

**RÉPONSES DE GAZIFÈRE INC. À LA DEMANDE DE RENSEIGNEMENTS NO 2 DE
LA FÉDÉRATION CANADIENNE DE L'ENTREPRISE INDÉPENDANTE
RELATIVEMENT À LA DEMANDE D'APPROBATION DU PLAN
D'APPROVISIONNEMENT ET DE MODIFICATION DES TARIFS AU 1^{er} JANVIER
2010**

CAUSE R-3692-2009 PHASE III

Questions 1 et 2

Référence :

- (i) GI-34, document 1, p. 1, question et réponse 1

Préambule :

La référence (i) se lit comme suit :

Question 1 :

Veillez présenter l'équivalent des tableaux 1 et 2 de la référence (ii) pour l'année témoin 2010.

Please file the equivalent tables 1 and 2 in reference (ii) for the 2010 test year.

Réponse 1:

Gazifère is unable to file equivalent tables 1 and 2 of exhibit GI-24, document 1.1 for the 2010 test year. The Contract Demand forecast technique has changed since then.

Questions :

1. Veillez déposer intégralement la nouvelle méthodologie de prévision de la capacité de pointe et présenter le détail du calcul pour l'année témoin 2010.

Réponse 1 :

In order to forecast Contract Demand for the 2010 test year a time series regression model was estimated in the following form:

$$LN(PDFV_t) = c + LN(PDD_t) + LN(UN_TOTAL_MA2_t) + \varepsilon_t$$

Where:

- LN(.)** = Natural logarithm of the variable
- PDFV** = Peak Day Firm Volumes
- c** = Constant
- PDD** = Peak Day Balance Point Degree Days
- UN_TOTAL_MA2** = Total Gazifère unlocked customers for peak day month
- ε** = Error term

Please note that UN_TOTAL_MA2 is an average of the 1st day of the peak day month and the 1st day of the month immediately after the peak day month. Since the number of unlocked customers are reported on the 1st day of the month, the average between the 1st day of the peak day month (typically January) and the month directly after the peak day month (typically February) acts as an acceptable proxy for peak day month of unlocked customers.

Table-1 outlines the input data which was used to estimate the Contract Demand equation above:

Table-1
Contract Demand Regression Equation Input

<i>Col. 1</i>	<i>Col. 2</i>	<i>Col. 3</i>	<i>Col. 4</i>	<i>Col. 5</i>
	PDFV	PDD	UN TOTAL MA2	PDFV Month
2000	984,300.0	36.0	23,062.5	January
2001	827,175.0	29.4	24,169.0	February
2002	881,593.0	29.1	26,084.0	December
2003	1,032,000.0	36.8	26,295.5	February
2004	1,206,988.0	38.6	27,714.0	January
2005	1,134,486.0	38.9	29,358.5	January
2006	979,021.0	32.3	30,623.5	January
2007	1,039,167.0	33.2	31,841.5	January
2008	1,003,660.0	32.8	33,073.0	January
2009	1,203,102.0	38.8	34,411.5	January

NOTE: The 2009 values for PDFV, PDD, and UN_TOTAL_MA2 use Gazifère's January and February 2009 results. January 15th is the assumed peak day until a full year of data becomes available.

Figure-1 presents the estimated regression equation output:

Figure-1
 Contract Demand Regression Equation Output

Dependent Variable: LN(PDFV) Range: 2000 2009				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.44	0.88	8.47	0.00
LN(PDD)	0.92	0.11	8.70	0.00
LN(UN_TOTAL_MA2)	0.30	0.09	3.50	0.01
R-squared	0.94	F-statistic		54.96
Adjusted R-squared	0.92	Prob(F-statistic)		0.00

In order to complete the 2010 forecast of Contract Demand, it is necessary to calculate the number of unlocked customers for the peak day month (UN_TOTAL_MA_2) and peak day degree days (PDD) for the 2010 test year.

To determine UN_TOTAL_MA_2 for 2010, the average of the January 2010 and February 2010 unlocked customers as found in exhibit GI-24, document 1.1, page 3 of 3, line 89, columns 1 and 2 was calculated. Therefore, 2010 UN_TOTAL_MA_2 will equal $((35,873+35,950)/2) = 35,912$.

Since peak day firm volumes and PDD data begins in the year 2000, the average of PDD from 2000 to 2009 is used to estimate 2010 PDD. Therefore, the PDD budget for 2010 will equal 34.6.

