NEB Translation

Montreal, August 2, 2005

Michel Mantha
Secretary
National Energy Board
444 Seventh Avenue SW
Calgary, Alberta
T2P 0X8

Chantal Robert, P. Eng.
Project Manager
National Energy Board
444 Seventh Avenue SW
Calgary, Alberta
T2P 0X8

RE: NEB cost recovery review

Dear Mr. Mantha and Ms. Robert,

Pursuant to discussions of the *Electricity Cost Recovery Regulations* review and meetings on this issue held December 9, 2004 in Calgary and June 2, 2005 in Montreal, we would like to offer additional comments on some of the proposals under consideration.

Hydro-Québec TransÉnergie acknowledges that the restructuring of the electricity industry in Canada, particularly the separation of generation and transmission functions, warrants a review of the NEB's cost recovery process to ensure that costs are distributed more equitably among these functions. We believe that to ensure equity, costs must be allocated to reflect the actual time and resources that the Board devotes to transmission- or export-related activities and to the electricity industry in general. As a result, we believe that the user-pay formula is completely appropriate where applicable. Under this formula, the costs of approving an international power line would be paid by the applicant and would be based on the number of hours that NEB staff spent on the application review process and the hearings. Similarly, the costs of export permit applications would be paid by those applying for permits or licences.

As for the other types of services that the Board must provide in fulfilling its mandate and/or for which it is not possible to pinpoint the beneficiary, costs should be shared on a straight ratio basis, i.e., a percentage paid by transmission companies and a percentage paid by exporters (energy generators or brokers). The table presented by the Board at the December 9, 2004 meeting in Calgary, titled the *NEB Estimated Electricity-related Time*

Breakdown, May 2002 to September 2004 is, in our opinion, the best reference for determining this ratio. According to the information in the table, Canadian transmission companies would share between 17% and 37% of the costs of common services, depending on the scope of the international power line applications (with or without the Sumas project) and energy generators and brokers would share between 83% and 63% of the costs.

Based on the information provided by the Board in *NEB Estimated Electricity-related Time Breakdown, May 2002 to September 2004,* we believe it would be appropriate to round off the figures for a cost-sharing ratio of 75% for energy generators and brokers and 25% for the transmission companies. This ratio could be re-evaluated every three years against Board activities.

Please see the appendix to this letter for an illustration of our proposal, based on NEB costs of $1 million.

There could also be an exception for studies on specific subjects that the Board produces often at the request of Natural Resources Canada. The participants in the Board's cost recovery review have already pointed out that the cost of these studies should be charged to the party requesting them, in this case the federal government. Hydro-Québec TransÉnergie agrees with this proposal. However, should that prove impossible for various legal reasons, it would be appropriate to share the costs of these studies based on the type of study in question, i.e., a study on international transmission lines and Canada-US transmission reliability could be paid by the Canadian transmission companies. Similarly, a study on electricity markets, prices and exchanges would be paid by the Canadian energy generators-exporters or brokers.

At the last consultation meeting, it was mentioned that it would be expensive for the Board to implement an accounting system for tracking all time spent by Office staff on each type of activity (services for energy exporters and services for transmission companies). Given that the effort and costs involved in establishing a new Board cost-recovery formula should not unduly increase the Board's overall costs, the new formula should be based on simple principles and aim at an equitable sharing of costs based on the types of services provided by the Board. The formula proposed by Hydro-Québec TransÉnergie seems to respond to this imperative, while adhering to the principles of equity discussed at the June 2, 2005 meeting.

Furthermore, Hydro-Québec TransÉnergie suggests that implementing a new cost-recovery formula require a two-year transition period, given that the transmission companies who have not paid any costs as of the date of the current review will have to have these costs approved by their provincial regulators in tariff review proceedings, which are not necessarily held each year. This transition period should limit the impact of transferring to the transmission companies a portion of the costs currently paid by the generators.

In closing, Hydro-Québec TransÉnergie would like to comment on one of the proposals being considered, i.e., transferring to provincial regulators decision-making authority over the allocation of costs between the generation and transmission functions. Given that the federal government has delegated to the Board authority for amending the cost-recovery formula, Hydro-Québec TransÉnergie believes that the allocation of costs should be settled at the Board level.

Thank you for your interest in our comments. We are very interested in continuing discussions on a new cost-sharing formula for the National Energy Board.

Yves Dallaire
Business Development Leader
Hydro-Québec TransÉnergie

c.c. : Stéphane Thivierge, NEB
Yves Filion
Chantal Guimont
F. Jean Morel

APPENDIX

SAMPLE COST-SHARING FORMULA

Total costs	$1,000,000	100%
Costs of approving line XYZ of transmission company XVT	200,000	20%
Costs of applications for export licences or permits from 50 companies	250,000	25%
Monthly export Report	60,000	6%
Market monitoring	410,000	41%
Other costs (studies, training, conferences)	80,000	8%

Assumption: costs under the “Other costs” heading are equally shared by transmission companies and generators, i.e., 4% each.

Cost sharing would be as follows:

Total costs: $1,000,000.00

User-pay

Transmission company XVT: $200,000.00

Generators/brokers: $250,000.00 (50 individual applications x $5,000)

The remaining $550,000.00 to be allocated using the proposed 75% - 25% ratio.

Canadian transmission companies share 25% of $550,000.00, i.e., $137,500.00
Generators and brokers share 75% of $550,000.00, i.e., $412,500.00