really going to pure
10 megawatts, right? You're having your numeraire is
11 benefits and one thing that was in that Brattle
12 presentation which again I also kind of agreed
13 with, which is, you know, identify the right
14 projects, make sure they're the right projects,
15 that they kind of meet a kind of a cost benefit
16 test, make sure they're the right ones and then
17 think about how you allocate them.

18 Typically, the mechanism for allocating
19 them, and is first off, you exclude people who
20 aren't going to get you benefits, that's really
21 important. For the people who are going to have net
22 benefits, you're going to allocate them
23 proportional to the net benefits that they would
24 receive. So you can think about mechanisms,
25 simplified mechanisms in some cases where megawatts

1 are the right metric, right?

2 In some cases, megawatts could be the right
3 way to think about it because that assumes that we
4 all kind of need the same thing just as much, I
5 need it just as much as you do and there, you know,
6 we're talking about a simple mechanism that says,
7 you know "We both need the same thing, it uses one
8 joint facility, you're going to use forty megawatts
9 (40MW), I'm going to use sixty megawatts (60MW).
10 Our benefits are proportional to our use, forty-
11 sixty (40-60), you get forty percent (40%), I get
12 sixty percent (60%)."

13 That is making the, that is transferring
14 that the capacities are the right measure of the
15 benefits. If they're the right measure of the
16 benefits, then that's a good way to do it. It's
17 just that it doesn't always work.

18 Q. **[109]** What is your opinion on Ms. Chang's, you just
19 referred to her testimony.

20 A. It's just that it doesn't always work.

21 (10 h 09)

22 Q. **[110]** What is your opinion on Ms. Chang, you just
23 referred to her testimony and to the Brattle
24 Group's position, but her testimony that
25 beneficiaries instead of "requester pays" has

1 brought more problems than solutions in the States,
2 what is your opinion on that?

3 A. Well, I tried to illustrate a chart that said
4 actually, we're actually seeing growth and
5 transmission expansion. I mean, it adds, in some
6 cases, it is right, I mean, you know, having a
7 purely mechanical system, which seems easy, may be
8 simpler, I think it kind of falls apart in the long
9 run, for the types of problems that I have
10 identified and the kind that FERC has identified.

11 Some of the systems, a lot of the RTO
12 systems, for example, have been, you know, pretty,
13 I think pretty enthusiastic applicants for this
14 approach, or adopters of this approach, because
15 they are the ones who are, they are the ones who
16 are trying to apply economics most in terms of
17 getting kind of efficient market, market-driven
18 efficiencies.

19 So, I mean, I think there is, you know,
20 there is complexity, and one nice thing here is,
21 because you are not subject, you know, Québec would
22 not be subject to FERC rules, obviously, you are
23 not subject to a whole bunch of this stuff, which
24 you could just ignore, all you have to do is pick
25 out the relevant concepts that kind of solve the

1 types of problems that you have -- I think benefit-
2 based cost allocation for some of those problems
3 could be appropriate -- and apply those.

4 And you can forget about some of the rest
5 of this stuff, a lot of the rest, some of the, a
6 lot of the rest of this stuff, and the mechanisms,
7 and these compliance filings and stuff, is driven
8 by the realities of FERC regulation, which, for
9 every type of process, is extremely complicated.

10 Q. **[111]** In his examination yesterday, Mr. Dunberry,
11 you know, put a few questions to you regarding, you
12 know, network planning and the processes linked to
13 network planning, versus rate making. And referring
14 to your written testimony, page 24, line 7 and
15 following, you had written,

16 Other economists with significant
17 experience [...] have recognized that
18 benefits-based cost allocation of
19 transmission upgrades is practical,
20 and relies fundamentally on the tools
21 and analysis [...] needed for
22 efficient transmission planning.

23 Could you tell us more about these tools you are
24 referring to, what are you referring to, are you
25 referring to load-flow analysis, dynamics studies,

1 are you referring to those types of tools used by
2 engineers to plan the system, or are you referring
3 to a whole set of other tools?

4 A. No, it is fundamentally those tools. First off,
5 that kind of builds on this paper by Bill Hogan
6 that I was quoting, and he is pretty passionate
7 about this. I was with him a couple of weeks ago in
8 Berlin, and we were discussing this in the context
9 of the German system, with people from the German
10 government.

11 The, if you are going to plan a system, and
12 I will say, I am not a transmission engineer, and
13 neither is Bill Hogan, although he knows an awful
14 lot about it, the, you have to have tools for
15 representing how the system will behave with and
16 without a change, right? I mean, you have got to
17 see how the power will flow, what the constraints
18 will be, with and without, let's say a new
19 transmission line, let's just call that, that is
20 our single-transmission investment, new line from
21 here to here.

22 Again, I am not a transmission engineer,
23 but my understanding is, there are load-flow models
24 that people use to examine how power will flow with
25 and without a change to the, with out without that

1 line, without that change to the grid, but
2 reflecting that that new line interacts with the
3 flows on all the other lines, right? There is loop
4 flows, there is changes to the network topology.
5 (10 h 14)

6 You can use those tools to, first off,
7 decide, in any context, in any planning context, do
8 I need a new line. Because I have to do that
9 somehow, right? I have to say -- I am going to
10 build a line, and it is actually going to solve a
11 problem, because I need to actually understand the
12 complexities of AC power flow over the network.
13 From that, I think Bill Hogan's comment was "If
14 you're modelling how the power system works, with
15 and without changes, that provides the basic data
16 for understanding who will benefit, what other
17 investments may not be needed for example." If I
18 make this investment, am I avoiding another
19 investment potentially three years from now that
20 would be needed for a similar purpose that might
21 not involve that exact line but might involve flows
22 in that general part of the system to another.

23 So those tools are the basic tools for
24 understanding power flows and, from that, you can
25 understand where power can flow, it also changes

1 who benefits. You can, and, by the way, you should
2 be, if you're applying that kind of a cost benefit
3 type framework, you would be using that to say
4 "Well, I'm building this line but I want to ensure
5 that the benefits to the system as a whole are
6 justified" right? It's got to solve a problem and
7 it's got to solve a problem a problem at a
8 reasonable cost, there's like a cost effectiveness
9 test at least.

10 So, you know, transmission planners, in my
11 experience and understanding, already use these
12 tools and I'm, you just need to use that
13 information to translate it into, in some cases,
14 into how to make a benefits allocation between
15 customers or groups of customers or categories of
16 customers where there are significant transmission
17 additions.

18 Q. **[112]** Again, in your written testimony, page 31,
19 there's a section 5 where you recommend that HQT
20 issue:

21 Detailed information release and
22 exchange policies that would allow
23 transmission customers and
24 stakeholders adequate detailed and
25 technical information for proposing

1 and evaluating transmission service
2 requests and projects on a comparable
3 basis.

4 Am I understanding correctly, and correct me if I'm
5 wrong, that are you here recommending that
6 stakeholders or customers do planning studies for
7 Hydro? For HQT? Is that what you are inferring?

8 A. No.

9 Q. **[113]** Or...

10 A. No, no, I don't think...

11 Q. **[114]** What are you saying here?

12 A. I don't think they're going to take over the
13 planning job. The question is can you evaluate the
14 solutions that the transmission provider puts
15 forward. It's not to supercede the planning
16 function which is obviously a centralised function
17 but the question is: is there a minimum set of
18 information so that you can understand "Oh! Okay, a
19 new line is being proposed, would that affect me?
20 Would that benefit me?" and then transmission
21 customers can understand how that a) it changes
22 their cost allocation, if it affects them; but b)
23 just understand how the transmission system
24 develops.

25 This is quite commonly done, for example,

1 by the distributors in systems in the US who want
2 to understand how changes to the power system are
3 going to affect the costs that their customers are
4 going to pay.

