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Le 22 juin 2010

PAR COURRIEL ET PAR COURRIER

Me Véronique Dubois
Secrétaire
RÉGIE DE L'ÉNERGIE
800, Place Victoria - Bureau 2.55
Montréal (Québec) H4Z 1A2

OBJET : Demande d'approbation du renouvellement du mécanisme incitatif de Gazifère Inc., demande pour la fermeture réglementaire des livres pour la période du 1er janvier 2009 au 31 décembre 2009, demande d'approbation du plan d'approvisionnement et demande de modification des tarifs de Gazifère Inc. à compter du 1er janvier 2011.
Dossier : R-3724-2010 (Phase 1)
Notre dossier : 111216.0060

Chère consoeur,

Dans le cadre du dossier mentionné en titre, nous vous transmettons sous pli, en douze (12) exemplaires, la contre-preuve de Gazifère à l'égard du complément de preuve effectué par l'ACIG lors de l'audience du 21 juin 2010.

Veuillez agréer, chère consoeur, l'expression de nos sentiments les meilleurs.

MILLER THOMSON POULIOT sencrl

Louise Tremblay

Louise Tremblay
LT/ld
P.j.
c.c. (par courriel seulement)
Me Guy Sarault (ACIG)
Me André Turmel (FCEI)
Me Stéphanie Lussier (ACEF de l'Outaouais)
Me Geneviève Paquet (GRAME)
Me Steve Cadrin (UMQ)
Me Dominique Neuman (S.É.-AQLPA)

This document was prepared in response to Mr. Trahan's (IGUA) testimony on Monday, June 21, 2010 (Volume 4 of the transcripts, pages 12-23).

In his testimony Mr. Trahan made a number of assertions that are entirely unfounded and without merit. Gazifère strongly objects to such assertions and submits that certain comments were completely unacceptable. Below is the reply in response to the assertions made.

<u>Pass Through Nature of Gas Costs</u>

Natural gas distribution utilities are not allowed to make a profit on the cost of gas supply related expenses. This means that utilities cannot mark up (i.e. include a profit margin on) such costs or keep a portion of gas supply related revenues for their benefit. Utilities' gas costs are reviewed by internal and external stakeholders such as interveners and the Ontario Energy Board ("OEB"), as well as, auditors.

<u>Rate 200 Service</u>

Gazifère receives upstream services from Enbridge Gas Distribution Inc ("EGD") under Rate 200: Wholesale Service. The services which Gazifère receives from EGD include: gas supply commodity, upstream transportation, daily and seasonal load balancing and delivery inclusive of storage related services.

EGD's rates are regulated by the Ontario Energy Board ("OEB") and are based on OEB approved cost allocation and rate design methodologies. EGD's rates change each quarter through its Quarterly Rate Adjustment Mechanism ("QRAM') to reflect a forward looking 12 month forecast of gas costs. EGD's gas cost related rates are passed through to customers, including gas costs in Rate 200 without any mark up. The cost which EGD pays for these services is the cost which its customers pay. Therefore, Rate 200 did not steal from Gazifère's franchise as asserted in IGUA's testimony.

<u>EGD's Gas Supply Portfolio</u>

Each year EGD designs its gas supply portfolio based on the forecast of customers' demand for the test year. This includes the forecasted demand of its in-franchise customers and the forecasted demand for Rate 200 service. Through this process EGD procures upstream services and assets needed to meet the demand of all customers on a forecast basis. In the design of its supply mix, EGD uses the SENDOUT model which optimizes the mix of upstream services and assets to meet the demand in the most effective manner. EGD's gas supply portofolio is reviewed each year by stakeholders and the OEB through the rate case filing and then approved by the OEB.

<u>Determination of the Level of Costs in Rate 200 Service</u>

The level of Rate 200 costs which Gazifère recovers in its rates is based on Gazifère's forecast of demand and volumes and mix of sales (i.e. system gas) and transportation customers. In other words, Gazifère determines the level of Rate 200 costs it will pay to EGD on a forecast basis and then passes this level of costs onto customers through its rates.

<u>Allocation of Rate 200 Service Costs to Gazifère's Customers</u>

Rate 200 costs are allocated to Gazifère's customer rate classes based on the Régie approved cost allocation methodology as approved in 2006 (D-2006-58).

