

**REQUEST TO AUTHORIZE
THE ESTABLISHMENT OF A RECEIPT RATE
FOR NATURAL GAS PRODUCED IN
GAZ MÉTRO'S TERRITORY**

**NON OFFICIAL TRANSLATION
WITHOUT PREJUDICE**

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1	TERMINOLOGY	
2	Breakeven point	Period at the end of which the price decreases and increases
3		arising from connecting the producer to the system are
4		equivalent
5	Connection line	New gas system connecting producers' facilities and linking a
6		receipt point to an interconnect point
7	Consumer customer	Customer for whom Gaz Métro transports and distributes natural
8		gas for consumption at his facilities
9	Consumption zone	Geographical area starting from the interconnect point with the
10		TCPL/TQM system delimiting the portion of Gaz Métro's system
11		connected to that interconnection
12	Dawn	Geographic location of natural gas hub located in southern
13		Ontario
14	Delivery point	Physical or geographical location where natural gas is delivered
15		inside or outside the territory on Gaz Métro's system
16	FTLH	Firm Transportation Long Haul – TCPL's transportation service
17		between Empress and GMi-EDA. The term is also used in a
18		broad sense to characterize all firm transportation service
19		contracted between Empress and GMi-EDA
20	Gaz Métro transportation	"Transportation" function of Gaz Métro's distribution service
21	Gigajoule (GJ)	1 billion joules = 10 ⁹ joules
22	GMi-EDA	All interconnect points between Gaz Métro's systems and
23		TCPL/TQM's systems located in TCPL's EDA ("Eastern Delivery
24		Area")

1	Injection	Function whereby a producer makes natural gas available in the
2		gas system
3	Injection point	Physical location where natural gas is treated to comply with the
4		quality standards for movement in the existing gas system. The
5		injection point is located at the receipt point or between the
6		receipt point and the interconnect point to Gaz Métro's system
7	Interconnect point with Gaz Métro's system	
8		Physical location where the new connection lines join
9		Gaz Métro's existing gas system
10	Interconnect point with TCPL/TQM's system	
11		Physical location where Gaz Métro's gas system joins the
12		TCPL/TQM transmission system
13	Joule	Unit of energy – 1 m ³ equals 37,890,000 joules
14	MCC	Maximum contractual capacity
15	MDO	Minimum daily obligation
16	Nomination	Request for a quantity of natural gas in connection with a supply
17		or transportation service agreement
18	Producer	Customer who injects natural gas into the gas system for its
19		transportation and distribution
20	Receipt point	Physical location where the producer's facilities join Gaz Métro's
21		new connection lines to move the natural gas to the existing gas
22		system
23	TCPL	TransCanada PipeLines Limited
24	TQM	Trans Québec & Maritimes Pipeline Inc.

- 1 **TCPL/TQM transportation** Transportation of natural gas inside or outside Gaz Métro's
2 territory between different consumption zones via the
3 TCPL/TQM transmission system
- 4 **Volumes delivered in territory** Delivery of natural gas to Gaz Métro's entire system
- 5 **Volumes delivered outside territory**
6 Delivery of natural gas to an interconnect point with the
7 TCPL/TQM system
- 8

1 INTRODUCTION AND SCOPE OF GAZ MÉTRO'S EVIDENCE

2 The possible production of natural gas in Quebec, coupled with the possibility of using
3 Gaz Métro Limited Partnership's ("Gaz Métro") existing infrastructures, provides a unique
4 development opportunity for Gaz Métro. The production of natural gas in Quebec would present
5 a business opportunity to seize and diversify supply sources for natural gas consumers. Having
6 a new category of customers on the gas system would therefore be beneficial for both
7 Gaz Métro and its existing customers. In order for Gaz Métro to respond to the needs of a new
8 clientele and move volumes that may be produced in Quebec and available in its territory to
9 various consumption markets, it has developed a pricing model that is explained in detail herein.