5 Q. **[115]** You also add that this process should
6 "include release of detailed technical models and
7 data with appropriate provisions to protect
8 security and confidentiality." Can you tell us if
9 detailed technical models are actually released in
10 other jurisdictions in the States?

11 A. Well, they don't necessarily release the models but
12 load flow cases are released, which allow
13 participants to do their own analysis. I know my
14 firm uses that basic data in order to analyse the
15 impacts of changes to the transmission system. I
16 know Brattle obviously has a whole set of people to
17 do that too, some of whom are my friends.

18 So, users of the transmission system do
19 want to understand how things are going to change,
20 also commercial users of the transmission system
21 want to understand how things are going to change -
22 if they are going to change - and there is a
23 process of releasing information which allows
24 people to do their own analysis, not duplicating
25 everything that the transmission provider does, but

1 so that people can understand. "Okay, you're
2 talking about a new project here. Maybe that's a
3 very big project.

4 (10 h 20)

5 If I was the native load customer, or the
6 representative of the native load customer, is that
7 to my benefit? Do I want that project? Am I going
8 to benefit, or am I gonna get kind of left with a
9 lot of the cost? And people where I'm from do quite
10 a bit of thinking along that regards, because if
11 you don't understand how the transmission system is
12 gonna change, you can't understand how it's going
13 to affect you and the cost that may be imposed on
14 you.

15 Q. **[116]** If I remember, in your written evidence you
16 refer to Duke Energy in Florida where this type of
17 information is being made public.

18 A. Hum, hum.

19 Q. **[117]** Are you aware if it's in other jurisdictions?
20 Is it spread, or it's limited to a few
21 jurisdictions?

22 A. Well, that was... That was just one where there was
23 an example that I could illustrate of the type of
24 information they were saying. But there is quite a
25 lot of information available from transmission

1 providers, from the RTO's already, long, predating
2 this kind of Order 1000 type process, which allows
3 people to reasonably do their own powerful model
4 analyses, to run their own simulations of how the
5 transmission system will run. A lot of that, you
6 need capacities of transmission lines, you need
7 solved load flow cases, you obviously need
8 capacities of power plants and stuff. So there is a
9 fair amount of information out there. I think the
10 question is, you know, if you're really wanting to
11 understand, bottom up, how this can change and
12 affect you, make sure that information set is
13 efficient, or otherwise your customers are unable
14 to understand what's happening. And I guess my
15 general sense is - and this is not tied to a
16 specific order - is customers with information are
17 kind of empowered customers. And that's not a bad
18 thing.

19 LA PRÉSIDENTE :

20 Maître Legault, je m'excuse de vous interrompre,
21 mais il est dix heures vingt-cinq (10 h 25). Je ne
22 sais pas si c'est un bon temps pour prendre une
23 pause ou si...

24 Me LOUIS LEGAULT :

25 Je commençais une nouvelle ligne de questions sur

1 le follow-up des commitments. Ça serait peut-être
2 un bon temps d'arrêter. Je n'en aurai pas pour bien
3 longtemps après, mais si les gens ont besoin d'une
4 pause...

5 LA PRÉSIDENTE :

6 Oui. Alors je prendrais la pause. À ce moment-là,
7 dix heures vingt-cinq (10 h 25), on reviendrait à
8 dix heures quarante (10 h 40). D'accord? Merci.

9 SUSPENSION DE L'AUDIENCE

10 REPRISE DE L'AUDIENCE

11 LA PRÉSIDENTE :

12 Rebonjour. Maître Legault?

13 Me LOUIS LEGAULT:

14 Q. **[118]** Mr. Adamson, before we left for break I
15 announced that I had a few questions, or a line of
16 questions regarding commitment follow-ups.
17 Referring to slide 12 of your PowerPoint
18 presentation, where you deal with section 12.A2 i),
19 did we understand you well when you mentioned that
20 the test for option I of section 12.A2 is done
21 in... applied once. It's a one-shot thing. At the
22 time the agreement is entered into.

23 A. Well, that's just how I read the first part of
24 12.A2 i). It said when a connection agreement is
25 executed. And then it talks about present value,

1 and present value kind of makes sense in that
2 context.

3 Q. **[119]** You also mentioned, as regards HQT's proposal
4 for a transition measure, annual tests comparing
5 all transmission service agreement revenues, and
6 then, in... les parenthèses... parentheses:

7 ... (regardless of number of megawatts
8 or relationship between these TSA's
9 and new generation projections)
10 against levelized costs with all
11 surpluses being used to offset future
12 commitments, pay down the mortgage.

13 My question to you: why that precision or that
14 comment between the parentheses?

15 A. About regardless of the number of megawatts...

16 Q. **[120]** Yes?

17 A. ... or relationship between the TSA's? Well, this
18 goes to this question of marginal revenues and
19 marginal costs. The marginal... Why, and, you know,
20 why that's important is a transmission provider, to
21 my mind, would say, "Okay. You're imposing an
22 incremental cost..." No. We'll avoid, we'll use
23 marginal costs, 'cause we've used incremental costs
24 in another context. We did... avoid duplication of
25 buzz words here. Let's say you're imposing a

1 marginal cost on the... through the transmission
2 upgrades for the... connecting up a new generator.
3 (10 h 46)

4 Let's say that, you know, this is under the
5 maximum allowance, so these are just kind of rolled
6 in costs. I mean, normally to me, just in a... from
7 a kind of basic regulatory concept the question is,
8 "Okay, we've got marginal costs. Do I have marginal
9 revenues? Not existing revenues, do I have new
10 revenues to reflect new costs?" seems to me a
11 pretty commonsensical test. When I looked at the
12 appendix 2 table, which was at the... we don't
13 necessarily need to flip there, when we looked at
14 the back of that appendix 2 that was in the back of
15 the HQT-1 document, we had revenues for sure and
16 some of those revenues kind of long, seemed to have
17 predated these projects. So, they're not
18 necessarily marginal revenues. They're just
19 revenues, which is kind of a peculiar form of a
20 test. It says, "I have revenues," but if I normally
21 sell you a product, it's not that I have sold you
22 something else in the past for which I have
23 revenues, it's, "Do I have new revenues for a new
24 product?" So, that's kind of step number 1.

25 Step number 2... point number 2 - sorry,

1 they're not steps - point number 2, the way I
2 understand how this is implemented, it says,
3 "Applicable service agreements," and appendix 2
4 will state a big set of service agreements, and
5 those, because of the kind of, you might call it
6 the pooling or the aggregation, are not
7 necessarily... don't seem to me be very tied to
8 these projects. So, again, they're not marginal to
9 these projects. This also seems to me quite
10 inconsistent with how this is done in the U.S. If
11 you look at the large generator interconnection
12 procedures in... which are part of the open access
13 tariffs in the U.S., this... that's not how this
14 mechanism works. The mechanism specifically ties
15 revenues, ties... even where... even for the part
16 that's applicable and the overall model is quite
17 different here. Even where there is a relationship
18 between service agreements and generation
19 interconnection, it specifically ties those to
20 revenues associated with that generator, not just
21 general past revenues. Because, think about it,
22 those general past revenues are also using the
23 general transmission system. Right? And the
24 transmission provider would normally want to get
25 paid to use his transmission system, which embodies

1 a very large amount of costs from the past. Other
2 users of the system who paid for that kind of want
3 to see the new generator pay for that system as
4 well.

5 So, first off, the transitional thing just
6 doesn't tie to marginal revenues to these marginal
7 costs. And b), it seems pretty substantially
8 inconsistent with how the large generation
9 interconnection procedures work in the U.S., that
10 I'm familiar with, which don't operate under this
11 model at all.

12 Q. **[121]** What is your position on the fact that
13 transmission clients could use one or more service
14 conventions, existing service conventions versus
15 new conventions, to justify covering costs... in
16 fact, for permitting the transmitter to recover
17 costs corresponding to the maximum allowance,
18 related to the hook up of a new power plant? Am I
19 clear? Or...

