

The Régie
de l'énergie
examines,
investigates,
analyzes,
reconciles,
protects,
determines,
decides,
monitors...

Mission

« The Régie shall reconcile the public interest, consumer protection and the fair treatment of the electric power carrier and of distributors. It shall promote the satisfaction of energy needs through sustainable development and with due regard for equity both on the individual and collective planes. »

The Régie's responsibilities include setting conditions of service and rates for the transmission and distribution of electricity and the distribution of natural gas. It also monitors the operations of regulated companies to ensure that consumers are adequately supplied and are charged fair rates. It approves the companies' capital expenditures, supply plans and energy efficiency programs. It examines the electricity carrier's technical standards and may set operating standards for the electricity and natural gas distributors.

The Régie examines consumer complaints about decisions made by regulated companies concerning the application of the rates or conditions of service for electricity or natural gas.

It monitors the prices of petroleum products and steam.

Message from Jean-Paul Théorêt, Chairman



Examine. Investigate. Analyze. Reconcile. Protect. Determine. Decide. Monitor...

As this Report amply illustrates, the Régie carries out a multitude of activities in the performance of its wide-ranging responsibilities. This summary of the Régie's work demonstrates the scope of our efforts during the past year. Our activities were complex and had a significant impact on Québec society.

Any Chairman would be proud to see the organization he leads perform its role in such an effective and judicious manner. I am particularly proud that the Régie was able to maintain its pace of work in view of the fact that it made a number of changes to its regulations and operating methods during the year. It also began working on its next strategic plan. For this purpose, it brought together for the first time all stakeholders in order to discuss future strategic priorities.

In view of the importance of the energy industry and its impact on Québec's economy, the Régie is laying foundations for the future with due care.

While energy has long been a source of pride for Quebecers and an economic engine for Québec society, it has not always been a matter of great public concern, given the abundance of low-cost electric power, natural gas and petroleum products. In recent years, however, this situation has changed dramatically for a variety of reasons, including increased demand, and energy is now very definitely on the radar screen. In 2005, for the first time, Québec consumers used more than the heritage electricity pool of 165 TWh, which meant that electric power had to be purchased at market rates, in accordance with the Act. The cost of these purchases was far higher than the 2.79 cents/kWh set by the government for the heritage electricity pool. In fact, the average price of the electricity purchased to meet Québec's needs during the winter of 2006 was nearly 9 cents/kWh.

The Régie de l'énergie will be called upon to study and make decisions in a number of cases, some of which will have a significant impact on all customers of the distributors.

Like petroleum product and natural gas prices, the price of post-heritage electricity is subject to sharp and unpredictable increases. This means we need to pay closer attention to cost allocation for electric power.

For the first time, we are seeing a situation in which demand is slightly greater than the available supply from heritage pool electricity. Therefore, the historic comparative advantage stemming from low-cost hydroelectric power will diminish as the cost of future supplies rises. In this context, the Régie's mission becomes more vital than ever before.

That mission is to reconcile the public interest, consumer protection and fair treatment of the electricity carrier and the distributors. The Régie must ensure that energy needs are met while promoting sustainable development and due regard for individual and collective equity.

In this new environment, the Régie needs to determine how a new balance is to be established. Our upcoming decisions will therefore have far-reaching implications for all consumers of electricity in Québec - industrial, commercial and residential. Among other things, we will be deciding the cost allocation of post-heritage electricity.

The Régie has already begun considering this issue. It made a decision on cost allocation when it set rates as of April 1, 2006 for Hydro-Québec as an electric power distributor. In that case, the Régie decided that consumers should know the real cost of the power they are using. The "price signal" is a key concept that will be the basis of pricing strategies in the future, since it is one of the most effective ways to promote energy conservation.

The Régie will be facing many challenges in the immediate future. It has a number of cases to consider and rule on, some of which will have a significant impact on all customers of the natural gas and electricity distributors.

In the coming year, the Régie will have to establish new electricity transmission rates for 2007 and study several capital projects involving the connection of new Hydro-Québec generating facilities or of newly built wind farms to the electric power carrier's transmission system. The electricity distributor will also file an application to modify its rates as of April 1, 2007; that application will include the budget for the comprehensive energy efficiency plan. The Régie will also be called upon to approve conditions governing the supply of electricity (a case in which hearings have been held in recent months) while continuing to monitor tender solicitations for contracts to meet new needs beyond the heritage electricity pool.

The Régie de l'énergie does not do its work in a vacuum. Transparency is a core value for us since it is vital to the credibility and legitimacy of our decisions.

The Régie will be asked to approve new natural gas distribution rates for Gaz Métropolitain and Company, Limited Partnership (GMCLP) and Gazifère, as well as their comprehensive energy efficiency plans and their capital expenditures. The review of the performance incentive mechanism for GMCLP will be completed and a new mechanism will be considered for Gazifère. The natural gas distributors' conditions of service will be reviewed with a view to clarifying and harmonizing their relations with customers.

With respect to petroleum products, the Régie will make a decision in its review of the operating costs borne by retailers of gasoline and diesel fuel. It will continue monitoring prices and informing consumers.

The Régie de l'énergie is a key player in Québec's energy sector. There is a growing public desire to understand energy issues, dynamics and the available options, in terms of both different energy sources and rate structures. Informing the public is part of the Régie's responsibilities. The Régie is committed to performing that role, while safeguarding its independence and impartiality.

The Régie does not do its work in a vacuum. Transparency is a core value for us since it is vital to the credibility and legitimacy of our decisions. The regulated companies and intervenors continue to provide rigorous and competent support for our work.