Conducting a one year out-of-sample forecast of Contract Demand using the regression equation estimated in Figure-1, with the 2010 estimates of UN_TOTAL_MA_2 and PDD, produces a 2010 Contract Demand forecast of 1,103.1 10³m³.

2. Veuillez produire la demande de pointe prévue sur une base mensuelle pour l'année témoin.

Please show forecast peak demand on a monthly basis for the test year.

Réponse 2:

The forecast of Contract Demand is presented on an annual basis for the test year. The specific month in which peak demand will be realized is not forecasted, only the peak volume of natural gas that the Company will need to supply to the system on any given day during the test year is forecasted.

Questions 3 à 5

Références :

- (i) GI-34, document 1, pp. 5 et 6, question et réponse 7

Préambule :

La référence (i) se lit comme suit :

Question 7 :

Veillez ventiler le « Effective project revenue requirement » entre les fonctions « gas supply commodity », « gas supply load balancing », « transportation » et « distribution » pour les années 1, 2 et 32 du plan de développement.

7. Please split the « Effective project revenue requirement » between the components « gas supply commodity », gas supply load balancing », « transportation » and « distribution » for years 1, 2 and 32.

Réponse 7 :

The feasibility calculation is based on discounted cash flow (“DCF”) analysis which is adopted to calculate net present value (“NPV”) and profitability index (“PI”) for the project. It does not produce the split between requested components of the effective project revenue requirement.

The effective project revenue requirement is the revenue the project needs to earn in any given year in order to provide adequate service to its customers and allowed return for its shareholders. The revenue requirement components used in the feasibility are as follows:

- $RR = Y + r(RB) + I + D + O\&M + T$
RR = revenue requirement = cost of providing service/year
Y = cost of gas
r (RB) = rate of return allowed by the Régie on equity portion of rate base
I = interest
D = depreciation expense on assets in rate base
O&M = operating and maintenance expenses
T = taxes (income, capital, municipal, etc.)

Questions :

3. Suivant la réponse fournie en préambule ($RR = Y + r(RB) + I + D + O\&M + T$), veuillez confirmer que la portion distribution du « Effective project revenue requirement » (RR) pour une année donnée peut être obtenue en y soustrayant l'item « Gaz cost » présenté dans le « DCF Analysis » ($RR - \text{Gaz Cost} = \text{portion Distribution de RR}$). Ainsi, la portion distribution du RR pour l'année 2 du plan de développement serait obtenue par le calcul suivant :

According to the answer given in the preamble ($RR = Y + r(RB) + I + D + O\&M + T$), please confirm that the distribution portion of the "Effective project revenue requirement" (RR) for a given year may be obtained by subtracting the "gas cost" shown in the "DCF Analysis" ($RR - \text{Gas Cost} = \text{Distribution portion of RR}$). Thus, the distribution portion of RR for year 2 of the development plan would be obtained by the following calculation:

$$1\,975\,110 \$ - 1\,339\,585 \$ = 635\,525 \$$$

Réponse 3:

Gazifère confirms that based on calculations in exhibit GI-22, document 2.1, the distribution revenue is \$635,525. With that number, the marginal cost per customer-add for 2010 would be \$516.7. Whereas, based on Gazifère's Incentive Regulation (IR) formula, revenue requirement per customer would be \$586.59 as submitted in exhibit GI-23, document 2.

However, the Company would like to reiterate that there is no direct connection between the revenue requirement per customer calculated through the IR formula and marginal cost per customer-add during a single year.

Marginal costs per customer-add are based on incremental costs of adding new customers during a single year; only costs which increase by adding new customers

are taken into consideration. For example, if the company incurs additional costs to lay new pipeline then incremental pipeline costs would be included in customer feasibility analysis. Contrary to that, since the capital costs of maintenance of 977,263\$ forecasted for 2010 as outlined in exhibit GI-22, document 1, page 7 of 14, R.12, are not related to customer additions, these amounts are not included in the feasibility calculation. Also, if certain costs such as office rent are not impacted by adding more customers then no allocations will be made on account of office rent expenses in the feasibility analysis. Marginal costs per customer-add number could be impacted by factors such as customer-add mix (residential versus commercial or industrial, new construction versus conversions), fluctuations in price of materials (pipes), labor and other. As can be seen in the table below, marginal cost per customer-add fluctuates year over year reflecting changes in various factors mentioned above.