20 A. I'm not sure I'm understanding the first part.

21 Q. **[122]** Well, a... in the proposal from HQT...

22 A. Hmm, hmm.

23 Q. **[123]** ... a client could use past signed
24 conventions to cover the costs of hooking up new
25 generation, part of these costs being bore by the

1 transmitter and, you know, corresponding to the
2 maximum allowance. What is your position on this?

3 A. Oh! Yes. Okay. And we're talking about the kind of
4 final state proposal...

5 Q. **[124]** Yes.

6 A. ... not the transition one.

7 Q. **[125]** Yes.

8 (10 h 52)

9 A. You know, comparison of revenues and cost for the
10 kind of final state for the new ones, that can make
11 sense, as long as there's incremental marginal
12 revenue associated, in my mind, with those new
13 transmission agreements. So they need to be tied
14 to, somehow need to be tied to output from that
15 plan, so that the transmission provider gets a
16 guarantee that, okay, I'm rolling in a bunch a
17 bunch of cost for you, it's fine, you know, that's
18 how it works, but there's actually a benefit for
19 that, and that benefit comes from these new
20 transmission service agreements. So, the fact that
21 there's a tying of revenues and cost like that is
22 okay.

23 I'm less convinced it's a great idea that
24 you use all the previous existing ones, for the
25 reasons I stated. I mean, you can create... I'm not

1 saying this necessarily happens, but let's just
2 talk hypothetically again, and I think this is an
3 example I use, maybe have used yesterday.

4 I want to connect a generator. And what
5 about if I didn't have enough existing transmission
6 service agreements? I'd have, but I didn't have
7 enough. Right? If all that counts is that there's
8 revenue under my account, I could say: well, gosh,
9 I'll take on anybody transmission service
10 agreement, and pay, and use that to cover my actual
11 imposed cost. That strikes me as a really strange
12 system, with kind of pretty poor incentive
13 mechanisms.

14 Q. **[126]** Slide 15. There's no number on it, but it's
15 the second slide on the next page.

16 A. Yes. I apologize. I'm not quite sure with what
17 happened to the numbering.

18 Q. **[127]** Okay. The last bullet states: other
19 incentives exist for customers to enter into long-
20 term point- to-point agreement. Could you, and this
21 is a question, you were in the room, I had asked
22 Mr. Knecht the same question. Can you clarify what
23 you're referring to when you're talking about other
24 incentives?

25 A. Well, first, we've had that on there because we

1 had, and I was here when you asked that question at
2 Mr. Knecht, and that's kind of one of the reasons
3 this is being covered. And, you know, this whole
4 idea that, you know, we want incentives for
5 everyone to sign these long-term contracts, you
6 know, that's fine. But let's recognize that, you
7 know, there's commercial reasons to have long-term
8 contracts, if you have long lived assets,
9 particularly, you know, you don't have a system
10 where there's a multiplicity of customers to sell
11 to. Right? You kind of, so there's not like a
12 retail market or anything, where have lots and lots
13 of different customers, and I'm going to say: well,
14 if I'm not selling it to Mr. Turmel, that's okay,
15 because I can sell it to Mr. Dunberry. And if I
16 can't sell it to Mr. Dunberry, I'll sell it to Mr.
17 Verret or madam Chang, or someone. There's not a
18 multiplicity of customers here, right? So if I was
19 going to make a long-term sunk cost investment, I'd
20 want to kind of make sure that I had the ability to
21 enter into a contract with a counterparty to buy
22 the output and to, and I might need to sign a
23 contract for transmission service, so that I could
24 guarantee to that customer that I could get it
25 somewhere.

1 So for example, I mean, you know, these
2 projects, a project that was aimed at export, and
3 if I wanted to sell export power to Ontario for
4 example, I would need to be able to say to the
5 customer in Ontario, and I think he would be
6 looking for me to show that I could do that: no, I
7 got it, I did it, I got transmission and you'll get
8 it delivered to you. And so that, you know, the
9 first question is just a commercial reality on we
10 do have long lived assets, we have, you know, very
11 specific assets, not necessarily lots of
12 alternative uses; and to make commercial
13 arrangements, I may need to secure long-term
14 transmission service, because transmission service
15 is the core of my product that I can sell. I mean,
16 if I can't deliver my product to my customer, then,
17 I can't do anything.

18 (10 h 58)

19 Q. **[128]** In your testimony, I think yesterday, you
20 also spoke of the transmitter's proposal, HQT's
21 proposal, of an incentive that would in essence,
22 create a situation to promote long-term
23 conventions, but too long, conventions that would
24 be too long, would such an incentive be a bad or a
25 wrong incentive, according to you?

1 A. Well, you can have, I mean, you can have long-term
2 contracts, long-term contracts have value, I mean,
3 can have value, they can have value to the
4 transmission provider, and they can obviously have
5 value to the customers, or the customers probably
6 wouldn't sign them.

7 My worry is, do you have a system where,
8 because of these kinds of offsets, where someone
9 has the incentive to sign lots of long-term
10 transmission service agreements, tying up lots and
11 lots of capacity, knowing that you can use, use the
12 revenues and recognize the revenues against future
13 interconnection costs. So there is a value, so I am
14 almost willing to pay too much to tie up long-term
15 capacity, because I think I am getting this kind of
16 value, which may be, as I have indicated, not
17 marginal to the new generators.

18 There is a concern, and I think, I will say
19 it is just a concern, because I don't have an, I
20 certainly don't have an example of it, but from a
21 conceptual basis, I think there is a concern about,
22 does that actually give the incentive to tie up
23 transmission capacity, like export capacity, which
24 could raise, in my mind at least, kind of a market
25 foreclosure type problems, right?

1 You want the ability to people to access
2 transmission capacity, obviously, you have to
3 balance that against the fact that people need
4 long-term contracts in lots of cases, but you do
5 want there to be the right incentive for signing
6 those long-term contracts, i.e. rather than just --
7 I can tie up lots of capacity because I can use
8 credit somewhere else.

9 Q. **[129]** In your opinion, should long-term incentives
10 take precedence over economic efficiency?

11 A. Well, normally, I would hope that economic
12 efficiency would give the incentive for the right
13 long-term contracts. So I would hope, normally, I
14 mean in an abstract sense that we would start here
15 and long-term contracts would build up from there.
16 And, as I said, long-term contracts are appropriate
17 things, I am not trying to say we shouldn't have
18 long-term contracts, or long-term contracts are
19 bad, or something, long-term contracts can be good.

20 But, you know, I would say, you know, you
21 kind of start from a system that, an economic
22 system which gives the right incentives, and then
23 people can sign the long-term contracts that meet
24 their economic obligations efficiently, the right
25 way. I wouldn't hold having lots and lots of long-

1 term contracts as being -- oh! that's first, and
2 then everything else should follow. I would say --
3 actually, you know, in normal economics, we just
4 try to create the incentives, and people can sign
5 whatever economic, long-term economic contracts
6 which have benefits of, you know, securing scarce
7 resources, they can help hedge risks, I mean, there
8 is obviously huge literature on why have long-term
9 contracts.

10 But, you know, get the basic economics
11 right, and then long-term contracts, I think, will
12 come out of that, to the benefit of all sorts of
13 people.

14 Q. **[130]** Back to 12A.2 i), HQT's proposal, regarding
15 existing Transmission Service Agreements, TSAs,
16 what are your thoughts about the risks of stranded
17 costs for the transmitter in the cases where
18 upgrades to hook up new generations are not used,
19 or fully used, in the medium to long-term future?