These are not the only major challenges facing the Régie in the coming years. The Government of Québec recently released its energy strategy for 2006 to 2015. The Régie is to be given new responsibilities and will have to develop new areas of expertise. We are very gratified by the government's confidence and its recognition of the Régie's competence and important role in the energy sector. The government's energy strategy includes the following points:

- Québec's energy efficiency agency, the Agence de l'efficacité énergétique, is to develop and submit to the government a plan for achieving significant energy consumption reduction targets for all forms of energy. It will be up to the Régie to approve the resulting programs and budgets. In addition, the Régie will carry out a yearly audit of the effectiveness of the programs and report its findings to the government;
- as of 2008, major new energy-related activities and initiatives will have to be submitted to the Régie, which will assess the rationale from the point of view of both energy efficiency and cost effectiveness;
- starting with its 2007 rate case, Hydro-Québec Distribution will have to submit its plans to alleviate the impact of rate increases on low-income customers;
- the Régie will have an important role to play in ensuring the reliability of electricity transmission systems, since it will approve reliability standards, monitor compliance and levy penalties if need be;

A modern, results-oriented regulatory framework reconciles the desire for an open, transparent process that addresses the interests of all with the need for effectiveness in terms of timeframes and costs.

- in the area of petroleum products, the Régie's jurisdiction will be extended to the distribution of light fuel oil and propane in order to protect consumers against any distribution system failure.

The Régie will favour results-based regulation in the performance of its new duties, as it does for its current responsibilities, and will modernize its regulatory framework on an ongoing basis. We consider this approach to be vital in order to reconcile the desire for an open, transparent process that addresses the interests of all participants with the need for effectiveness in terms of timeframes and costs.

It is the efforts of the Régie's commissioners and staff that make it possible for us to provide a modern, effective regulatory framework that meets the objectives that Québec as a society has established for the benefit of all.

All these challenges, present and future, are important and complex. They will demand sustained effort on our part and all our expertise. However, I am confident that we will meet the challenges effectively and competently, for I know the Régie's commissioners and staff are fully committed to accomplishing the mission with which they have been entrusted. I am grateful to them. Without their daily dedication, the Régie could not do its job.



Jean-Paul Théorêt
Chairman
June 2006

Role and powers

	RATE-FIXING		PRICE-MONITORING
	ELECTRICITY	NATURAL GAS	PETROLEUM PRODUCTS
SUPPLY	< = 165 TWh at 2.79¢ / kWh > 165 TWh : call for tenders	Free market	Free market
TRANSMISSION	Cost of service	National Energy Board (federal)	Other jurisdictions
DISTRIBUTION	Cost of service	Incentive-based mechanisms	Operating costs and expediency of inclusion
COMPLAINTS	Decision-making authority	Decision-making authority	Other jurisdictions

The Régie de l'énergie is an economic regulation agency with a variety of administrative and quasi-judicial functions. Its role is to regulate monopolies in electricity transmission, electricity distribution and natural gas distribution. It also monitors non-monopoly markets to ensure that the interests of consumers are protected, while permitting healthy competition between market players.

The Régie has authority to fix the rates and conditions for the transmission and distribution of electric power and the supply, transmission, delivery and storage of natural gas, after holding public hearings. The Régie's decisions cannot be appealed.

It also monitors the operations of electricity and natural gas distributors to ensure that consumers are adequately supplied, and monitors the operations of the electricity carrier, the electricity distributors and the natural gas distributors to ensure that consumers are charged fair and reasonable rates. It approves the electricity and natural gas distributors' supply plans and business programs. It approves investments, construction projects and the acquisition of assets intended for the transmission or distribution of electric power or the distribution of natural gas. It approves the electricity carrier's operating and technical standards, including transmission network reliability standards.

The Régie monitors application of the tender solicitation and contract awarding procedure and code of ethics for the electricity distributor's supply contracts. The resulting supply contracts are submitted to the Régie for approval.

The Régie has sole authority to examine consumer complaints about a decision rendered by the electricity carrier, an electricity distributor or a natural gas distributor concerning the application of the rates or conditions of service. The carrier and distributors are required to apply an internal complaint examination procedure approved by the Régie.

With respect to petroleum products, the Régie is tasked with monitoring prices and providing consumers with information in this regard. It also has authority to determine, every three years, an amount per litre representing the operating costs borne by retailers and to assess the expediency of including this amount in the costs of gasoline and diesel fuel retailers.

Review of activities 2005-2006

QUÉBEC CITY, CANADA'S ENERGY CAPITAL

The Régie needs to stay abreast of energy-related developments in Canada and the U.S. To do so, we hold meetings with our counterparts in other jurisdictions and actively participate in the work of the Canadian Association of Members of Public Utility Tribunals (CAMPUT). In May 2005, the Régie hosted CAMPUT's annual conference in Québec City.

Participants came from as far afield as the U.S. and Mexico to discuss the challenges facing the energy sector today, under the theme Regulating Energy Markets in a Turbulent Era. In all, a record 400 people attended, making Québec City Canada's energy capital for a few days.

The Régie rendered 242 decisions during the year, some of which had far-reaching implications for Québec as a whole. Through its rate decisions, authorization of capital expenditures and monitoring of the operations of the companies under its jurisdiction, the Régie ensures fair and reasonable rates, the highest possible level of customer satisfaction, and effective management practices by the companies.

In 2005-2006, the Régie received 32 applications and 146 complaints, and held 74 days of hearings. As well, 61 conciliation sessions were conducted to settle consumer complaint cases and 39 working sessions were held.

SUMMARY OF ACTIVITIES

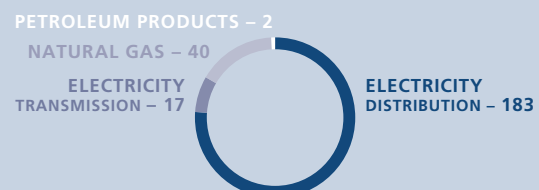
32	applications
146	complaints
74	days of hearings
	- 56 for application
	- 18 for complaints
39	working sessions
61	conciliation sessions
242	decisions
	- 100 applications
	- 142 complaints

Canadian Association of Members
of Public Utility Tribunals 2005 Conference
**Regulating Energy Markets
in a Turbulent Era**

A time for action!