10 Gaz Métro's expertise in planning and building gas systems in Quebec has been recognized for
11 a long time. Gaz Métro is regularly involved in development projects that are compatible with a
12 vision of sustainable development and energy security. Gaz Métro understands that any energy
13 project is likely to raise questions. It is also aware that issues, other than those related to
14 economic regulation, could be handled by other players in other forums.

15 Gaz Métro requests the Régie de l'énergie ("the Régie") to authorize the creation of a new
16 natural gas receipt rate, the terms and conditions of its application as well as methods for
17 establishing the prices that will apply when investment requests are made. Gaz Métro is also
18 requesting the Régie to fix certain prices applicable to volumes delivered at this time. The
19 natural gas receipt rate will make it possible to recover the costs of the new investments
20 required to extend Gaz Métro's gas system and share some of the present distribution costs.

21 This document provides a brief description of the context in which gas production will be
22 developed in Quebec as well as the potential benefits thereof. This is followed by a brief
23 description of the process for moving the natural gas that will be produced in Gaz Métro's
24 territory as well as the costs underlying the establishment of a new receipt rate. Gaz Métro then
25 describes a proposed structure of this new rate, the related terms and conditions as well as the
26 method for establishing prices that will be applied when investments requests are filed.
27 Moreover, it proposes a price for volumes delivered outside the territory as well as prices
28

29

1 applicable to daily and cumulative imbalances. Lastly, the impact of the development of gas
2 production in Quebec on Gaz Métro's existing services is presented.

3 1 CONTEXT AND OPPORTUNITY OF REQUEST

4 Because of its geographic location, the production of natural gas in Quebec represents an
5 opportunity to develop a new supply source for Gaz Métro and its customers. Moreover, the
6 geographic length of the existing gas system and its proximity to the potential production should
7 facilitate the use of this new supply source. This additional source should have a positive impact
8 on the total natural gas costs for all users of this resource in Quebec.

9 Gaz Métro's existing gas system is presently supplied solely by the TCPL/TQM transmission
10 system. Gaz Métro and its customers are therefore entirely dependent of that system. A number
11 of Quebec players now recognize that diversification of natural gas supply sources for the
12 Quebec market is a praiseworthy objective that would not only facilitate the substitution of more
13 polluting products but might present economic benefits in addition to those Gaz Métro and its
14 customers would benefit from. The first two objectives of Quebec's energy strategy 2006-2015
15 "*To build the Québec of tomorrow*" highlight the importance of diversifying energy supplies in
16 general and natural gas in particular:

17 *"1) Quebec must strengthen its energy supply security.*

18 *2) We must make better use of energy as a lever for economic development. Priority is given*
19 *to hydroelectricity, wind energy potential, hydrocarbon reserves and the diversification of our*
20 *natural gas supplies"*

21 Over the past few years, Gaz Métro has attempted to diversify this supply source, i.e. projects to
22 connect Sable Island (1996-97) and the Maritimes & Northeast system (1999-2000) to
23 Gaz Métro's system. More recently, the Cacouna and Rabaska LNG projects were considered.
24 Realization of the Rabaska LNG terminal is now the only remaining possibility if market
25 conditions permit. Development of the probable production of natural gas in Quebec therefore
26

27

1 represents another opportunity to diversify supply sources and achieve the objectives of
2 Quebec's energy strategy.

3 The gas produced in Gaz Métro's territory could supply a number of areas in the Province. If it
4 were to grow steadily over the next few years, the natural gas volumes that would be injected
5 into Gaz Métro's system might even exceed the capacity required by Gaz Métro's present
6 clientele, particularly in the summer when consumption in the territory is lower.

