

*An update on recent developments
in la belle Province and Canada,
plus matters before the Régie*



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OUTLINE

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- **The Régie de l'énergie**
- **Québec context:**
 - Targeted Government Policies
 - Very large utilities
 - Geography
- **Progress made since 2000**
- **Some issues currently debated before the Régie**
- **Issues before other Canadian regulatory boards**

Functions of the Régie

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- The Régie de l'énergie is an economic regulation agency with the mission of reconciling the public interest, consumer protection and the fair treatment of the electric power carrier and of distributors.
- The Régie is an independant quasi-judicial tribunal
- The Régie:
 - Fix rates and conditions of service
 - Approve supply plans of Distributors and supply contracts of electricity
 - Authorize Capital expenditure projects of utilities

Bill 116

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- In June 2000, Bill 116 amending the Act respecting the Régie de l'énergie was passed
- Electric power transmission and distribution are to be fully regulated by the Régie de l'énergie
- Generation of electricity has become a non-regulated activity
- Creation of an electricity Heritage Pool

The Electricity Heritage pool

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- An electricity heritage pool, determined by legislation to be equal to 165 TWh per year, is provided by Hydro-Québec Production to the electric distributor, Hydro-Québec Distribution
- Average cost fixed at 2.79 cents/kWh for Québec Consumers
- Hydro-Québec Production can sell its excess output on wholesale markets
- In 2008, exports of Hydro-Québec in Canada and U.S. totalled 2,516 GWh (long-term) and 18,783 GWh (short term) representing revenue sales of 1.9 \$B

2006 GOVERNMENT OF QUÉBEC ENERGY STRATEGY

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- Energy Strategy defined for a ten year period: 2006 to 2015:
 - New hydroelectric projects to create an 4,500 MW of additional generating capacity
 - Development of existing wind energy potential that can be connected to the Hydro-Québec grid, with an objective of 4,000 MW by 2015
 - Increasing the security of supplies of oil and natural and diversifying the sources of supply
 - Ambitious energy efficiency strategy

NATURAL GAS REGULATION HIGHLIGHTS

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- Unbundled rates
- Use of financial derivatives
- Innovative PBR regimes
- Limited options for Supply plans
- Significant developments that could change the landscape in the coming years:
 - LNG Project
 - Utica Shale Gas discovery

ELECTRICITY SECTOR

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ELECTRICITY DISTRIBUTION

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- **Calls for tenders by the Distributor:**
 - **To meet demand beyond the Heritage pool volume, Hydro-Québec Distribution must enter into supply contracts by conducting calls for tenders among interested power suppliers**
- **The Régie monitors the tender solicitation and contract awarding procedure of the Distributor, and provides for a code of ethics to govern tender solicitations for the electricity supply contracts**
- **Supply contracts subject to approval by the Régie**

Calls for tenders by HQD since 2002

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- 2002: 600 MW with Hydro-Québec Production
- 2003: 507 MW generated by cogeneration signed with Trans Canada Energy Ltd.
- 2004 and 2005: 47.5 MW generated by cogeneration with biomass and signed with Tembec, Kruger and Bowater
- 2005 and 2006: Call for Tenders A/O 2003-02/ contracts signed with various promoters for 1,000 MW of electricity generated by wind power
- 2008: Call for tenders A/O 2005-03, selection of proposals from various promoters for 2,000 MW of electricity generated by wind power
- Call for Tenders A/O 2009-01 : one block of energy generated in Québec, from new cogeneration from biomass installations, for a total installed capacity of 125 MW
- 2009: Call for Tenders A/O 2009-02: two blocks of 250 MW of wind energy generated in Québec, one resulting from Aboriginal projects and one resulting from community projects.

Electricity supply plans approved by the Régie

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- Every three years, Hydro-Québec Distribution prepares a supply plan covering the next 10 years
- The first 3 years of the plan must be approved by the Régie
- On January 16, 2009, Québec's electricity requirements reached an unprecedented peak of 37,220 MW
- However, in the last two years, the Distributor has been confronted with excess electricity supplies due to lower electricity demand forcing it to:
 - renegotiate contracts or
 - to sell surpluses on short term markets in Canada or in U.S

2009 Distribution electricity rates

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- The Régie approved on March 16, 2009 a rate increase of 1.2 %
- The average price for residential customers in Montréal is 6.9 cents/kWh compared to an average of 20 cents/kWh in New-York and Boston
- Capital expenditures projects authorized by the Régie

ELECTRICITY TRANSMISSION

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- **Hydro-Québec Trans-Énergie operates the most extensive transmission system in North America, with more than 32,000 km of lines at different voltages**
- **The division's fixed assets in Québec total \$15.9 billion**