2005-2006 DECISIONS



SOURCE: RÉGIE DE L'ÉNERGIE

The authorized revenue requirement for Hydro-Québec Distribution is \$10.051 billion for the 2006 rate year.

Electricity

ELECTRICITY TRANSMISSION

With respect to electricity transmission, the Régie approved rates and a revenue requirement of \$2.591 billion for the year 2005, reviewed some articles of the transmission rates and conditions of service, the cost allocation method and a faster complaints process.

The Régie approved five authorization requests from the carrier: a project to upgrade the Matapédia regional network in order to integrate wind farms (\$34.6 million); addition of transformers at the Arnaud substation (\$32.1 million); connection of the Chute-Allard and Rapides-des-Coeurs generating stations to the transmission system (\$104.5 million), and connection of the Péribonka generating station (\$184.5 million). The Régie took the application for capital projects with an individual cost of less than \$25 million, which total \$601.7 million, under advisement.

ELECTRICITY DISTRIBUTION

With respect to electricity distribution, the Régie fixed the rates for all Québec consumers as of April 1, 2006. The authorized revenue requirement for Hydro-Québec, when carrying on electric power distribution activities, is \$10.051 billion for the 2006 rate year, a \$463 million increase which will result in an average 5.3% rate hike for consumers.

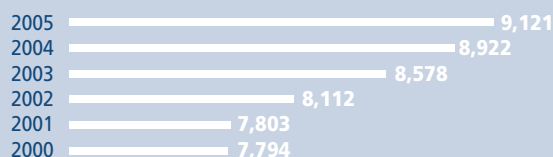


PHOTO: HYDRO-QUÉBEC

RELIABILITY OF ELECTRICITY TRANSMISSION SYSTEMS

The blackout in the summer of 2003 and the recently passed Energy Act in the U.S. have led to changes in network reliability monitoring mechanisms. The Régie is working with the Ministère des Ressources naturelles et de la Faune (Québec's department of natural resources and wildlife) to develop a regulatory framework that is consistent with the new system of mandatory standards while preserving the Régie's jurisdiction on Québec's territory.

ELECTRICITY SALES IN QUÉBEC M\$



ELECTRICITY SALES IN QUÉBEC TWh



SOURCE: HYDRO-QUÉBEC- 2005 ANNUAL REPORT

The Régie de l'énergie approved a \$170 million energy efficiency budget.

Electricity



HYDRO-QUÉBEC DISTRIBUTION RATES

The Régie de l'énergie fixed rates for Hydro-Québec Distribution for the fourth time since its creation. In its decision, the Régie refused Hydro-Québec's request for rate averaging over eight years, which the Régie deemed to be contrary to the public interest. The Régie approved a 5.3% increase. The distributor's authorized revenue requirement was set at \$10.051 billion for 2006.

The Régie also approved pricing and conditions of service related to self-generated electricity. It will now be possible for consumers paying the domestic rate to install generating equipment with a capacity of less than 50 kW to receive credit for the surplus electric power they generate over a 24-month period. The generation facilities must use only renewable energy sources.

The Régie held a hearing on an application to amend some of the distributor's conditions of service for electricity supply and related expenses. This case, which involves network extensions and other issues, has been taken under advisement.

The Régie approved Hydro-Québec Distribution's 2005-2014 supply plan, which has two sections: supplies to meet the electric power needs of customers served by Hydro-Québec's transmission system (the integrated network) and supplies to meet the needs of customers served by independent networks. The Régie ruled on a number of issues, including the distributor's strategy for meeting its short- and long-term post-heritage supply needs and the need for a framework agreement between Hydro-Québec Generation and the distributor. In view of the cost of post-heritage supplies, the distributor must strive to optimize the acquisition and management of such supplies.

ENERGY EFFICIENCY

The Régie approved Hydro-Québec Distribution's updated comprehensive energy efficiency plan for 2005-2010 and the 2006 energy efficiency budget of \$170 million. In all, the plan calls for capital expenditures of \$1.7 billion and energy savings of 4.1 TWh, a 1.1 TWh increase over the target approved in 2005.



The Régie authorized investments of more than \$1.6 billion for the building and upgrading of infrastructure related to electricity transmission and distribution.

The Régie monitored application of the distributor's tender solicitation and contract awarding procedure for several blocks of energy: 1,000 MW of wind energy, 100 MW of biomass energy, 350 MW of energy produced by cogeneration, as well as short-term contracts for energy and power. The Régie also approved an evaluation scale for the second 2000 MW block of wind energy. This tender solicitation is currently being monitored.

After the completion of the tender solicitation for wind energy, the Régie approved the supply contracts totalling 990 MW submitted by the distributor. It also approved the framework agreement between Hydro-Québec Generation and the distributor, as well as the contract between them for load balancing for wind energy. The contract for a block of energy produced by cogeneration is currently before the Régie.

Pursuant to its mandate to monitor tender solicitations and approve contracts awarded to meet electricity needs in excess of the heritage electricity pool of 165 TWh, the Régie approved the contracts submitted by the distributor. It also approved a contract with Hydro-Québec Generation for load balancing for wind energy.

Finally, the Régie approved an application from the distributor to carry out a distribution network automation program at an estimated cost of \$188 million over four years, refurbish the building located at 201 Jarry St. in Montréal at an estimated cost of \$47.6 million, and carry out capital projects with an individual cost of less than \$10 million, for which a \$579.5 million budget has been established for 2006.

