GAZIFERE INC
Engagements #1 et #2
CAUSE TARIFAIRE 2011 – PHASE I

Engagement #1 : Faire la réconciliation détaillée du calcul du surplus de revenus 2009 de 149 238$ proposé par Gazifère à la pièce GI-5, Document 1.2, par rapport au chiffre révisé de 1 095 000$ proposé par M. Jean-Benoît Trahan dans le mémoire de l'ACIG pour la phase 3; identifier et quantifier toute erreur de calcul ou méthodologie de la part de M. Trahan, le cas échéant (demandé par l'ACIG)

Engagement #2 : Quantifier exactement le surplus de revenus nets de distribution pour Gazifère découlant de l'écart total de 19 621 000 m3 de volumes au service interruptible en 2009 identifié à la réponse 5d) (GI-27, doc.1, pp5 et 6) et si coûts supplémentaires sont allégués bien vouloir clairement les identifier et les quantifier et ce pour toutes les classes tarifaires (demandé par l'ACIG)

Response to Undertaking #1:

The response to this undertaking identifies and assesses the errors made in IGUA's evidence at C-2-14 (Phase I) and C-2-12 (Phase III).

In Table 2 of C-2-14 (Phase I) IGUA provides variances in normalized volumes for the period from 2006 to 2009 for each customer type and an assumed average rate per m3 of distributed natural gas. The variance in revenues is calculated as the product of the variance in volume for each customer type and the associated assumed average rate.

The Company confirms that the variances in volumes are correct as reported in the Closing of the Books filings (GI-13, Document 1.2). The variances in normalized volumes for residential, commercial and industrial firm service customers are small (i.e. within a narrow negative or positive band as compared to the forecast). The variances for industrial interruptible service customers (i.e. Rate 9 customers) have been greater than the forecast in each year for the 2006 – 2009 period.

While the Company confirms the use of correct volume variances, the Company notes that the assumed average rate per m3 of distributed natural gas is not correct. To determine the assumed average unit rate it appears that IGUA used the total rate class revenue and divided it by 2009 forecast volumes. This approach fails to recognize that a part of utility's revenues are recovered through fixed charges and the rest is recovered through volumetric / variable charges. Consequently, the average unit rate per m3 used by IGUA is considerably higher than the volumetric charges resulting from the rate design process.

The more appropriate approach would be to use the last block of distribution rates only as most of the additional volume would land in the last block of the rate. The illustration of the error / discrepancy between the two approaches was illustrated during the hearing for Rate 9 interruptible service in exhibit GI-6, document 2.

Further, the Company prepared the analysis in page 5 of this exhibit to illustrate the error / discrepancy between the two approaches for the total system.

Item 3 of C-2-12 (IGUA's evidence in Phase III) and associated tables also provide variances in normalized volumes for 2009 for each customer type. The variances in the normalized volumes are correct. In the calculations of the variances in revenues in these tables, IGUA recognized that Gazifère's revenue recovery is achieved through both fixed and volumetric charges, which is also correct.

However, the volumetric charges used in these calculations reflect the total delivery charges (i.e. distribution charge plus load balancing charge). As discussed above, the more appropriate approach would be to use the last block of distribution rates only.

Therefore, the unit rates used and the revenue variance in these tables should once again be estimated as per the Company's illustration in page 5 of this exhibit.

While these estimates provide an indication / direction of the impact on Gazifère's revenues, the Company's actual margin is established by comparing its actual revenues versus its actual gas costs. This is discussed in the response to Undertaking #2 below.

Response to Undertaking #2:

The Company's 2009 gross margin derivation was presented in the Closing of the Books filing (Phase III) and is based on actual 2009 revenues and actual 2009 gas costs.

Gross Margin Determination:

Presented below are the revenues and gas cost for 2009 after regulatory adjustments such as elimination of the preliminary calculation of 2009 over-earnings or correction of the preliminary calculation of unbilled and unaccounted for gas at year-end as presented in further detail in exhibit GI-13, document 1, pages 2 and 3 of 3, notes (2) and (6) in phase III of this present filing.