20 A. So we are talking about new ones from now?

21 Q. **[131]** Yes.

22 A. New generation, not the six on the page and, those
23 are all sunk in. Yes, I mean, new... new generation
24 and allocation of costs between those is kind of
25 always an issue, right? You know, there are people

1 who are going to want to, you know, the worry that
2 I build assets and, I build assets and then, then
3 they become irrelevant, you know, they got rolled
4 in, but now, they are irrelevant because the plant
5 shuts down.

6 (11 h 03)

7 You know, there is always some kind of
8 problems there. I would, first comment is, I would
9 recommend that you look at the FERC large
10 generation interconnection procedures, and I think
11 it maybe gives you some ideas on how this kind of
12 thing might be handled. Because first, in the FERC
13 thing, the... under the LGIP, what they call the
14 LGIP, the generator pre-funds all this stuff in
15 toto up front and then can get refunds of the
16 rolled in part back up to a certain level over
17 certain time periods. So, that kind of reduces the
18 risk of this kind of stranded costs question. It's
19 not that there are not still potential of
20 strandable costs in some circumstances - you know,
21 I just built it and then the customer defaults.

22 You also want to think a little bit about
23 the question, and we've, and at FERC there's been
24 lots of "toing and froing" about this, about what,
25 when parts are getting rolled in, are they

1 generally useful to everybody or are they, or what
2 parts are only rolled in for the benefit... For the
3 parts on the transmission provider's side of the
4 fence, of the system, right? Because there's parts
5 that are very clearly specifically just related to
6 the generator, right on like, but the connection
7 between his plant and the low side of the
8 substation that hooks up. Okay? We call those
9 "interconnection facilities" and the generator's
10 solely responsible for those costs, right? That's
11 his problem.

12 Then there's the question of, from on the
13 transmission side of the fence, to use an analogy,
14 only an analogy, do I have to make upgrades to
15 connect things? And the answer can be yes. To have
16 even a minimal level of interconnection, the
17 transmission provider may have to make some
18 upgrades to the system to allow power to be
19 injected at that point.

20 Under the FERC LGIP, I as the new
21 generator, I pay for those too but I get a credit
22 back if there's marginal transmission revenue
23 related to my generator. And that's the kind of
24 basic functioning of the mechanism. So
25 strandability is always a problem whenever you have

1 transmission investments which are relatively
2 specific. Generally, I'd say the FERC policy has
3 been pretty much assuming that most of the stuff on
4 the transmission side of the fence benefits all
5 customers and, hence, you know, can get kind of
6 rolled in, eventually it kind of get rolled into
7 the rate.

8 So we've not had huge concerns or don't
9 have huge mechanisms around pure strandability. If
10 you had a very short term strange new generator
11 that I thought really it wasn't going to last very
12 long at all, then I think people could have real
13 concerns. Sorry, that was a very long-winded answer
14 to your rather simple question, I realise.

15 Q. **[132]** It's your answer. The next question's line of
16 question will relate to cost sharing and I would
17 have rather if I asked the question to a
18 representative of NLH but, since you are there,
19 I'll ask the question to you as an expert and,
20 essentially, what opinion you've given NLH or any
21 other point-to-point, you know, somebody who
22 generates and wants to, is a point-to-point client
23 of the transmitter.

24 First, I'll refer you to pièce B-0020 and
25 you'll probably need your headphones for a part of

1 it because I'll read it in French because that's
2 the way it is. I could always translate it while I
3 read it but...

4 A. Okay. No, no.

5 Q. **[133]** ... let's have the real... So, it was HQT's
6 response to AQCIE-CIFQ's request for information,
7 exhibit B-0020, answer R21.a at pages 18 and 19 of
8 that document. Now the question was put to HQT:

9 Please explain why it is not possible
10 or reasonable to require your future
11 beneficiaries of current period
12 investments, funded in part by current
13 period customer contributions, to
14 contribute to the cost of the upgrade
15 when they obtain the benefit
16 therefrom.

17 And the answer to that, and that's what's given in
18 French and a bit of context, line 22 and following
19 from that answer:

20 Comme indiqué à la pièce HQT-3,
21 Document 1, pages 24 et 25, certains
22 ajouts au réseau procurent des
23 bénéfices directs ou indirects à des
24 utilisateurs existants ou futurs,
25 autres que le demandeur ayant

1 déclenché l'investissement.

2 And this is the part I'll be focussing on,

3 Il est cependant raisonnable de penser
4 que ces utilisateurs seraient enclins
5 à contester toute mesure visant à leur
6 faire supporter une part des coûts des
7 ajouts non requis pour leurs besoins
8 en service de transport ou de
9 raccordements de centrales, au motif,
10 notamment qu'ils ne sont pas partie
11 prenante à la décision d'effecteur de
12 tels ajouts au réseau.

13

14 (11h 10)

15 Me ANDRÉ TURMEL :

16 Maître Legault, je ne veux pas vous interrompre. On
17 constate qu'il y a une traduction qui a été déposée
18 de ça. Ça fait que je veux vous éviter, là, de lire
19 trop longuement. Je vais juste montrer au témoin,
20 là, la...

21 Me LOUIS LEGAULT :

22 Vous n'avez pas déjà écrit les réponses, là, hein?

23 Un autre truc d'avocat.

24 Mr SEABRON ADAMSON:

25 I'm sorry. I was writing notes about what your

1 question was.

2 LA PRÉSIDENTE :

3 En théorie, il faudrait que votre question soit
4 posée.

5 Me LOUIS LEGAULT :

6 Oui, oui, mais des fois, on les devance. Allez-y.

7 Mr SEABRON ADAMSON:

8 Can I have thirty seconds (30 sec) and just read
9 the English version?

10 Me LOUIS LEGAULT :

11 Sure. No. Please go ahead.

12 Mr SEABRON ADAMSON:

13 Okay. Okay. Thank you.

14 Me LOUIS LEGAULT :

15 You've read?

16 Mr SEABRON ADAMSON:

17 I've read.

18 Me LOUIS LEGAULT :

19 Okay.

20 Mr SEABRON ADAMSON:

21 And I want to try to be clear. So... I think we've
22 had enough... I think there's two...

23 Me LOUIS LEGAULT :

24 Q. **[134]** Let me ask a question first. After. Okay.

25 'Cause your attorney can't object to something I

1 haven't asked, so... Now, putting yourself again in
2 the shoes of an expert that will be making opinions
3 or recommending to NLH, or in that matter to any
4 other company or entity that would be a client of
5 HQT's transmission service, I'd like to have your
6 opinion on the possibility of having costs incurred
7 to answer a potential rise in NLH's transmission
8 needs, thus upgrades, allocated to them, even if
9 this needs, and this need, sorry, is satisfied by
10 available capacity linked to a previous investment,
11 and by doing so, by giving me your opinion,
12 commenting on HQT's position on this issue.

13 A. So, just so I understand, because I'm trying to
14 exactly understand the question, so I'm a point-to-
15 point customer. And you say, and I've signed a
16 contract for a hundred megawatts (100 MW) point-to-
17 point for twenty (20) years, just to be, just to
18 make a hypothetical example.

19 Q. **[135]** Sure.

20 A. And you're saying or the question is saying: there
21 was a previous investment?

22 Q. **[136]** Yes.

23 A. A previous investment by others...

24 Q. **[137]** For that hundred megawatts (100 MW), there
25 would be cost incurred to answer that upgrade...

1 A. You said there is a hundred (100)... there would be
2 a hundred (100)...

3 Q. **[138]** Even if that need for a hundred megawatts
4 (100 MW) is already satisfied by available capacity
5 linked to a previous investment. That's it.

6 A. Right. And in that case, we have... So, from my
7 point-to-point a hundred megawatts (100 MW), I'm
8 paying the tariff rate, right, which is the
9 regulated tariff rate, whatever's rolled in, okay?
10 I mean, the assumption under all these systems, and
11 this isn't necessarily to do with... this long
12 predates, a lot of the kind of specific beneficiary
13 based cost allocation systems is that I'm using the
14 transmission system, and that everything that's
15 been rolled-in to the transmission system, in
16 effect, is assuming that that benefits everyone
17 equally, on a per kilowatt (/kW) basis.