ADMINISTRATIVE FOLLOW-UP

Annual reports from the electric power carrier and distributor

Monitoring of tender solicitations

Progress report on the distributor's supply plan

OPINION FOR THE MINISTER CONCERNING THE DISTRIBUTION OF ELECTRICITY TO MAJOR INDUSTRIAL CONSUMERS

On May 30, 2005, the Régie submitted to the Minister of Natural Resources and Wildlife its opinion on electricity distribution to major industrial consumers. The purpose of the opinion was to clarify the legal and regulatory framework governing the obligation to provide service on the part of Hydro-Québec – when carrying on electric power distribution activities – the 175 MW limit in Hydro-Québec's tariffs, and the impact of supplying large quantities of electricity to a single company. The Régie's findings and the recommendations contained in the opinion followed a public consultation.



PHOTO: HYDRO-QUÉBEC

The Régie approved a 1.3% reduction in natural gas distribution rates.

Natural gas



RATE REVIEW

Customers of Gaz Métropolitain and Company, Limited Partnership (GMCLP) saw another reduction in distribution rates during the year. GMCLP uses a variety of financial mechanisms to shield its customers against supply price volatility.

The Régie is reviewing the incentive mechanisms in order to improve the performance of the natural gas distributors and better meet consumer needs.

BIOGAS

Capturing biogas is an effective way to reduce greenhouse gases. Methane produced by decomposing wastes is recovered and used for industrial purposes. For example, the paper on which this report was printed was made at a Québec plant fuelled by biogas.

NATURAL GAS

With respect to natural gas, the Régie continued preparatory work on a review of the gas distributors' conditions of service. The review will clarify and harmonize relations between natural gas consumers and distributors. A public hearing was held from March 15 to 24, 2006 and will continue in June.

The gas distributors' supply plans, which are submitted to the Régie every year, were approved as part of their rate cases.

The Régie also authorized capital expenditures of \$206.2 million during the year for the natural gas distributors.

GAZ MÉTROPOLITAIN AND COMPANY, LIMITED PARTNERSHIP (GMCLP)

The Régie fixed the rates of Gaz Métropolitain and Company, Limited Partnership (GMCLP) as of October 1, 2005. Rates were reduced by an average of 1.3% as of that date. In the same hearing, the Régie also approved GMCLP's supply plan, energy efficiency plan, and the Energy Efficiency Fund's annual and three-year action plans.



The Régie authorized capital expenditures of \$206 million for the natural gas distributors.

GAZIFÈRE INC.

The Régie began examining Gazifère's application to modify its rates as of January 1, 2006. In phase I, it authorized a 3% interim rate increase as of January 1, 2006 and approved Gazifère's existing comprehensive energy efficiency plan for 2006, subject to a few changes. In Phase II, the Régie will examine Gazifère's incentive mechanism, the new elements of the 2006 energy efficiency plan, the energy efficiency plan for 2007-2010, and will make a final determination on rates for 2006.

ADMINISTRATIVE FOLLOW-UP

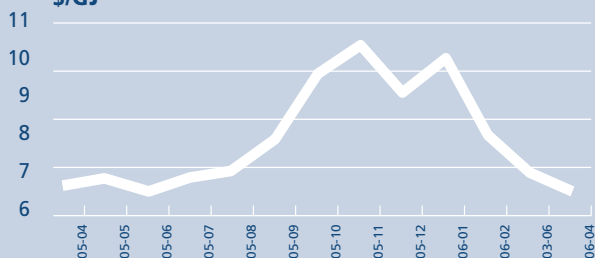
Monthly check of the price GMCLP charges system gas customers for gas supply service

Application for approval of mid-year rate adjustments for GMCLP and Gazifère.

ENERGY EFFICIENCY

GMCLP anticipates a cumulative reduction in natural gas consumption of more than 771.4 million cubic metres over the life of the measures to be implemented under the 2006-2009 comprehensive energy efficiency plan, which is expected to yield total net savings of \$364.6 million, in 2006 dollars, for program participants.

MONTHLY EVOLUTION
OF SYSTEM GAS PRICE — GMCLP
\$/GJ



SOURCE: GAZ MÉTRO

PHOTO: GAZ MÉTRO

The average price of regular gas rose 13% in 2005 compared with 2004.

Petroleum products



PRICE MONITORING

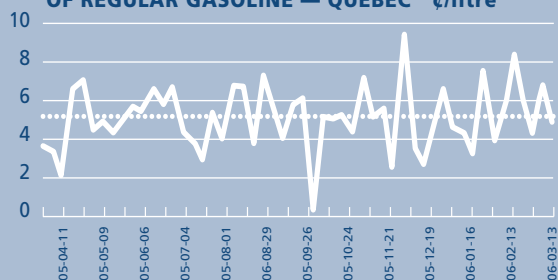
In 2005, the average price of petroleum products increased by 13% in comparison with 2004. The impact of the increase was felt in all segments of the economy. Quebecers consume more than 20 billion litres of petroleum products per year.

PETROLEUM PRODUCTS

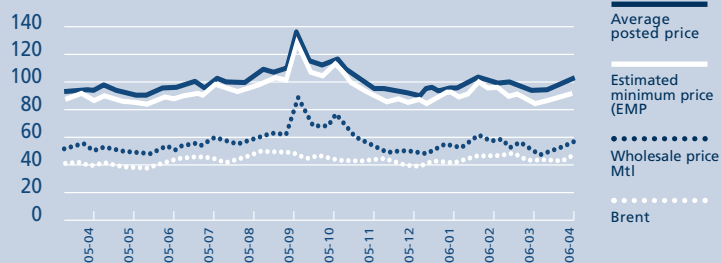
With respect to petroleum products, the Régie continued monitoring the prices of gasoline, diesel fuel and light fuel oil, and published the results every week in its Bulletin d'information sur les prix des produits pétroliers au Québec, which is available on the Régie's Web site. It also responded to daily enquiries about petroleum product prices from the public and the media. From September to December, 2005, it published a daily cost price indicator. Publication of this indicator resumed on March 13, 2006.