	Marginal Cost per Customer-add (New Customers) \$	Revenue Requirement per Customer under IR (All Customers) \$
2005	475.7	546.12
2006	530.3	553.79
2007	520.0	575.33
2008	493.6	574.35
2009	530.2	587.64
2010	516.7	586.59

On the other hand, the revenue requirement per customer used in the IR formula is based on system-wide average cost per customer. This number reflects historic and current costs and captures total costs incurred to serve all the existing and new customers. The office rent cost discussed in marginal cost per customer example above as well as the impact on revenue requirement resulting from the capital costs of maintenance would be a part of the revenue requirement per customer. Given the fact that revenue requirement per customer number includes all the costs, it is likely to be different from marginal cost per customer add number. As can be seen above, the two costs have little or no co-relation and move almost independently of each other.

For illustration purposes, the impact on revenue requirement resulting from the capital costs of maintenance forecasted for 2010 drives the cost per customer used in the feasibility calculation from 516.7\$ to 610.8\$, amount higher than the 586.59\$ as used in the IR formula.

In summary, the revenue requirement per customer and marginal cost per customer add are two different indicators with different drivers, inputs, and calculation methodologies. The two ratios serve different purposes and should not be looked at as substitutes for each other. Therefore, it would not be appropriate to compare the two numbers.

4. Veuillez ventiler le « Effective project revenue requirement » entre les éléments présentés à la réponses 7.

Please provide a breakdown of the “Effective project revenue requirement” into the components shown in answer 7.

Réponse 4:

RR =	\$ 1,975,110
Y =	\$ 1,339,585
Allowed Return on Equity portion=	\$ 151,960
I =	\$ 159,864
D =	\$ 155,760
O&M =	\$ 103,334
T =	\$ 64,607

5. Si Gazifère ne confirme pas le calcul ci-haut, veuillez indiquer quel serait le calcul approprié pour isoler la portion Distribution et veuillez ventiler le « Effective project revenue requirement » entre les fonctions « gas supply commodity », « gas supply load balancing », « transportation » et « distribution » pour les années 1, 2 et 32 du plan de développement tel que demandé à la question 7 de la DDR 1 de la FCEI.

If Gazifère does not confirm the above calculation, please indicate the appropriate calculation that would isolate the Distribution portion, and please provide a breakdown of the “Effective project revenue requirement” into the “gas supply commodity”, “gas supply load balancing”, “transportation” and “distribution” functions for years 1, 2 and 32 of the development plan, as requested in question 7 of the FCEI’s request for information No. 1.

Réponse 5:

Please refer to answer to question 3 above.

Question 6

Références:

- (i) GI-34, document 1, p. 8, réponse 11
- (ii) GI-25 doc. 1, p.20
- (iii) GI-25, p.35 et 36

Préambule :

La référence (i) se lit comme suit:

Question 11. Gazifère dispose-t-elle d'information historique sur l'efficacité énergétique des appareils installés sous le programme d'appareil de chauffage certifié Energy Star®?

Réponse 11 :

Pour tous les volets du programme (achat, location, communautaire), il s'agit d'appareils dont l'efficacité affiche un minimum de 90 %.

À la référence (ii) Gazifère indique que le programme d'appareil de chauffage certifié Energy Star® compte 115 participant au volet achat et 55 participants au volet location pour les années en 2007 et 2008.

Question :

6. Veuillez produire la distribution précise du niveau d'efficacité des appareils installés dans le cadre du programme d'appareil de chauffage certifié ÉnergieStar® en complétant le tableau ci-dessous.

Tableau 1 : Distribution du niveau d'efficacité des appareils installés dans le cadre du programme d'appareil de chauffage certifié ÉnergieStar®

	Achat	Location	Total
90 %			
91 %			
92 %			

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93 %			
94 %			
95 %			
96 %			
97 %			
98 % et plus			
Total	115	55	170

Réponse 6 :

Pour adhérer au programme *Appareil de chauffage certifié Energy Star*, les clients doivent faire l'achat ou la location d'un générateur d'air chaud à haut rendement énergétique dont l'efficacité minimum est de 90 %. Autre que ce critère d'admissibilité, le pourcentage précis d'efficacité des appareils installés n'est pas une donnée recueillie et comptabilisée par Gazifère.