This methodology is aligned with the design of Rate 200. This ensures there is no disconnect between the design of Rate 200 and the allocation of its costs to Gazifère's rate classes.

Therefore, the recovery of Rate 200 costs from Gazifère's customers correctly reflects operational reality, cost incurrence, and continues to be appropriate. Gazifère is not proposing any changes to the cost allocation methodology approved by the Régie in its decision D-2006-58.

Gazifère, like EGD, does not profit on the cost of gas supply related expenses. Gazifère also changes their rates each quarter to reflect gas costs related changes received under Rate 200. The rates are approved by the Régie through Pass-On Decisions.

<u>Forecast versus Actual Results</u>

On a forecast basis, Gazifère's rates are designed to recover its CPBR revenue requirement and forecast Rate 200 costs as well as Niagara Gas Transmission costs. If the actual number of customers and volumes equaled the forecast, then Gazifère's actual revenues would exactly match its forecast revenues.

If Gazifère's actual make up of customers and volumes is different than the forecast / budget, it will have an impact on both revenues and costs. As highlighted in the hearing, Gazifère's actual gross margin is a function of actual revenues less actual gas costs.

An illustration of such an impact was provided in the response to IGUA's undertaking #2 (exhibit B-21, GI-6, document 3).

That illustration showed that the distribution rate (i.e. margin) in the last (i.e. 2^{nd}) block of Rate 9 is 1.39 cents/m^3. However, if the actual volume of Rate 9 customer is greater than the forecast, the margin generated by the last block would equal approximately 0.41 cents/m^3. This is 0.98 cents/m^3 less than the rate was budgeted to recover on a prospective / forecast basis.

To estimate the impact the Company used the last (i.e. 2^{nd}) block of Rate 9. The reasons being that most of the additional volume would land in the last block of the rate (i.e. the additional volumes would go through and be charged at the 2^{nd} block's rate, not the 1^{st} block's rate. The 1^{st} block volumes are largely used up by the forecast volumes).

The revenues received through fixed charges (i.e. Contract Demand (CD) charges) in Rate 9 did not vary as compared to the forecast in 2009 as the number of customers remained as forecast at three customers.

The variance between actual and forecast / budget results 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.

As pointed out in response to undertaking #2, Rate 9 customers are allocated a lower level of load balancing gas costs given that their load is not heat sensitive. Nevertheless, 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.

In other words, if the volumes are higher than forecast due to Rate 9 usage, operationally the upstream services and assets employed to provide service cannot be "scaled back" to only incur / reflect Rate 200 costs allocated to Rate 9 customers. The system has to be operated and balanced on a total basis, therefore full assets need to be used. As a result, the actual costs will be higher than the level allocated to Rate 9 and the margin generated by the last block of Rate 9 will be reduced.

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.

<u>Penalties</u>

Rate 9 customers incurred no penalties in 2009.

There are two possible penalties that a contract rate customer could incur when their consumption is greater than the forecast:

1. Unauthorized demand overrun charge – this charge is incurred when the customer exceed their contracted level of Contract Demand (CD). The CD represents the maximum volume of gas the customer is permitted to take / consume in a single day.
2. Unauthorized Gas Supply Overrun – this charge is a function of customer's deliveries and consumption on the day. The charge is typically incurred when the customer fails to fulfill its Mean Daily Volume (MDV) obligation while it continues to consume gas at an unreduced amount.

As noted above, no Rate 9 customers incurred either penalty in 2009. In other words, their operations remained within their contractual parameters even if the customer's actual annual volumes exceeded the contracted annual volumes. Consequently, the appropriate rate to use in the variance analysis (actual vs. forecast) is the marginal rate in the last block of the rate.

<u>Gazifère's Renewal of its CPBR Framework</u>

As pointed out in the hearing, Gazifère is neutral to changing forecasting requirement for Rate 9 customers.

Gazifère has not based its CPBR renewal proposal on overages in Rate 9 volumes as compared to the forecast.

While the impact of these overages is significantly less than asserted by IGUA, the other item Gazifère would like to highlight is that overages (or underages) in volumes are transient (i.e. not sustainable) and must not be relied on in the design of a long term viable CPBR mechanism.

This is especially true for interruptible volumes where customers have a dual fuel capability, and in the instance of Gazifère, where two out of three interruptible customers are under the Companies' Creditors Arrangement Act.