The Régie opened a hearing on the operating costs borne by a retailer of gasoline or diesel fuel, in accordance with section 59 of the Act respecting the Régie de l'énergie. A preparatory meeting was held on February 24, 2006, at which the parties expressed their expectations concerning the treatment of the case. A procedural decision was issued on March 7, 2006. This case should be completed in the near future.

DIFFERENCE BETWEEN WEIGHTED PRICE AT THE PUMP AND ESTIMATED MINIMUM PRICE OF REGULAR GASOLINE — QUÉBEC ¢/litre



WEIGHTED PRICE OF REGULAR GASOLINE FOR QUÉBEC AS A WHOLE ¢/litre



SOURCE: RÉGIE DE L'ÉNERGIE

The Régie monitors petroleum product prices in Québec's 17 administrative regions and compiles and publishes the results.

The international geopolitical situation, combined with meteorological conditions which impacted the production and refining of petroleum products in the U.S., had a significant effect on fuel prices. Prices for gasoline, diesel fuel and light fuel oil fluctuated widely in 2005-2006.

The Régie monitors petroleum product prices in Québec's 17 administrative regions, compiles the results, and makes them available to interested persons. It also calculates the estimated minimum price of gasoline and diesel fuel, based primarily on fluctuations in the wholesale price at the loading ramp in Montréal, on a weekly basis.

The Régie's Bulletin d'information sur les prix des produits pétroliers au Québec, a weekly report which has become the standard source on petroleum product prices in Québec, is posted on the Régie's Web site every week. The Régie also responds to daily calls from consumers, the industry and the media.

REGULAR GAS

From April 1, 2005 to March 31, 2006, the weighted average price of regular gasoline at the pump for Québec as a whole was 99.5¢/litre, compared with 87.3¢/litre during the same period of the previous year.

WEIGHTED AVERAGE RETAIL PRICE

- ▼ **89.8** ¢/litre during the week of November 28, 2005
- ▲ **136.4** ¢/litre during the week of September 5, 2005

During the same period, the average weekly minimum price at the loading ramp in Montréal moved in tandem with the price at New York.

PRICE AT THE LOADING RAMP

- ▼ **47.3** ¢/litre during the week of February 20, 2006
- ▲ **87.4** ¢/litre during the week of September 5, 2005

The price fluctuations at the loading ramp were reflected in the estimated minimum price, which is composed of the minimum price at the ramp, average minimum transport costs, and applicable taxes.

ESTIMATED MINIMUM PRICE

- ▼ **83.9** ¢/litre during the week of February 20, 2006
- ▲ **130.0** ¢/litre during the week of September 5, 2005

The average spread between the weighted retail price of regular gasoline, before taxes, and the estimated minimum price was 5.2¢/litre during the period of April 1, 2005 to March 31, 2006, compared with 4.7¢/litre during the same period of 2004-2005.

LIGHT FUEL OIL

The weighted average price of light fuel oil in Québec as a whole was 69.6¢/litre, an 11.6¢/litre increase from the previous year and 23.4¢/litre more than in 2002-2003.

WEIGHTED AVERAGE RETAIL PRICE

- ▼ **64.1** ¢/litre during the week of April 25, 2005
- ▲ **77.4** ¢/litre during the week of September 5, 2005

DIESEL FUEL

The weighted average price of diesel fuel was 101.1¢/litre in 2005-2006, an increase of 15.5¢/litre from the previous year.

WEIGHTED AVERAGE RETAIL PRICE

- ▼ **92.4** ¢/litre during the week of May 23, 2005
- ▲ **114.3** ¢/litre during the week of October 3, 2005

Client relations



CONSUMERS

During the year, the Régie responded to more than 4,000 inquiries from consumers about the distributors' complaint procedures and petroleum product prices.

MEDIA

The Régie de l'énergie is a preferred information source and reference for the public and the media. Its work and its publications receive extensive coverage in both print and electronic media.

During the year, the Régie received 323 calls from journalists interested in energy issues in general or in cases before the Régie in particular.

COMPLAINTS FROM CONSUMERS OF ELECTRICITY OR NATURAL GAS

The Régie has exclusive jurisdiction to examine any complaint filed by a consumer concerning the application of a rate or a condition for the distribution of natural gas or electric power or for the transmission of electric power. In 2005-2006, the Régie received 146 complaints. Most related to Hydro-Québec in its capacity as a distributor of electric power.

In exercising its jurisdiction to examine complaints from consumers of natural gas and electricity, the Régie settled 142 cases in 2005-2006, 56 by agreement between the parties, 42 through conciliation, 27 by decision on the basis of the file, and 17 after holding an oral hearing.

CONCILIATION, AN ALTERNATIVE DISPUTE SETTLEMENT METHOD

The Régie continued its efforts to make conciliation the preferred method for handling consumer complaints against the electric power carrier or a distributor. The free conciliation service, introduced in the fall of 2004, promotes understanding and mutual respect, fostering the settlement of disputes in a manner satisfactory to both parties.

To encourage the use of conciliation to settle complaints, the Régie informs complainants of the service and offers to hold a conciliation session at their convenience within a 30-day limit. The sessions are held at the Régie's offices, before an experienced conciliator chosen by the Régie through a demanding selection process.

The Régie continued its efforts to make conciliation the preferred method for handling consumer complaints.

The Régie is proud of the benefits that have been achieved for the regulated companies and their customers. The proportion of complaints against Hydro-Québec that were referred to conciliation, with the consent of the parties, increased from 56% in 2004-2005 to 75% in 2005-2006. For the other distributors, 100% of complaints were referred to conciliation. In all, 61 cases went to conciliation during the year. Of these, 58 have been concluded and 45 ended with an agreement between the parties, for a success rate of close to 78%. Distributors and consumers both benefit.

While there were cases in which conciliation ended without an agreement, it did open the lines of communication between the parties, and in some of those cases the parties subsequently reached a mutually satisfactory agreement.