18 I mean, that's kind of what roll-in
19 represents in a fact beyond an accounting construct
20 is saying: okay, I allow things to be rolled-in
21 into the transmission system, and it may be aligned
22 here, and I may live over here, and I don't really
23 care so much about what happens over here. But, you
24 know, on the nature of this integrated system, we
25 allow cost, we allow appropriate cost to be rolled-

1 in and we, and those are kind of deemed to be for
2 the benefit of everyone, right?

3 (11 h 15)

4 To the extent that I have a kind of a
5 rolled-in tariff rate, that I'm paying for my
6 point-to-point service, I'm effect paying a rate
7 which recognizes the benefits of all the costs that
8 have been kind of rolled-in. Typically, you know,
9 because you have this kind of rolled-in system, you
10 don't specifically try to go back and match for
11 every past investment, which could go back a very
12 long time, exactly what the costs are that... each
13 individual element of all the costs that got rolled
14 in. Does that answer your question?

15 Q. **[139]** Yes, I think that'll do. Let me, wait a
16 minute... No, that's all. Thanks a lot. Je n'ai pas
17 d'autres questions, Madame la Présidente.

18 LA PRÉSIDENTE :

19 Je vous remercie, Maître Legault. Monsieur Pilotto?

20 INTERROGÉ PAR LA FORMATION :

21 M. LAURENT PILOTTO:

22 Q. **[140]** Good morning, Mr. Adamson.

23 A. Good morning.

24 Q. **[141]** I have two simple questions. I hope that the
25 answer will be simple too.

1 A. I... Okay. I will try.

2 Q. **[142]** On page 25 of your report, at lines 7 to 10,
3 you said that:

4 Transmission users (...) should not be
5 allocated costs if they are not net
6 beneficiaries of a set of transmission
7 upgrades...

8 I'm just wondering, what do you mean by "net
9 beneficiaries"? Is it a... Well, go on with that.

10 A. Well, I mean, net benefits would be the benefits
11 after a potential cost allocation. Right? So, to
12 take a very quick example, there is three of us, it
13 costs... Each of us is one megawatt (1 MW) and it
14 costs three hundred dollars (\$300). Then, you know,
15 if the benefit was... Or, sorry, the benefit was
16 three hundred (300) and it costs, and there is
17 three of us, that would be a hundred dollars (\$100)
18 of benefit each if it's all even. And if the cost
19 was eighty (80), then I'd have a net benefit of
20 twenty (20).

21 So, I mean, obviously, you want to look at
22 things on a net benefit basis, because you're
23 talking about allocating costs, so you want to make
24 sure the benefits are greater than the costs.

25 Q. **[143]** Hum, hum.

1 A. I hope that's simple.

2 Q. **[144]** Okay. So it means that, exclude the fact that
3 most of users have a transmission system, will
4 benefit from any upgrades, so we don't focus on
5 those kind of users, but only the users that are
6 directly linked to the upgrade.

7 A. Well, you would have to identify who the
8 beneficiaries are. I mean, that's the linkage.

9 Q. **[145]** And my last question: in your recommendation,
10 at the end of your report and at the end of your
11 presentation... Well, let's go to your
12 presentation. The second bullet of your
13 recommendation is focussing on four major
14 transmission projects.

15 A. Hum, hum.

16 Q. **[146]** Are you suggesting that the upgrade policy
17 should separate kinds of projects, and...

18 A. I would think that as a reasonable kind of economic
19 design, if you're gonna talk about cost allocation
20 of projects, you would only allocate either ones
21 where there is a very very specific set of
22 circumstances, which are kind of like some of the
23 examples in the IR's, or where there are large
24 transmission upgrades with potentially wide-ranging
25 benefits and big costs.

1 I don't... I mean, just as a matter of
2 transaction costs, I certainly wouldn't suggest
3 that you try to have a cost allocation process for
4 every change to the transmission system that costs
5 a million dollars (\$1 M). That seems very
6 inefficient to me. Right? We want to do things...
7 You want to have the right kind of incentives, but
8 you also want to be mindful of transaction costs.

9 So I would think you would say... Or my
10 recommendation would be to say, for large scale
11 transmission projects, you identify, you know, are
12 they efficient? Is that an efficient expansion of
13 the system? Do they meet criteria for cost
14 allocation across the set of users? And go from
15 there. So I would definitely recommend having
16 criteria. I think if you... For how you... For
17 qualification for that step.

18 (11 h 21)

19 I can't say I've made a recommendation
20 about what those criteria are. My sense is we're
21 kind of at a pretty high level at this point, and I
22 think for, I'd also need to analyse in more detail
23 the types of transmission investments that are
24 being made, and stuff like that. But I would
25 definitely argue that there ought to be a set of

1 criteria for projects, and that, you know, we don't
2 have to get everything exa... It's pointless to try
3 to get everything exactly right. To me, what's
4 important is to get the big things approximately
5 right. You know, kind of the Pareto principle, the
6 eighty-twenty (80-20) rule, as we call in English.

7 So I would focus on the really big costs
8 projects that have, hopefully, big benefits, and
9 where those benefits could be broad.

10 Q. **[147]** Thank you. Je n'ai pas d'autres questions.

11 LA PRÉSIDENTE :

12 Merci. Madame Pelletier?

13 MME LOUISE PELLETIER :

14 Non. Pas de questions.

15 LA PRÉSIDENTE :

16 Pas de questions? J'ai quelques questions.

17 Q. **[148]** And I will follow on the last question maître
18 Legault asked.

19 A. Hum, hum.

20 Q. **[149]** And I will ask you to take your presentation,
21 slide 9, which is the famous example of the waiting
22 game.

23 A. Yes.

24 Q. **[150]** And, just to have numbers, I like to have
25 numbers. Just to illustrate. When there is no

1 common project to satisfy two requests, if you're
2 customer number 2, obviously, you benefit from
3 fifty million dollars (\$50 M), and the customer
4 goes 1... customer... If you're customer 2, and
5 customer 1 goes first, you benefit from fifty
6 million dollars (\$50 M).

7 A. Hum, hum.

8 Q. **[151]** If the project is not a common project, and
9 the Régie were to say, "Well, you benefited from
10 this, and would you give us fifty million (50 M) so
11 we can refund the first one", what would be your
12 answer as a customer, a point-to-point customer?

13 A. Well, the...

14 Q. **[152]** Through any mechanism.

15 A. Yes. Well, if the projects don't share any
16 characteristics, so that there is no kind of
17 economies of scope in thinking about them together,
18 then it's much less likely that you have any
19 benefits type thing to allocate. Right?

20 Q. **[153]** Well, you do benefit, because the capacity is
21 there. You benefit a bit. For fifty million (50 M).
22 Isn't it? For... in that example. The upgrades are
23 not the same, but the capacity, because of the
24 first upgrade, there is an excess capacity, and
25 then you would pay less.

- 1 A. Hum, hum.
- 2 Q. **[154]** Fifty million (50 M) less. And therefore, I
3 would suggest that you benefit from it. Would you
4 not say so, that you benefit, in that first
5 example?
- 6 A. Your first example is the left-hand side.
- 7 Q. **[155]** Yes.
- 8 A. Okay.
- 9 Q. **[156]** So the customer 1 pays two hundred million
10 (200 M), and the customer 2 pays a hundred million
11 (100 M).
- 12 A. Right?
- 13 Q. **[157]** I think that was a common project. But if it
14 was not a common project, and the first project
15 would give an excess capacity, for which you would
16 benefit.
- 17 A. For which... For which I would benefit. Yes.
- 18 Q. **[158]** For... Yes. Because there is an excess
19 capacity. Should we ask you to pay a bit for that
20 first project?
- 21 A. Only if the cost allocation mechanism identifies
22 that I have a reasonable chance of having a
23 benefit. I mean if it's separate from, if I
24 understood the hypothetical, we're talking about
25 projects that are separable.