7 The construction of pipelines to connect producers' facilities to Gaz Métro's gas system might
8 also make it possible, in addition to moving volumes to existing systems, to link portions of
9 Gaz Métro's system, with the additional advantage of serving certain areas and new markets, in
10 particular in the farming sector. This would increase the potential for injecting natural gas into
11 the system from the producers' perspective, while increasing customer access and supply
12 security. If a section of the system is out of service, e.g. because of a break, it could then be
13 compensated at a number of locations by local production that would be injected into a nearby
14 system. The gradual linking of the existing distribution system therefore represents an
15 undeniable additional benefit of developing this new gas supply source.

16 That being said, it is highly probable gas production will be developed gradually. Some
17 producers have already started analyzing the production potential and their business risk, and
18 are planning the eventual operation of the sites in coming years. Connecting producers' facilities
19 to the existing gas system with the investment requests that will follow is expected in the short
20 term. Producers have contacted Gaz Métro over the last few months for information about rates
21 as well as the terms and conditions that would enable them to connect to Gaz Métro's gas
22 system. Gaz Métro has the expertise in building and managing gas systems and the present
23 regulatory framework provides an attractive guarantee for the process of injecting natural gas
24 into Gaz Métro's system. The connection model for the producers' facilities, the conditions
25 under which the rate is offered, its conditions of application as well as the rate structure will
26 have to be properly established right away so producers can inject natural gas produced inside
27 Gaz Métro's territory into its gas system.

1 It was necessary for Gaz Métro to request the Régie to approve a new rate that would make it
2 possible to bill the movement of natural gas within the territory served by Gaz Métro to
3 consumption markets. In order to make it possible to inject natural gas produced in Quebec
4 when producers feel it is appropriate, thereby diversifying supply sources, Gaz Métro wishes to
5 establish the rate conditions as well as the applicable terms that will serve as a framework for
6 carrying out the initial investments. These will allow producers to become familiar with the
7 regulatory framework of the service offered to them. Gaz Métro will then submit specific
8 investment requests for each project to the Régie.

9 2 CONNECTION MODEL AND UNDERLYING COSTS

10 Connecting the producers' facilities to Gaz Métro's existing system creates new natural gas
11 distribution functions. There is even a new customer category, i.e. customers who inject natural
12 gas produced in the territory served by Gaz Métro. Previously, a Gaz Métro customer was solely
13 one who used present services to consume natural gas. With the arrival of producers who inject
14 natural gas into the gas system, the definition of a customer has to be expanded to include this
15 new type of customers. For purposes of simplification and understanding the text, a distinction
16 will be made between a customer who injects natural gas into the gas system (hereinafter
17 "producer") and a customer who consumes natural gas (hereinafter "customer").

18 If the injection of natural gas is a function whereby a natural gas producer makes natural gas
19 available in the gas system, the terminology has to be adapted from the distributor's
20 perspective. From that perspective, the injection of natural gas by a producer translates into a
21 natural gas receipt service by a customer to whom Gaz Métro provides the possibility of
22 injecting natural gas into its system for transportation and distribution.

