



May 18, 2015

Ms. Susan M. Cospers, CPA  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116  
U.S.A.

Via Email to [director@fasb.org](mailto:director@fasb.org)

Subject: File Reference No. EITF-15A

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Dear Ms. Cospers,

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, « *Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets* ».

The following pages provide a brief picture of Hydro-Québec, along with our comments on specific points in the proposal.

We would like to point out that the delay to answer the Proposed Accounting Standards Update seems to be shorter than usual. We would have appreciated to have more time to comment.

Sincerely,

A handwritten signature in blue ink that reads 'Lise Croteau'.

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Lise Croteau, FCPA, FCA  
President and Chief Executive Officer by interim

Hydro-Québec is a Crown corporation that generates, transmits and distributes electricity. Its mission under its governing statute is to supply power and to pursue endeavors in energy-related research and promotion, energy conversion and conservation, and any field connected with or related to power or energy. In Québec, electricity transmission and distribution activities are regulated by the Régie de l'énergie (Energy Board).

Through its Hydro-Québec Production division, Hydro-Québec generates power for the Québec market and sells electricity on wholesale markets. Hydro-Québec Production is dealing with independent system operators, most of who are in the Northeastern U.S. In 2014, net electricity exports outside Québec by Hydro-Québec Production were 25.4 TWh.

Derivative instruments are used to manage price risks resulting from fluctuations in energy prices.

*Question 1: Is the scope of the proposed amendments sufficiently clear about the type of contracts to which the proposed amendments apply? Should the scope of the proposed amendments be limited to entities that enter into contracts for the purchase or sale of electricity on a forward basis for delivery to a location within an electricity grid operated by an independent system operator whereby one of the contracting parties incurs charges (or credits) for the subsequent transmission of that electricity based in part on locational marginal pricing differences payable to (or receivable from) the independent system operator? If not, please explain why.*

We understand that the proposed amendments specifically target physical electricity purchase or sale agreements on a forward basis between a generator and a distributor using an independent system operator. The role of the independent system operator is basically to coordinate the transmission of electricity through localizations between the source and the sink.

As expressed in our answer to question 2, we agree with the accounting treatment proposed in the Accounting Standards Update. In addition to the transactions scoped in the proposed update, we considered that the following transactions, similar in nature, should also be eligible for the normal purchases and normal sales exception.

➤ Internal Bilateral Transaction:

With the evolution of nodal energy markets, generators sell electricity and retailers purchase electricity through transactions on the real-time and the day-ahead markets. Sometimes, a generator and a retailer may want to fix the price of the electricity they purchase and sell. They then take access to the mechanism the ISO has put in place called the Internal Bilateral Transaction (IBT).

When the following conditions are met, we think that the IBT and the purchase or sale through the ISO should be viewed as a whole, as a physical forward purchase or sale of energy at a fixed price and, as such, be considered a normal purchase or sale eligible for the exception.

- The Internal Bilateral Transaction, between the generator and the retailer, and the “physical” sale or purchase of electricity, through the ISO, have to be entered into in contemplation of one another;
- The generator has to flow to the ISO all (or almost all) of the quantity of energy referred to in the IBT;
- The transactions are structured by an intermediary, which is an independent system operator;

- The point of delivery of the physical sale of electricity has to be the same as the point of the reference price in the Internal Bilateral Transaction, or they have to be highly-correlated.

➤ **Linked wheeling-through transaction:**

To conclude bilateral contracts in other jurisdictions it sometimes is necessary to transmit the energy through independent system operators that are between the source and the sink. The transaction could result in a series of simultaneous purchase and sale forward contracts through different market jurisdictions. We believe that this type of transaction is in substance similar to the type of transaction already included in the proposed update. In fact, we use the transmission lines of independent system operators, and often in more than one jurisdiction, to transmit the electricity we generate to our final buyers.

***Question 2:*** *Do you agree that the use of locational marginal pricing by an independent system operator to determine the transmission charge (or credit) should not constitute net settlement of a contract for the purchase or sale of electricity, even in scenarios in which legal title to the associated electricity is conveyed to the independent system operator during transmission? If not, please explain why.*

Yes. We agree with the Task Force that the use of locational marginal pricing by an ISO to determine the transmission charge (or credit) should not constitute net settlement of a contract for the purchase or sale of electricity for the following reasons:

- The Guidance has to consider the evolution of nodal energy markets and should take into account that using an independent system operator for transmission is the only way to procure the physical delivery of electricity.
- The intention behind such transactions is not to speculate on electricity prices, but to physically deliver electricity.
- Independent system operators are not “principals” in substance. They have to be considered as intermediaries between market participants.
- Since electrons cannot be tagged, contracts for which electricity transits through an independent system operator should be considered as one “physical” transaction—when the generator transmits electricity into the pool and when the end-user receives it from the pool—even though it involves a series of purchases and sales transactions.

***Question 3:*** *Should the proposed amendments be applied prospectively? If not, what transition method should be applied and why?*

Yes. We agree with the Proposed Accounting Standards Update, aligned with the actual standard, which allows for the election at the inception of the contract or at a later date to designate any qualifying contracts as normal purchases or normal sales. Retrospective application is really not appropriate for this proposal, since it refers to markets whose conditions have evolved intensively in the past few years. New guidance is only appropriate prospectively because it reflects the actual market conditions.

***Question 4:*** *How much time would be needed to implement the proposed amendments? Should early adoption be permitted?*

These changes could be implemented swiftly, which is why we believe that early adoption should be permitted.