- 1 Q. **[159]** Yes.
- 2 A. Okay.
- 3 Q. **[160]** In that example, the example...
- 4 A. Yes.
- 5 Q. **[161]** There was a joint technical solution.
- 6 A. Right. Which actually kind of showed a kind of an
- 7 economy of scope, right?
- 8 Q. **[162]** Yes.
- 9 A. 'Cause they were cheaper together than they were
- 10 apart.
- 11 Q. **[163]** But if that first project, the two different
- 12 projects, and that first project brings in an
- 13 excess of capacity, and then you come in and say,
- 14 "Can you do this for me?, and they say, sure, I've
- 15 got an excess capacity for, I don't know, fifty
- 16 megawatts (50 MW)", and then... But I have to add
- 17 another fifty megawatts (50 MW), so you only have
- 18 to pay for that fifty megawatts (50 MW) more.
- 19 A. Hum, hum.
- 20 Q. **[164]** Would you be willing, as a customer, point-
- 21 to-point customer, to pay a bit for that first
- 22 investment, that first upgrade, that gave you that
- 23 fifty megawatt (50 MW) capacity, excess capacity
- 24 that you can use?
- 25 A. Well, if I... If I meet a net benefits test that my

1 benefits are doing, are greater, with a bit of a
2 margin, then, actually, I would be willing to pay.
3 Right? I mean, that's the kind of hypothesis of,
4 I'm willing to pay for something that benefits me
5 more than it costs me. Right? So the answer is I
6 would be willing to pay.

7 (11 h 25)

8 I think you get to all sorts of questions
9 about, you know, we are talking about costs being
10 allocated at the same time, one, and, you know, do
11 I go back and try to say you did something seven
12 years ago now I think I might benefit. Like, that
13 is hard. But in response to your kind of pure
14 hypothetical, I would be willing to pay if, for
15 example, I was going to be undertaking a
16 transaction that would use that spare capacity.

17 Q. **[165]** Okay. I'll come back to... just... In your
18 written testimony, your recommendation 4, which is,
19 I believe, let me see... page 30, you say,

20 Elimination of the chronological
21 "waiting list" evaluation of
22 transmission upgrades and replacement
23 with a system of more holistic
24 evaluation of major potentially-
25 related transmission projects

1 together.

2 In your presentation -- and I just want to stress
3 out the "holistic evaluation" part of that
4 recommendation -- in your presentation, in slide
5 7... yes... you identified the project costs that
6 were separated into four categories; I will let you
7 get to it.

8 A. Yes, sorry.

9 Q. **[166]** That's fine.

10 A. Page numbers come out very very tiny... here we go,
11 yes?

12 Q. **[167]** So I was wondering if that "holistic
13 evaluation" comes in in those four categories or
14 only for, in the customer demand growth category.

15 A. Right. And that is a very good question. And, you
16 know, my understanding, and the reason why those on
17 the left-hand side are shown in grey was that we'd
18 had a discussion of, and of, well the, in the
19 filing of the evidence by HQT that they were
20 talking about the kind of customer demand growth
21 category only, the, and as I think I said, I had
22 not spent much time looking at how the things flow
23 into the four buckets, there is obviously a process
24 there, HQT described it to some degree, but that
25 really wasn't the focus, was describing about how

1 the things flow into the four buckets.

2 The... sorry, and I focused on the customer
3 demand growth one, because that was what was
4 clearly kind of identified as part of what was on
5 the table here. The... I guess my comment is that
6 interactions of categories are important, and in
7 all cases, they are important. When you try to do
8 cost based, whether you try to do benefits-based
9 cost allocation or any other form of cost
10 allocation, it is pretty important to start with --
11 I am allocating things in one bucket.

12 My observation was, if I have demand
13 growth, okay, that separates perhaps a set of, a
14 category of costs on the transmission system that I
15 can specifically tie to, you know, a change, a
16 change in the load forecast, a new service request,
17 somebody saying, "I want to do here to here".
18 Clearly, there is an interaction, the HQT evidence
19 even gave kind of a thing where you have projects
20 across multiple objectives.

21 So you do need to consider that the
22 category interactions are important, because a
23 project cannot only allow for a customer demand
24 growth but it could also, well, let's talk about
25 asset maintenance, it could... it could replace

1 something that otherwise was going to have to be
2 replaced to keep the existing level of service
3 ongoing in the future, right -- I am going to build
4 this thing for customer demand growth, and in so, I
5 am going to install a piece of equipment here, but
6 if I didn't do any of this, five years from now, I
7 still was going to have to replace some other piece
8 of equipment and, because of just being at the end
9 of its service life -- when I undertake this new
10 project, which was triggered, in a sense, by
11 customer demand growth, I have an aspect of that
12 too, right?

13 (11 h 30)

14 So there are these interactions which you
15 kind of, really kind of can't ignore, practically,
16 and I don't think HQT does do it, ignore it
17 practically, I mean, they obviously have a process.
18 I don't... when you get to a kind of a benefits
19 based system, I think you will also end up having
20 to recognise the interactions between those four
21 categories.

22 Q. **[168]** But the three categories that are not in grey
23 are fully paid by HQT?

24 A. Uh, huh.

25 Q. **[169]** So... That's fine. I'm just, I'm thinking out

1 loud here. Okay. Sorry about that.

2 A. Yes. And normally all these systems would generally
3 say that all the costs that just keep up the
4 existing system get rolled in. That's just a, you
5 know, keeping the existing system where it is,
6 maintaining the reliability of the integrated
7 transmission system, that usually just gets all
8 rolled in.

9 Q. **[170]** Okay. If you would take slide number 10, and
10 you discussed this with maître Dunberry this
11 morning, slide number 10, third bullet of the third
12 bullet, it "Creates undue discrimination and cost
13 shifting against PTP customers". This morning, your
14 discussion with maître Dunberry was about the fact
15 that, I just want to understand, the fact that it's
16 a twenty (20) year depreciation period and, over
17 that, it's not recognized, the excess revenue if
18 you want...

19 A. Uh, huh.

20 Q. **[171]** ... it's not recognized. That creates undue
21 discrimination? Even though the twenty (20) years
22 are applied equally to native load and point-to-
23 point customers. I just want to make sure I
24 understood correctly.

25 A. Yes, well, I mean, my observation to Mr. Dunberry

1 was that, to me, the question of discrimination is
2 not about outcomes but treatment and we do have an
3 issue that for, let's just take, to make a simple
4 comparison, we have native load comparison versus
5 point-to-point. Let's just say those are the only
6 two categories, A and B.

7 Q. [172] Yes.

8 A. Here, I have, my observation was I'm not
9 recognizing lots of the revenue. I have a cost,
10 it's a defined cost and I have a defined revenue
11 stream and I'm throwing away the back end of that
12 revenue stream. I think I used the analogy of the
13 bank only recognising the first half of my mortgage
14 payments on Monday. And that seems, that does seem
15 kind of discriminatory to me, actually. For the
16 native load one, you have the question and as Mr.
17 Dunberry pointed out, you have native load that can
18 exist for a long time. You have uncertainty about
19 it because you don't have a contractual obligation
20 to the transmission provider in the same way of
21 contract and megawatts times quantity, you know,
22 quantity times price, and it comes in much more
23 slowly.

24 I do have it in one case, I have, you know,
25 kind of a guaranteed revenue stream backed by a

1 contract at a fixed price. In another, I have a
2 variable revenue stream that comes in slowly with
3 an uncertain level. I think you do have to think
4 about the balance of these policies because you do
5 want to not discriminate between two people.