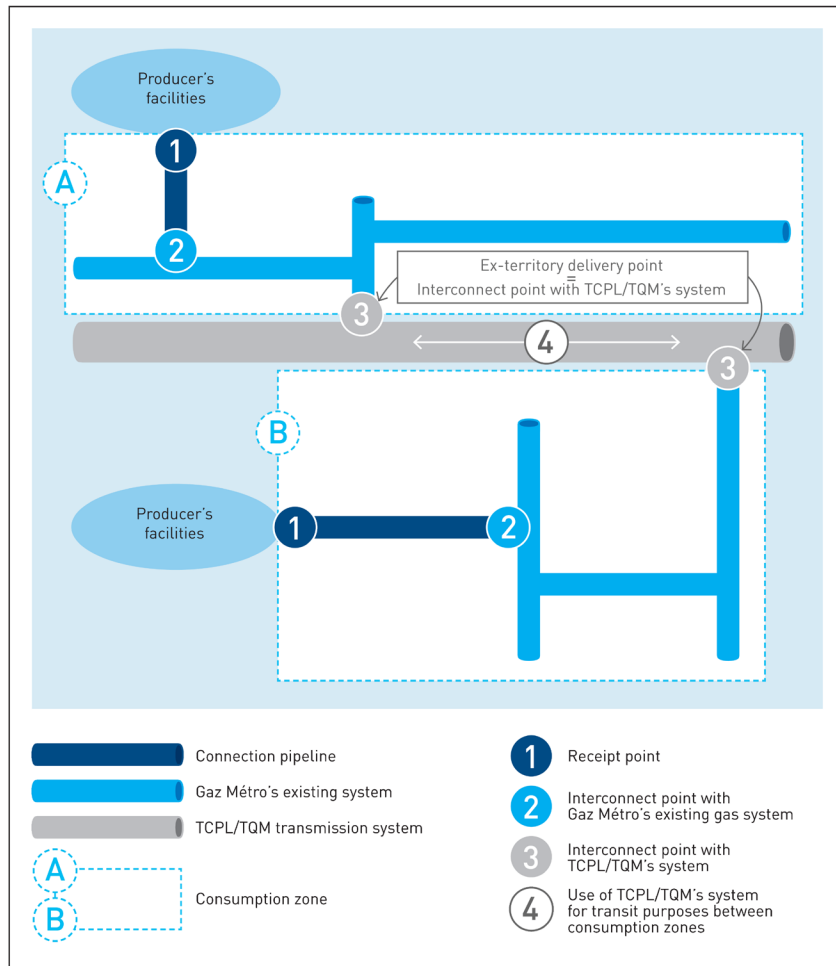
23 The natural gas connection and movement model as well as the identification of the underlying
24 costs of the new functions are described in the following sections.

25

1 2.1 MODEL FOR CONNECTION OF PRODUCTION TO GAS SYSTEM AND MOVEMENT OF
2 NATURAL GAS

3 Diagram 1 shows the basic model for connecting a gas production site to Gaz Métro's system.

4 **DIAGRAM 1**
5 **Connection and gas producing facilities model**



6

1 Each investment request for the connection of a natural gas producer in Gaz Métro's territory
2 could be slightly different from this model. Nevertheless, the diagram illustrates the main steps
3 between production and connection of the production to Gaz Métro's gas systems and the
4 TCPL/TQM transmission system.

5 The producers' facilities join the existing gas system via connection pipelines. Depending on the
6 situation, natural gas from producers' facilities might stay inside Gaz Métro's territory or be
7 moved outside of it. Gaz Métro briefly describes below the main components of the Diagram 1
8 model.

9 Connection pipelines are new distribution pipelines that connect producers' facilities to
10 Gaz Métro's existing system and Gaz Métro will be responsible for installing and maintaining
11 them. The dimensioning (operating pressure and diameter) of the pipelines will have to be
12 optimized for each investment project based on anticipated injection volumes and the distances
13 between the producers' facilities and the existing gas system. Gradual development of a sector
14 may require, when production from that sector has reached maturity, improvements to
15 eventually increase its capacity.

16 The physical location where the producers' facilities join the new connection pipelines to move
17 the natural gas to the existing gas system is called the "**receipt point**" (point 1 in the Diagram).
18 Gaz Métro will require a minimum operating pressure as well as quality standards for the natural
19 gas before it can be injected into the existing gas system. Normally the injection point should
20 correspond to the receipt point because the injection point is the physical location where the
21 natural gas should have been treated to meet the quality standards for movement in
22 Gaz Métro's system or in the TCPL/TQM transmission system. If the injection point is different
23 from the receipt point, it would then be located between the receipt point and, at farthest, the
24 interconnect point with Gaz Métro's gas system (point 2 in the Diagram).

25 Before the receipt point (or injection point depending on the situation), compressor stations and
26 equipment for pumping and cleaning the natural gas might be required. A metering station will
27 be installed at the receipt point to quantify the volume of natural gas coming from the wells and
28 a chromatograph will be installed at the receipt point or the injection point (if different from the
29 receipt point) to verify the quality of the gas injected. Producers would be responsible for the
30 pressure and quality of the natural gas supplied and would therefore pay the costs thereof.