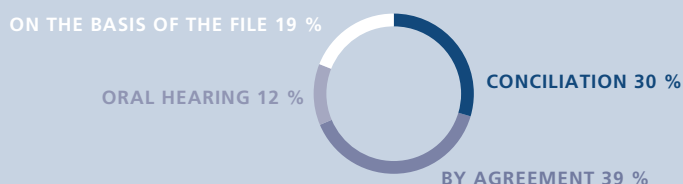
Since the conciliation service was introduced in the fall of 2004, it has handled a total of 78 cases, in 81% of which conciliation ended with agreement between the parties. The positive results confirm that the Régie's decision a year and a half ago to promote conciliation has been beneficial for its clients.

ANNUAL MEETING WITH STAKEHOLDERS

The Régie held a day-long meeting with stakeholders at which it consulted them on priorities for its next strategic plan and on how its operations could be improved. The annual meeting with stakeholders helps establish an atmosphere of trust that fosters discussion and enhances the effectiveness of the Régie's work.



2005-2006 COMPLAINT TREATMENT MODE



SOURCE: RÉGIE DE L'ÉNERGIE

WEB SITE

The Régie's Web site has become a basic reference source for everyone interested in energy-related developments in Québec. In the last year, there were 152,348 hits on the site.

Weekly updates on regulatory developments and petroleum product prices are emailed to subscribers. The number of subscribers increased to nearly 500, 25% more than the previous year, demonstrating the usefulness of the service.

The Régie de l'énergie is developing a strategic plan designed to improve client satisfaction and enhance the effectiveness of resource management.

THE RÉGIE LISTENS TO ITS CLIENTS

In connection with the development of its 2007-2010 strategic plan, the Régie met in the fall of 2005 with persons representing the interests of residential, commercial, institutional and industrial consumers, environmental groups, the electric power carrier, and the distributors of electricity and natural gas. It listened to their concerns and comments on the issues they and the Régie will be facing in the years ahead. It also received suggestions for improving the handling of applications. The discussions held at this meeting and at various other meetings throughout the year will help the development of the Régie's strategic plan and of initiatives to respond to clients' needs and concerns.

MORE EFFICIENT CHANNELS OF COMMUNICATION AND OPERATING METHODS FOR PARTICIPANTS

The Régie's Web site provides access to all public documents pertaining to past and current applications and to transcripts of hearings. A powerful search engine supports full-text searches of the entire database. Recent developments in current cases are posted in the "What's New" section. Pages from the section on petroleum product prices are emailed to interested persons who subscribe to the service.

Electronic communications have become the norm at the Régie. Since this makes it possible to update the site in real time, documents related to current hearings can be consulted almost immediately. This also makes it possible to conduct paperless hearings, as interested parties have access to electronic versions of the documents via the Internet in the hearing room.

And since hearings are webcast in real time, all interested persons can listen to the proceedings live without attending.

The ongoing effort to improve the Régie's Web site and communication channels make the Régie's work more accessible to participants as well as to the general public. In addition, the weekly publication of the Bulletin d'information sur les prix des produits pétroliers au Québec has made the Régie's site a basic source for information on energy in Québec.

OTHER TOOLS FOR CONSUMERS

A number of tools are available to help different audiences understand the Régie's roles, functions and powers, as well as the procedures it follows. For example, the procedure for handling complaints from consumers of electricity and natural gas can be accessed online directly from the Régie's home page. Consumers can also call the complaints info line. Calls are answered in under a minute.

When a consumer lodges a complaint with the Régie against a distributor of electricity or natural gas, he or she is sent a brochure which explains the Régie's complaints process in clear and accessible language. The brochure is also available on the Web site. It helps consumers understand and prepare for the process. Another information brochure is sent to consumers who agree to conciliation. The Secretariat's staff receives training on a regular basis and can respond promptly and straightforwardly to all questions from complainants.

The Régie received many emails from consumers of energy wishing to receive information on various energy-related issues or to express their opinions. All received a personalized reply within 24 to 48 hours. In all, the Régie responded to 350 messages received at the Secretariat's email address.

Public participation

INTERVENOR COSTS AWARDED BETWEEN APRIL 1, 2005 AND MARCH 31, 2006, BY FORM OF ENERGY

Electricity	\$	2,426,963.03
Natural gas	\$	494,227.55
Petroleum products	\$	0.00
Total	\$	2,921,190.58

PAYMENT OF INTERVENORS' COSTS

The Régie may order the electricity carrier or any distributor of electricity or natural gas to pay, in whole or in part, expenses related to proceedings conducted under the Régie's authority. When the public interest warrants, the Régie may pay such costs for groups formed for the purpose of participating in its public hearings. The amount of the reimbursement is determined in accordance with the Act, the Rules of Procedure and the Intervenor Costs Payment Guide.

In 2005-2006, the Régie authorized the reimbursement of intervenor costs totalling nearly \$3 million.

LIST OF INTERVENORS

Alcan Primary Metal, Quebec
Alcoa Ltd.
Aluminum Association of Canada
Association coopérative d'économie familiale de l'Outaouais
Association coopérative d'économie familiale de Québec
Association de l'industrie électrique du Québec
Association des redistributeurs d'électricité du Québec
Association des stations de ski du Québec
Association québécoise de lutte contre la pollution atmosphérique
Association québécoise des consommateurs industriels d'électricité
Association québécoise des indépendants du pétrole
Hugo Beaulieu
Mohamed Benhaddadi
Jean-Thomas Bernard
Marcel Boyer
Brascan Energy Marketing Inc
Canadian Federation of Independent Business
Canadian Petroleum Products Institute
Canadian Wind Energy Association
Centre d'études réglementaires du Québec
Louis Charest
Coalition pour la modernisation de l'aluminerie Alcoa de Baie-Comeau
Conférence régionale des élus de la Côte-Nord
Corporation de promotion industrielle et commerciale de Sept-Îles
Fédération des commissions scolaires du Québec
Gazifère Inc.
Gaz Métropolitain and Company, Limited Partnership
Groupe de recherche appliquée en macroécologie
Helios Centre
Hydro-Québec Distribution
Hydro-Québec TransÉnergie
Imperial Oil Ltd.
Industrial Gas Users Association
Manufacturiers et exportateurs du Québec
Guy Olivier
Ontario Power Generation
Option Consommateurs
Ordre des architectes du Québec
Gabriel O. Ouellet
Petro-Canada
Québec Forest Industry Council
Regroupement des organismes environnementaux en énergie
Regroupement national des Conseils régionaux de l'environnement du Québec
Shell Canada Ltd.
Stratégies énergétiques
TransCanada Energy Ltd.
Ultramar Ltd.
Union des consommateurs
Union des municipalités du Québec
Union des producteurs agricoles