6 The balance, in effect, is really around
7 all the existing users of the system who are paying
8 the tariff rate and the amounts that you charge to
9 the new, whether it's point-to-point or native
10 load. I think the gentleman called that the concept
11 of inter-generational equity but let's call it old
12 versus new. So it's really just kind of an old
13 versus new issue, remembering that the old system
14 is much, much larger than the new increments I'm
15 talking about.

16 So you do have a pretty high, if you're the
17 new customer, I have a pretty high sensitivity to
18 how that is done around one new project because it
19 affects me a lot at the margin versus, you know,
20 the big system with the big rate based many years
21 and many, many megawatts.

22 (11 h 39)

23 Q. [173] Now, my next line of question is more from an
24 angle of who benefits from the three options that
25 we have for point-to-point customers and I will say

1 what the three options are, and then I'll go in
2 details with them. The first option is the one
3 brought by the Régie, which is, for I'm talking
4 about 12A.2 i).

5 A. Oh. Okay. Yes. Okay.

6 Q. **[174]** Okay? Sorry. I changed the line a question.
7 It's about...

8 A. Thank you.

9 Q. **[175]** 12A.2 i). And there's three options on the
10 table. As I understand it, the first one is from
11 the Régie and a previous decision, or it says: the
12 question was should we add additional revenue,
13 instead of revenue as it is right now? The second
14 one is the proposition, proposal, from HQT which
15 says, well, the excess revenue should be used to
16 pay the next upgrades. And the third option that I
17 see on the table is yours, which says, well, no,
18 that excess revenue should be paid, well should be
19 used by the customer for that one time upgrade, by
20 using it for longer term, if the customer is
21 willing to pay it for a longer term than twenty
22 (20) years. To come back with the option made by
23 the Régie or the question made by the Régie in a
24 previous decision, using a twenty (20) year
25 depreciation period, all new upgrades should bring

1 additional revenue. Would you agree with me that,
2 with this option, all excess revenues, let's say
3 because of a longer term transmission service
4 agreement, are coming back to the existing
5 customers, creating a depressing effect on the
6 rates?

7 A. I'm sorry. I don't think I understood your third
8 option.

9 Q. **[176]** The third option is yours, saying it's if I
10 have a thirty-five (35) year contract, I would,
11 therefore, have an allowance, a maximum allowance
12 for thirty-five (35) years.

13 A. Okay. So I think we're, just to be clear, we're
14 talking about an interaction between the 12A.2 i)
15 mechanism..

16 Q. **[177]** And the maximum allowance.

17 A. ... and the maximum allowance...

18 Q. **[178]** Yes.

19 A. ... mechanism.

20 Q. **[179]** Yes.

21 A. Okay. So we're talking about an interaction, there.

22 Q. **[180]** Yes.

23 A. Okay...

24 Q. **[181]** I just...

25 A. Just...

- 1 Q. **[182]** Yes...
- 2 A. I'm sorry.
- 3 Q. **[183]** Just to make clear. Go ahead.
- 4 A. I didn't mean to... The...
- 5 Q. **[184]** The first one, which would say we need
6 additional revenue to cover out the maximum
7 allowance; the excess revenue comes back right now
8 to the existing customer, depressing, having a
9 depressing effect on the rates, isn't it? Is it
10 not?
- 11 A. So the first one here saying is the existing
12 12A.2 i) test?
- 13 Q. **[185]** If I... Yes.
- 14 A. Okay? And that says yes. When I make it, I make
15 the... This was...
- 16 Q. **[186]** If I make it, I need a new agreement, a new
17 TSA, new revenues, to cover up the new cost. I'm
18 not using the excess revenues to cover up the new
19 cost; I need a new revenue. This is the first
20 option.
- 21 A. Okay. So that would be a modification of the
22 existing...
- 23 Q. **[187]** Yes.
- 24 A. 12A.2 i).
- 25 Q. **[188]** We would add additional...

- 1 A. Okay.
- 2 Q. **[189]** ... to revenue.
- 3 A. Marginal, okay. All right. So that's... So option
4 one is 12A.2 i) with marginal concept added.
5 (11 h 41)
- 6 Q. **[190]** Yes.
- 7 A. Okay? All right. So that's... So option one is
8 12A.2 i) with marginal concept added.
- 9 Q. **[191]** Yes.
- 10 A. Okay, got you. Two is the HQT...
- 11 Q. **[192]** Proposal.
- 12 A. ... transitional proposal?
- 13 Q. **[193]** No.
- 14 A. Or final proposal?
- 15 Q. **[194]** Final. Final proposal.
- 16 A. Final proposal.
- 17 Q. **[195]** Where the...
- 18 A. Ah. Okay.
- 19 Q. **[196]** ... excess revenues, you take existing
20 agreements to cover up the maximum allowance.
- 21 A. So in the final proposal, you take all the existing
22 agreements against all the costs...
- 23 Q. **[197]** All the costs. And the third one?
- 24 A. And the third one...
- 25 Q. **[198]** Well, actually, if we follow you, in the

1 third one, for the maximum allowance, there won't
2 be any excess revenues. And I guess the contract
3 will be thirty-five (35) years for all the maximum
4 allowance.

5 A. I don't think that interaction between the maximum
6 allowance thing around the seven seventy-two (7.72)
7 versus the five ninety-eight (5.98) ties exactly to
8 these follow-up commitments. That's where I'm,
9 sorry, I'm...

10 Q. **[199]** No that's fine.

11 A. ... maybe I...

12 Q. **[200]** Maybe I don't understand your...

13 A. Insufficiently understanding. So....

14 Q. **[201]** My understanding of your recommendation, I'll
15 say it this way, is that you're ready to have a
16 TSA, a transmission service agreement of thirty-
17 five (35) years. Consequently, if not to do undue
18 discrimination, we should use that thirty-five (35)
19 years to calculate the maximum allowance on a one
20 project.

21 A. Right.

22 Q. **[202]** Okay. So if you have a TSA of thirty-five
23 (35) years, that will bring the new revenues but
24 for a longer time than twenty (20) years. So that
25 would change.

- 1 A. So it would change to contribution.
- 2 Q. **[203]** It would change the contribution. You have
3 less contribution, but your maximum, your contract
4 will be for thirty-five (35) years. Okay? That, I
5 understood correctly?
- 6 A. Right.
- 7 Q. **[204]** So in your recommendation, if we do that, the
8 contribution will be less, but all the excess
9 revenues, if you want, from the actual twenty (20)
10 years and your thirty-five (35) years, would be
11 used by that point to point customers to pay down
12 on that one time, one, that upgrade policy. Right?
- 13 A. Of the amount that's been rolled-in.
- 14 Q. **[205]** Of the amount. Yes.
- 15 A. Only of the amount that's been rolled-in, because
16 the contribution amount gets paid anyway.
- 17 Q. **[206]** Yes.
- 18 A. Exactly like as been described before.
- 19 Q. **[207]** Yes.
- 20 A. The contribution amount gets paid anyway.
- 21 Q. **[208]** Yes.
- 22 A. Okay. The contribution amount will be different,
23 definitely. The contribution amount gets paid
24 anyway.
- 25 Q. **[209]** Yes. In your example, that will be the

1 twenty-eight dollars kilowatt/hour (\$28/kW/h) would
2 be paid...

3 A. Yes. Yes. Yes.

4 Q. **[210]** ... anyway.

5 A. However that works out.

6 Q. **[211]** And that's... You would have the seven
7 seventy-two dollars kilowatt (\$7.72kW) paid, if you
8 want, by that TSA, that...

9 A. Well, remember the section...

10 Q. **[212]** You have the revenue to pay for the
11 allowance, you know. There's an equals here. You
12 have thirty-five (35) years contract that will
13 bring a revenue for thirty-five (35) years, and the
14 maximum allowance is calculated on thirty-five (35)
15 years basis.