1 The physical location where the new connection pipelines join Gaz Métro's existing gas system
2 is called the "**interconnect point with Gaz Métro's system**" (point 2 in the Diagram).
3 Producers will be connected to the various pipelines of Gaz Métro's existing system based on
4 the location of the producers' facilities and their injection capacity needs. There is also another
5 interconnect point – the physical location where Gaz Métro's system is connected to the
6 TCPL/TQM transmission system. This point is called the "**interconnect point with the**
7 **TCPL/TQM transmission system**". There are presently a number of interconnect points with
8 the TCPL/TQM transmission system (points 3 in the Diagram).

9 After the gas has been injected at the receipt point, producers will have a choice of two **delivery**
10 **points**, i.e. the delivery of natural gas inside Gaz Métro's territory on its existing gas system or
11 outside Gaz Métro's territory (ex-territory). The delivery point is located within the territory when
12 the natural gas is delivered to all of Gaz Métro's customers. Ex-territory delivery points are
13 interconnect points with the TCPL/TQM system (points 3 in the Diagram).

14 If the delivery point is within the territory, and depending on the location of the interconnect point
15 with Gaz Métro's system, producers will have access to the natural gas consumption market in
16 the "**consumption zone**".

17 The consumption zone is defined as the geographic area starting from an interconnect point
18 with the TCPL/TQM system delimiting the portion of Gaz Métro's system connected to that
19 interconnect point.

20 After producers have fully supplied that consumption zone, they will have to start to pay the
21 applicable transportation charges for the use of the TCPL/TQM transmission infrastructures
22 because the surplus gas will have to be moved, via that transmission system, to another
23 consumption zone (point 4 in the Diagram).

24

1 For producers who chose an ex-territory delivery point, the natural gas will be moved to an
2 interconnect point with the TCPL/TQM system and will then pass in transit on that system to be
3 moved outside the territory.

4 2.2 UNDERLYING COSTS FOR ESTABLISHING THE RECEIPT RATE

5 As indicated in the introduction, Gaz Métro requests the Régie to approve the creation of a
6 natural gas receipt rate that will make it possible to recover over time all the costs attributable to
7 the new investments required to extend the system and share some of the present distribution
8 costs. Gaz Métro has identified four main cost categories that are explained in the following
9 sections.

10 2.2.1 Category A costs – Distribution costs related to investments in connection pipelines

11 As previously indicated, the connection of the receipt point to the interconnect point with
12 Gaz Métro's system using new distribution pipelines constructed by Gaz Métro and the costs
13 of those new pipelines will have to be recovered through the receipt rate. Moreover, if new
14 investments on the existing distribution system (i.e. downstream from the interconnect point)
15 are required solely for producers' needs, the costs related to those investments would also
16 be paid by the producers.

17 The investments related to the construction of various connection pipelines for receiving
18 natural gas will in particular include:

- 19 ․ the costs of acquiring land, rights-of-way and various materials;
- 20 ․ the metering stations;
- 21 ․ the pipelines, including the installation costs;
- 22 ․ the compression at the interconnect point; and
- 23 ․ the related installations, such as the load control valve and the chromatograph for
24 monitoring natural gas quality.

25 Amortization expenses, investment financing costs, return, income taxes, duties and taxes
26 are the main costs related to the construction of the various connection pipelines. They also

1 include pre-project and project planning costs (engineering, surveying, design, approvals,
2 etc.).

3 Backstop guarantees

4 In such context, Gaz Métro must have the necessary protection to ensure the costs it
5 incurred during the construction period are paid back by producers in the event a producer
6 abandons its production site. In many cases, the investments would be made before a
7 natural gas receipt rate contract with the producers takes effect.