Reliability Standards

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- The Régie now has specific powers over the application of mandatory reliability standards for planning and operating electrical transmission systems
- In Decision D-2007-95 of August 14, 2007, the Régie designated the Direction – *Contrôle des mouvements d'énergie* (System Control unit) of Hydro-Québec TransÉnergie as the Reliability Coordinator for Québec
- The Régie will hold an hearing in the coming months to adopt the new applicable reliability standards
- The Chair of the Régie represents Canadian Regulatory Boards on NERC Committes

Trans-Énergie Open Access Transmission Tariff (OATT)

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- TransÉnergie's network is comprised of 18 interconnections, most of them with systems in neighboring provinces and states, providing a total export capacity of more than 7,100 MW and import capacity of more than 9,575 MW
- The regulatory framework provides for open and non discriminatory access to the transmission network

2009 Transmission Rates

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- The same unit rate applies to Firm Point-to-Point service customers and to Native load
- Rates are based on average costs of service
- Net revenue requirements, established after subtracting revenues from non firm services, are divided by the projected demand peak of both firm services
- 2009 annual rate for firm service fixed at 72.00\$/kW/year representing an increase of 1.7% over 2008 rates
- the 2009 rate is 17 % lower than in 2001 in constant dollars
- Efficiency approach implemented by the Utility
- New benchmark introduced for appraisal of operations and maintenance expenditures growth (level of activity, inflation, productivity index)

Network additions

A) Maintenance and replacement of existing assets

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- Central issue: how to determine the proper amount to invest annually in presence of ageing infrastructures?
 - Pre-determined ratios based on the historical cost of the infrastructures or other similar measures not necessarily appropriate
- Implementation by the utility of a new strategy «*Stratégie de gestion de la pérennité des actifs*» addressing various technical and economic issues related to the lifecycle costs of the transmission assets
- Development of optimal long term intervention scenarios
- Capital expenditure budget of \$672 million for 2009
- \$3.9 Billion in the next 5 years

Network additions

B) Network upgrades

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- Under the OATT, the utility has the obligation to expand or modify its Transmission system to provide the services requested to serve new native loads or new Point-to-Point service requests
- The customer must agree to compensate the Transmission Provider, for the costs it must incur, following the provisions of the OATT.
- Same criteria are applied to either native load or Point-to-Point service customers: no impact on Rates
- Capital investments of \$827 million are planned for 2009 and of more than \$4.5 billion over the next five years

ENERGY EFFICIENCY

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- A government body, the Agence de l'efficacité énergétique, is now responsible for drafting an overall plan for making better use of energy, which must define key actions for all forms of energy
- The Régie must:
 - Examine the Agence 's programs and initiatives related to fuel oils or to more than one form of energy;
 - Approve total expenditures required to fund the comprehensive plan on a yearly basis;
 - Determine the annual fee that each distributor must pay the Agency;
 - Establish by regulation the rate and method of calculation of the annual duty payable to the Green Fund by natural gas and petroleum products distributor.
- In a decision rendered on April 17, 2009, the Régie approved the first comprehensive plan of the new Agency.

ISSUES BEFORE THE RÉGIE

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Updating of Trans-Énergie's OATT following the adoption of orders 890, 890A and 890B by the FERC

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- Public hearings to determine which provisions of FERC orders 890, 890A and 890B should be implemented in the OATT of Trans-Énergie
- The Régie will take into account the Québec context as well as the interests and proposals of the various Stakeholders
- A decision could be rendered next Fall

International Financial Reporting System (IFRS)

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- **Canada will adopt IFRS beginning in 2011:**
 - New set of accounting rules
- **Major impacts for utilities:**
 - Deferral accounts
 - Amortization of assets
 - ...
- **Informational process with Stakeholders and Régie's personnel underway for Gaz Metro**
- **Similar development this fall with Hydro-Québec Transmission and Distribution units**
- **All Canadian Regulators being faced with the issue**

Shareholders Return on Equity (ROE)

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- Canadian allowed ROE have been consistently lower than those allowed in U.S. in the last 10 years
- Spread of between 75-175 basis points
- Recent decision rendered by the National Energy Board
- Hearing before the Régie this Fall (Gaz Metro)
- Proceedings already underway in Ontario and Alberta

Light Handed Regulation

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- **Some notable progress in the Natural Gas sector**
 - PBR regimes
 - Negotiated settlements of Rates for Gaz Métro
 - Still relatively lengthy hearings
- **Very few progress up to date in the Electricity Sector**
- **Developments planned to come next fall with Hydro-Québec Distribution and Transmission**

CONCLUSION

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- Regulation of Electricity and Natural Gas has been relatively successful so far
 - Debates are less political than in the past for distribution of electricity
- Still a lot of efforts to make towards more lighter and efficient regulation
- The Régie is committed to continue leading the way toward this goal while maintaining the high quality of its regulation

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- We hope this overview of our actions and of issues currently debated before the Régie will have been helpful and of interest to all of you.
- We are eager to listen to your own experiences and to learn how we may continue to improve the quality of energy regulation in Québec.
- For contacting us: www.regie-energie.qc.ca