The Régie's team

A POOL OF EXPERTISE

The Régie de l'énergie is a specialized agency that needs advanced expertise and knowledge to properly assess the applications and evidence submitted to it.

Its commissioners and staff are experts on energy and economic regulation who have been selected on the basis of the quality and relevance of their experience and training.

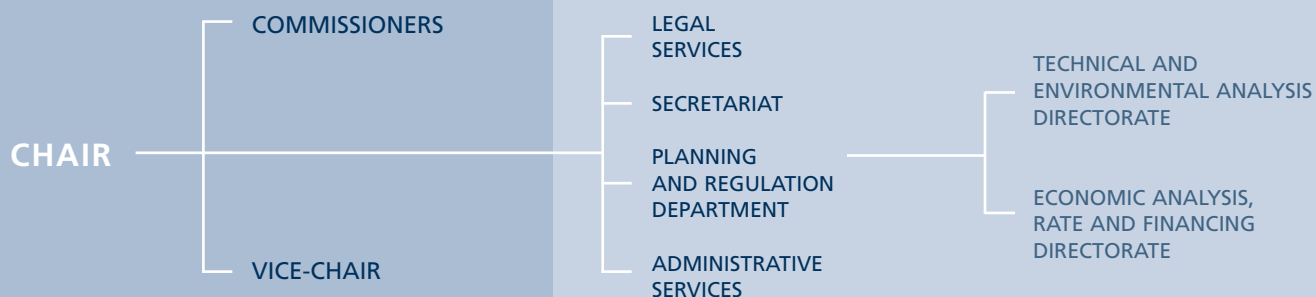


COMMISSIONERS
MICHEL HARDY, BENOÎT PEPIN AND RICHARD CARRIER

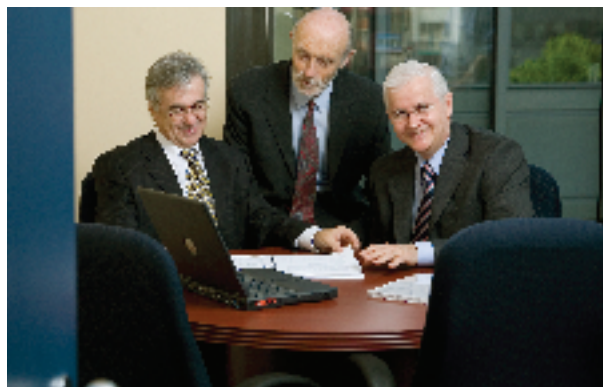


The Régie is composed of 10 commissioners, including 3 supernumerary commissioners. A team of 65 managers, professionals and support staff provides the commissioners with analyses, legal opinions and follow-up on files.

The Chairman of the Régie, who also sits as a commissioner, assigns and coordinates the work of the commissioners. He is responsible for the Régie's administration and directs its staff. He launches appropriate investigations and inspections under the Act.



The Régie's commissioners and staff are experts on energy and economic regulation.



COMMISSIONERS
GILLES BOULIANNE, ANTHONY FRAYNE AND RICHARD LASSONDE



COMMISSIONERS
FRANÇOIS TANGUAY, LOUISE ROZON AND ROBERT MEUNIER

The Chairman of the Régie is assisted by an Executive Assistant and a support team. The Management Committee consists of eight managers: the Chairman of the Régie, the Vice-Chairman, the Secretary, the Executive Director - Planning and Regulation, the Director of Legal Services, the Director of Administrative Services, the Communications Director, and the Executive Assistant to the Chairman. The Committee discusses the Régie's administrative affairs, including the allocation of resources to various operations. The Committee also monitors administrative and financial matters.

The Committee of Commissioners, composed of all the commissioners, meets to discuss the Régie's general approaches and to coordinate the regulatory agenda.

Engineers, accountants, economists, lawyers and other professionals analyze and monitor cases related to natural gas, electricity and petroleum products on a daily basis. A support team helps manage cases efficiently. Since their expertise must be kept up-to-date, the Régie encourages training for its people and makes sure they are kept abreast of the latest technical and regulatory developments.

ADMINISTRATIVE STRUCTURE

The Régie has a streamlined structure composed of the Chairman's Office and four departments. The majority of the Régie's employees work at the head office in Montréal, where most activities and hearings take place. The Régie also has an office in Québec City to serve clients in the Québec City area and Eastern Québec.