16 A. Well, the commitment of the follow-ups, I think,
17 would still be at the tariff rate. Because,
18 remember, that's what the customer's paying for
19 his, that's what the customer's paying for the
20 point-to-point service. And if I understand the
21 objective of the annual... This is the long-term
22 final proposal. The objective of the follow-up is
23 to assure that the customers revenue, which is done
24 at the tariff rate...

25 Q. **[213]** Match the...

- 1 A. Covers the levelized cost. Except now in a year.
- 2 Q. **[214]** Yes.
- 3 A. In the long-term thing.
- 4 Q. **[215]** Yes, but this is the follow-up. I don't want
5 to go into there...
- 6 A. Oh...
- 7 Q. **[216]** ... right now. I just want to know,
8 conceptually, if that recommendation, who benefits
9 from that is, well, the existing customer, because
10 there's a new customer, but benefits mostly the
11 customer that makes the request, because it can
12 lower its contribution for a fair amount, wouldn't
13 you say, for that one time?
- 14 A. Hum, hum.
- 15 Q. **[217]** Okay. Under HQT's proposal, my understanding
16 of it is that, instead of using that excess revenue
17 to pay for that upgrade, they still use a twenty
18 (20) years, but they would take the excess revenue
19 to pay for next upgrades, for a next upgrade. And
20 in doing so, that benefits, for a time, the
21 existing customer, because up at least until it's
22 used, it has that depressing effect on the rate.
23 And when it is used, it benefits the point-to-point
24 customers that would take that excess revenue, and
25 apply that against a new upgrade.

1 (11 h 46)

2 A. But I think that feature of the HQT proposal is
3 independent of the length of the contract.

4 Q. **[218]** Yes.

5 A. It's not related...

6 Q. **[219]** No.

7 A. ... to the length of the contract - I mean, they
8 can all be twenty (20) years, just to use an
9 example.

10 Q. **[220]** Yes.

11 A. They can all, let's just say all contracts are
12 twenty (20) years, right?

13 Q. **[221]** The link I see is that in your recommendation
14 there's no excess revenues because all the excess
15 revenues is used up to calculate the maximum
16 allowance. HQT would use that and give you that
17 amount right away, right up front, for that to
18 reduce your contribution and, therefore, there
19 would not be excess revenues.

20 A. Oh no, no, there could still be excess revenues.
21 I'm afraid I can't agree with you here.

22 Q. **[222]** Okay. Could you just...

23 A. Because the excess revenue question, which to me is
24 very tied up with the follow-up thing so I don't
25 know how quite how to separate excess revenue from

1 follow-up. My understanding of the long term test
2 is you're comparing tariff revenue against a
3 levelization of costs, right?

4 Q. **[223]** Uh, huh.

5 A. Let's say the levelization of cost because we still
6 have maximum allowance, it's an amount, right? And
7 then the comparison is in that year, the
8 transmission revenue at the tariff rate exceeds the
9 levelized costs.

10 Q. **[224]** Okay.

11 A. That's my understanding of what HQT has proposed
12 for the long term system and in all cases, right?

13 Q. **[225]** Okay.

14 A. So, because it's set, but the revenue is set at the
15 tariff rate so there's still excess or can be,
16 doesn't have to be, there can still be excess
17 revenues at the tariff rate and most likely, I
18 would say there probably is - everything else, all
19 other things being equal in that famous phrase - so
20 I've got tariff revenues, I've got levelized costs,
21 that's the comparison that they're talking about
22 making. If there's a difference around that
23 project, where does that go, right?

24 Q. **[226]** Okay.

25 A. The difference, not to over expound but the

1 difference is my proposal would say that difference
2 would go to the general revenue requirement which
3 does lower everybody's average costs, right?

4 Q. [227] Right.

5 A. And the HQT one, as I understand their transitional
6 proposal would say, no, now I can pay down Mr.
7 Clermont's mortgage earlier.

8 Q. [228] Okay. On another subject, I'll just come back
9 to cost allocation for variable resources. I asked
10 the question to Mr. Knecht, the question was asked
11 to Ms. Chang by UC and Mr. Knecht said to me, it
12 was last Friday, the question was, you know, to
13 what would you attach the maximum allowance? To the
14 revenue or to the maximum output of a transmission
15 line when you have... And Mr. Knecht said that you
16 would attach the maximum allowance to the revenue
17 and to be exact, he said, and it's at page 207 of
18 the transcription, he says,

19 That's right. So that if there was an
20 agreement with it from the generator
21 that said that, "I'm going to pay
22 seventy-four dollars and sixty-five
23 cents (\$74.65) per kW for three
24 hundred (300) kW", then three hundred
25 (300) is the kW you use for the

1 maximum investment credit.

2 So, I was wondering, in your experience, in your
3 knowledge, in the States, the same question, what
4 is your answer to that question? Do you attach it
5 to the revenue or the maximum output?

6 A. And, again, that's a very good question, and I've
7 often worked with wind farm companies in the past.
8 So the... To talk about the U.S. experience first,
9 very briefly. First, as I explained, if you are a
10 new large generator, there are these things called
11 large generation interconnection procedures. I'm a
12 new wind farm, I'm the Adamson Wind Farm Company,
13 right? And I want to connect into the system to
14 sell power and all.

15 (11 h 52)

16 I pay my interconnection facilities costs
17 upfront, those are my sole responsibility. Done.
18 And then, there is network upgrades, which are on
19 the transmission system side. I pay those too, I
20 pay everything upfront. It is a funding mechanism
21 for the transmission provider, and as I pay the
22 transmission provider revenues for service
23 agreements tied to that contract, tied to that
24 generator, he will refund me the part of the amount
25 that went to his network upgrade side for just that

1 narrow set of his costs, up to a limit out of those
2 agreements, out of that service revenue.

3 But I've paid for everything upfront, which
4 is a big difference. We have to think about that
5 here, because I am paying not just the contribution
6 part, I pay for every, I am paying for everything,
7 the whole kit and kaboodle, the whole sum, right? I
8 write out a cheque. That is kind of hard in a way
9 for some of the wind developers, because, I mean,
10 it raises the amount of capital they have to raise,
11 right?

12 So I think the analogy of exactly how you
13 do it here kind of is hard because the entire
14 system is different, because of this whole "pay the
15 whole amount" thing, and then you get this limited
16 amount back of credits. But, you know, in the U.S.
17 system, you are talking about paying, I pay all my
18 costs, in the final analysis over the period, I pay
19 all of my costs of the interconnection, and then I
20 pay the full costs of my point-to-point service, or
21 whatever service it is to deliver power anywhere.
22 There is no offsetting of those costs. That is a
23 big difference.

24 Here, the way the system works now, I think
25 you have got kind of a different mechanism, which,

1 I said, I don't think really reflects that where
2 the point-to-point, none of the point-to-point
3 revenues are, now you have point-to-point revenues
4 being offset against these costs.

5 But in response to Mr. Knecht's point, I
6 think you need to recognize revenues pay, under the
7 existing Québec system, which was the context for
8 this question about variable energy resources, it
9 has got to be tied to how the revenues are going to
10 be paid to the transmission provider, and if that
11 is in the form of a capacity agreement, it is on a
12 per-kilowatt basis, I think it ought to be done on
13 a per-kilowatt basis. If it is done on a different
14 basis, for some other reason, which I am, you know,
15 you have megawatthour charging for those costs, or
16 somehow, in some future world, then it could be
17 done in a different way.

18 But if it is done on a kilowatt basis, that
19 the transmission service agreements associated with
20 that new wind farm are denominated in kilowatts,
21 then I think it should be done on kilowatts, and it
22 should be done up to the level of what is the
23 level, how have I set the quantity of kilowatts
24 that the new wind farm pays for.

25