8 Gaz Métro therefore intends to sign a backstop agreement with each producer. This
9 agreement would describe the circumstances and conditions leading to repayment of the
10 costs incurred. The agreements are intended to recover the amounts Gaz Métro has
11 invested to connect a receipt point to its existing gas system in the event a producer's
12 project is abandoned before the rate contract takes effect.

13 The backstop agreements would take effect when construction starts and would end when a
14 rate contract between Gaz Métro and the producer takes effect. The agreements would be
15 secured by a bank letter of credit issued by an institution meeting specified criteria that have
16 to be valid until the rate contract with Gaz Métro is signed. The letter of credit would cover
17 the costs incurred by Gaz Métro and would gradually increase during the construction
18 period.

19 2.2.2 Category B costs – Costs of existing distribution system

20 Connecting a new category of customers to Gaz Métro's existing distribution system also
21 made it necessary to consider which costs of the existing distribution system were to be paid
22 by the producers.

23 There is a distinction even inside the gas system, i.e. Gaz Métro's distribution system and its
24 transmission system. The distribution system is basically composed of low-pressure lines,
25 building service connections and metering equipment. Gaz Métro is proposing that costs
26 related to the distribution function continue to be billed solely to present customers through
27 the distribution rates. The distribution system is composed of the infrastructures required to
28 distribute the natural gas to customers' facilities.

1 Gaz Métro's transmission pipelines were built to serve present customers who presently pay
2 the costs thereof. If producers want to move their natural gas outside the territory, they
3 would use Gaz Métro's existing transmission pipelines. Gaz Métro is therefore proposing
4 that the costs related to the transportation function of the distribution system continue to be
5 billed solely to existing customers when natural gas injected by producers is consumed
6 inside the present territory. Gaz Métro is also proposing that the charges for the use of
7 Gaz Métro's transmission pipelines be billed to producers when the natural gas is intended
8 for use outside the territory.

9 In the latter case, customers and producers will then share the present costs of the
10 transportation function of the distribution system. Obviously, as producers would pay part of
11 the costs of the transmission system, there would be a saving for Gaz Métro's present
12 customers. Section 3.4.2.2 sets down the assumptions and the basic steps followed to
13 establish the unit price for volumes delivered outside the territory.

14 2.2.3 Category C costs – Distribution costs not related to gas system

15 Having a new category of customers led Gaz Métro to evaluate which distribution costs not
16 related to the gas system should be allocated to producers and in which proportion.

17 Gaz Métro analyzed each of these costs in order to evaluate whether or not it applied to
18 producers. The major categories of these costs are operations expenses, amortization
19 expenses (excluding amortization of the gas system) and amortization of deferred charges
20 as well as taxes, duties, income taxes and return, function of investments other than those
21 related to the gas system. Section 3.4.1.1 sets down the assumptions and basic steps
22 followed to establish the ratio of these costs applicable to producers.

23

1 Billing department costs are an example of distribution costs that were evaluated. As
2 producers will have to be billed like present customers, they will have to assume their share
3 of these costs.

4 2.2.4 Category D costs – Additional costs of using TCPL/TQM transmission system

5 If the natural gas is moved outside the territory, Gaz Métro will deliver it to a producer at the
6 interconnect points with TCPL/TQM system. Producers will therefore have to contract and
7 assume the costs of capacity on the TCPL/TQM transmission system since Gaz Métro does
8 not provide this service. If producers want to move natural gas outside the territory, they will
9 have to contract and pay for the TCPL/TQM transportation capacities and the additional
10 costs of using the TCPL/TQM transmission system between the interconnect point with the
11 TCPL/TQM system and the final destination outside Quebec.

12 However, if a producer's natural gas has to transit on the TCPL/TQM transmission system to
13 be moved to another consumption zone in the territory and if additional costs are incurred
14 for using the system, the producer will pay those costs since those additional capacities will
15 have been contracted specifically for the producers.