Gas Revenues for 2009	68 046 265	(per GI-13, doc 1, page 1 of 3, line 2, col 3)
Gas Cost for 2009	46 074 327	(per GI-13, doc 1, page 1 of 3, line 9, col 3)
Gross Margin for 2009	21 971 938	

The distribution revenue requirement as approved in the 2009 Rate Case corresponds to \$21 822 700. The variance in gross margin versus budget equals to \$149,238.

The actual revenues at the general ledger level are broken down only by customer type, i.e. Residential, Commercial, Industrial, Commercial T-Service and Industrial T-Service. Other accounting entries are also recorded in the revenues such as weather stabilization impact, gas cost variance account impact and prior year over-earnings refund.

The gas cost is recorded monthly by EGD using an intercompany journal entry. Is it not broken down in anyway at the general ledger level but the gas cost schedule shows the breakdown between each component of EGD's Rate 200. Niagara Gas Transmission costs are also recorded monthly and are not broken down in anyway at the general ledger level. Other accounting entries are also recorded in the gas cost such as weather stabilization impact, unbilled and unaccounted for gas impact and T-service gas banked account impact. Also note that the Company reflects changes in its gas costs four (4) times a year through Pass On of Gas Costs filings.

As discussed in the response to #1, it is important to note that Gazifère's rates are designed on a prospective basis (i.e. based on a forecast). The actual make up of customers, volumes, and gas costs will have an impact on gross margin as compared to the budgeted margin.

Page 6 of this exhibit illustrates the impact on the margin in the last block of Rate 9 delivery charge. The illustration is based on 2009 final rates and gas costs based on October 1, 2008 Rate 200 per decision D-2008-144.

This illustration shows that the distribution rate (i.e. margin) in the last (i.e. 2nd) block of Rate 9 is 1.39 cents/m3. However, if the actual volume of Rate 9 customer is greater than the forecast, the margin generated by the last block would equal approx. 0.41 cents/m3. This is 0.98 cents/m3 less than the rate was budgeted to recover on a prospective / forecast basis.

This occurs because the Company's rates are designed on a prospective basis reflecting forecast number of customers, forecast demand of each rate class, as well as, forecast level of gas costs to meet the demand. Rate 9 customers are allocated a lower level of load balancing gas costs given that their load is not heat sensitive. Having said that, once the Rate 9 volumes exceed the forecast level, Rate 200 service will still need to match supply and demand on a system total basis. Consequently, the margin generated by the last block of Rate 9 will be reduced.

(Note: October 2008 rates did not have transportation charges unbundled from the delivery charges for Rate 200 or Rate 9. However, the illustration and its result would be the same if transportation charge was removed from the delivery charge.)

Therefore, the additional margin based on volume variance versus the budget would be approximately:

19,621,000 m3 x $0.0041/m3 = $80,446

While this illustration identifies and estimates additional costs and their impact on Rate 9 additional margin, please note that the Company's actual gross margin is established by comparing its actual revenues versus its actual gas costs as filed in the Closing of the Books filing. Also note that the actual gross margin calculation can only be conducted on a system total basis as shown in Closing of the Books.

Further, additional costs resulting from Rate 9 customers in 2009 were incurred due to a customer going under the protection of the courts under the Companies' Creditors Arrangement Act:

Bad debt	$40,000
Legal fees	$ 1,600
Total	$41,600

In 2010, these additional costs are estimated to date at approximately $ 456,000 of bad debts ($84,000 unpaid customer invoices and $372,000 banked gas account (consumption of gas higher than deliveries of gas) due to another Rate 9 customer going under the protection of the courts under the Companies' Creditors Arrangement Act in 2010.

A comparison of additional margin from above versus the extra costs in 2009 for Rate 9 customers results in an impact of approximately $38,846.