Issues for 2006-2007

Electricity

TRANSMISSION

2007 transmission rate
Analysis of 2005 Annual Report
2006 capital projects (\$25 million or less)
2007 capital projects (\$25 million or less)
Saint-Lin substation
Transfer of telecommunications equipment
Paugan, Quyon and Chutes-des-Chats circuits
Hauterive substation
Connection of Eastmain 1A
Connection of wind farms (990 MW)
Approval of reliability standards

DISTRIBUTION

Progress report on supply plan
Supply contract for Schefferville system
2007 distribution rates
Interruptible tariff - Large Power category and emergency generator program
Review of conditions of supply - Bylaw 634 (chapters 3, 4, 5 and right to interrupt service)
Analysis of 2005 Annual Report
Comprehensive energy efficiency plan - approval of 2007 budget
Changes to Wemindji system
Automated georeferencing project
Rate conditions for the Schefferville system

Natural gas

Review of conditions of service for natural gas (GMCLP and Gazifère)
Analysis GMCLP 2005 Annual Report
GMCLP 2007 distribution rate
Renegotiation of GMCLP incentive mechanism
Analysis of Gazifère 2005 Annual Report
Gazifère 2006 and 2007 distribution rates
Liquefied natural gas supply contract (GMCLP)
Intragaz storage rate

Petroleum products

Review of operating costs of gasoline retailers

Ongoing activities

Treatment of complaints from consumers of electricity and natural gas
Monitoring of operations of electric power and natural gas distributors and electric power carrier

NATURAL GAS

Monthly adjustment of GMCLP's cost of system gas and fuel gas
Quarterly adjustment of GMCLP's transmission and load balancing rates
Quarterly adjustment of Gazifère's rates

ELECTRICITY

Monitoring of tender solicitations for short-term contracts for electricity

PETROLEUM PRODUCTS

Monitoring of petroleum product prices, weekly calculation of estimated minimum price, periodic calculation of daily acquisition cost indicator

Commissioners' code of ethics

1. **GENERAL PRINCIPLES** Commissioners shall at all times conduct themselves with loyalty and dignity, demonstrate reserve, and abstain from any statement or action that is incompatible with their duties. In the performance of their mandate, commissioners shall promote the satisfaction of Québec's energy needs in accordance with the principles of sustainable development and with attention to economic, social and environmental concerns. They shall also reconcile the public interest, consumer protection and equitable treatment of distributors.

2. **IMPARTIALITY** Commissioners shall demonstrate impartiality at all times. They shall act and be seen to act objectively and without prejudice. They shall abstain from expressing in public any opinions that might cast doubt on their objectivity or impartiality, or that of the Régie.

3. **INDEPENDENCE** Commissioners shall at all times defend the independence of their office. They shall perform their duties free of all interference. They shall avoid placing themselves in a vulnerable position.

4. **POLITICAL NEUTRALITY** Commissioners shall set aside their personal political opinions so as to perform their duties with due objectivity. Commissioners shall exercise reserve in the public expression of their political opinions and shall not belong to any advocacy group that takes positions on energy-related matters.

5. **CONFLICTS OF INTEREST** Commissioners shall avoid placing themselves in a position of conflict of interest. They shall arrange their personal affairs so as not to interfere with the performance of their duties. They shall not use the power of their position to obtain or grant any benefit or favour. Commissioners shall have no interest, direct or indirect, in any company that produces, transports, distributes or supplies energy, or in any organization, association or undertaking an interest in which would create a conflict between their personal interests and the duties of their position.

6. **DECLARATION OF INTERESTS** Each Commissioner shall submit an annual written declaration to the Chairman of the Régie stating all the interests he or she possesses which he or she believes could create a conflict of interest.

7. **RECUSAL** Commissioners shall recuse themselves from any deliberations in which their ability to deal impartially with the application under consideration could be in doubt. A commissioner shall bring any situation which he or she deems to be problematic to the attention of the Chairman of the Régie.

8. **CONFIDENTIALITY** Commissioners shall swear an oath of confidentiality upon entering upon their duties. Commissioners shall abstain from making any comment or taking any public position on any file, whether or not they are personally responsible for that file, and shall express their points of view only through the decisions rendered by the Régie. Commissioners shall at all times respect the confidentiality of the documents and information to which they are made privy in the performance of their duties and may not use them for personal ends.

9. **DUTY TO ACT WITH EQUITY** At hearings and in examining applications, commissioners shall ensure that all participants have the opportunity to be heard and to make their arguments, insofar as those arguments are admissible and relevant. At hearings, commissioners shall maintain order, taking a firm but courteous attitude which fosters mutual respect among all present.

10. **COLLEGIALITY** Each commissioner shall provide his or her colleagues with appropriate support, while respecting the areas of competence of each. Commissioners shall strive to ensure that the decisions rendered by the Régie are consistent, so that all intervenors who appear before the Régie receive equitable treatment.

11. **EXCELLENCE** Commissioners shall keep their professional skills and knowledge current so as to maintain the quality of their work.

12. **DILIGENCE** Commissioners shall render written, reasoned decisions, effectively and diligently, in plain language.

13. **OATH** Upon entering upon their duties, commissioners shall take the following oath: "I, ... , commissioner, do solemnly declare that I will exercise the powers and perform the duties of my position impartially and honestly, to the best of my ability and knowledge."

Financial Summary

The Régie's estimated financial results for the fiscal year ended March 31, 2006 are as follows:

Opening accumulated surplus	\$	769,646
Revenues	\$	8,152,014
Expenses	\$	8,401,530
Ending accumulated surplus	\$	520,130

OTHER INFORMATION

Revenues for the fiscal year ended March 31, 2006 consisted primarily of the duties paid, in accordance with section 102 of the Act, by the electric power carrier, the electric power distributors, including Hydro-Québec Distribution, the natural gas distributors and petroleum product distributors that exceed the volume stipulated by regulation. Pursuant to section 107 of the Act, any amount by which revenues exceed expenditures in a fiscal year is carried over to the subsequent annual budget, reducing the duties payable to the Régie during the following fiscal year. The audited accumulated surplus for 2005-2006 will therefore be taken into account in calculating the duties payable in 2006-2007.

In accordance with section 106 of the Act and the related Order-in-Council (# 832-2004), the Régie's budget forecasts for fiscal 2005-2006 were submitted to the Government on January 27, 2005 and approved by Order-in-Council 527-2005 on June 1, 2005.

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THE RÉGIE'S TEAM OF COMMISSIONERS

For more information on the Régie,
its people, its accomplishments and
current cases, consult our Web site.

www.regie-energie.qc.ca

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**Régie
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