16 If the natural gas remains within the territory, Gaz Métro is responsible for contracting
17 additional capacities on the TCPL/TQM transmission system. Gaz Métro is in a position to
18 effectively manage the natural gas movements within its territory because it has the
19 information concerning its customers' consumption as well as the natural gas injected by all
20 producers. Gaz Métro is therefore best qualified to determine the additional transportation
21 capacities required from TCPL/TQM as well as the periods required for its use. In
22 Gaz Métro's view, it will be to its advantage to be responsible for balancing the needs of all
23 customers including the producers in its territory.

1 3 RECEIPT RATE FOR NATURAL GAS PRODUCED IN QUEBEC

2 In establishing a natural gas receipt rate, Gaz Métro is aiming to create the simplest rate
3 structure and conditions possible while respecting equity amongst customers and producers.
4 Gaz Métro is also ensuring the receipt rate provides revenue stability and some price stability.

5 In this request, specific attention has been paid to the most equitable breakdown possible
6 between customers and producers of the costs of using the existing gas system so both
7 producers and Gaz Métro's present and future customers will benefit

8 The natural gas receipt rate would apply to any person who wants to inject natural gas produced
9 within the territory served by Gaz Métro into the gas system for transportation and distribution.

10 This receipt rate will be made up of pricing at receipt points and at delivery points. For pricing at
11 receipt points, different prices will apply based for each receipt point and will be based on
12 injection capacities. For pricing at delivery points, producers will have a choice of two delivery
13 points, i.e. inside or outside the territory and the applicable prices will be based on the daily
14 deliveries. The following sections clarify the rate structure, the modalities of application and the
15 methods of establishing the applicable prices.

16 3.1 PRICING AT RECEIPT POINTS

17 Before establishing the actual rate structure at receipt points, Gaz Métro had to question certain
18 basic principles for establishing the prices at those receipt points so they could mature over time
19 without compromising the initial development of the gas production.

20 3.1.1 Choice of the method for establishing prices

21 When new customers are connected to Gaz Métro's system, they can choose from amongst
22 existing distribution rates, which generate Gaz Métro revenue requirements. As a large
23 customer base is already paying these rates, rate increases and decreases following the
24 addition of a new customer are more marginal than if they would have been with a smaller
25

26

1 customer base. The profitability analysis enables Gaz Métro to evaluate the marginal
2 profitability of an investment based on the applicable rates. If the profitability is insufficient,
3 Gaz Métro may require a contribution to limit the rate increases for all other customers.

4 In the case of producers, it would have been difficult to establish a price based on the
5 “postage stamp” principle because it is a growing category of customers, which means
6 initially a small number of customers with significant differences in distances between
7 potential wells and Gaz Métro’s system. A price established on the basis of pipelines
8 covering a short distance (e.g. less than two km) would obviously be significantly different
9 from a price established to recover the investments required for long-distance pipelines (e.g.
10 more than 20 km) for the same volume. Furthermore, adding a project to the limited base of
11 already existing producers could have a major impact on the applicable prices.

12 Gaz Métro analyzed four alternatives for recognizing the diversity of the gas production
13 projects and limiting annual price fluctuations:

- 14 > The first alternative was to establish a price solely based on serving the first
15 production sites actually connected to the existing gas system. From that
16 perspective, so additional production sites could be connected, it would have been
17 necessary to modify prices – up or down – to connect other production sites each
18 time a new pipeline would be connected. The first producers might have been
19 subjected to numerous price changes that could not have been determined *a priori*
20 because they would have depended on the investments related to the new
21 connections.
- 22 > The second was to establish a price for the ultimate service of all gas production in
23 Quebec. However, establishing a price based on costs that would not yet have been
24 known would have meant that producers would have paid, for a period of time, a
25 price that would not have corresponded with the costs of the only producers’ facilities
26 connected.

- 1 > The third alternative was to establish a price based on the short- or medium-term
2 development potential of gas production. As this alternative involved a portion of
3 known costs (investment requests subject to a firm commitment from producers) and
4 some potential costs, the average price would not have been as accurate as the first
5 alternative or as inaccurate as the second. This alternative would have made it
6 possible to establish an average price that would have been relatively stable over
7 time. However, it would have created significant cross-subsidization amongst the
8 producers and a big possibility that the prices paid for a period of time would not
9 have corresponded to the costs of the only producers' facilities connected.
- 10 > The fourth alternative was to establish a price for each receipt point based on the
11 costs of the connection pipelines for each of those points. This alternative reduced
12 the risk of inaccurate actual costs and therefore the prices at the receipt points and
13 ensured those prices would be stable for producers. In addition, it limited the degree
14 of cross-subsidization amongst the producers (between the receipt points).

15 Gaz Métro has chosen the fourth alternative. As it involves pricing at receipt points, only
16 Category A and C costs are used to establish the rate structure for the receipt rate. As was
17 mentioned in Sections 2.2.1 and 2.2.3, distribution costs related to connection pipeline
18 investments as well as distribution costs not related to the gas system have to be recovered
19 through the prices at the receipt points because those costs are related to the injection of
20 natural gas into the gas system. As those costs relate to the gas system injection function,
21 they are recovered through pricing at receipt point.

22 In the case of distribution costs related to investments in the connection pipelines, the
23 importance of those investments is largely attributable to two main factors: the length and
24 diameter of the pipeline. While the required length is based simply on the distance between
25 the receipt point and the interconnect point with Gaz Métro's system, the required diameter
26 of the pipelines installed is directly related to the maximum capacity required. The
27 distribution costs not related to the gas system are mostly fixed costs, which means a mainly
28

29

1 fixed rate structure by receipt point, based on the maximum contractual capacity, will
2 therefore be used.

3 The rate structure at the receipt points is based on the maximum contractual capacity
4 contracted by a producer and the volumes injected by producers.

5 3.1.2 Establishment of maximum contractual capacity (MCC)

6 A producer will have to commit to a daily MCC at the receipt point where the gas will be
7 injected into the system. The producer and Gaz Métro will agree on this capacity, which
8 shall be stipulated in the contract. A gradual increase of the MCC might be allowed for the
9 gradual start-up of some production sites, in which case the conditions for increasing the
10 MCC would be stated in the contract.

11 3.1.3 Components of pricing at receipt points

12 Pricing at receipt points will be composed of a minimum daily obligation (MDO), which is the
13 fixed portion of the rate. The MDO revenues are the result of the MDO prices applicable to
14 the MCC. The MDO prices will be expressed in $\phi/m^3/day$.

15 In addition, a unit price for volumes injected will apply to volumes injected as measured at
16 the receipt point. The price will be expressed in ϕ/m^3 .

17 3.2 PRICING AT DELIVERY POINTS

18 With respect to the portion of pricing at delivery points of the receipt rate, the prices will vary
19 based on the applicable consumption zone if the natural gas is delivered within the territory
20 whereas a single price will apply when the natural gas is delivered outside the territory. The
21 daily volumes delivered by a producer may be partially inside and partially outside the territory.
22 The volumes actually delivered will then be billed based on the prices that apply at each delivery
23 point.

1 3.2.1 Unit price by volume delivered within the territory

2 There are presently a number of interconnect points with the TCPL/TQM system. As
3 previously stated, each consumption zone will be defined starting from the interconnect
4 point with the TCPL/TQM system delimiting the portion of Gaz Métro's system linked to that
5 interconnect point. A producer will be subject to a consumption zone based on the location
6 of his facilities.

7 If a producer's delivery point is within the territory and the local capacity of the consumption
8 zone is insufficient to absorb the volumes injected, TCPL/TQM transportation charges will be
9 applicable if additional costs for using that system are incurred. The additional costs of using
10 the TCPL/TQM transmission system (Category D costs) will then be billed.

11 The price by volume delivered will apply specifically to each consumption zone based on the
12 specific needs for TCPL/TQM transportation capacity in each zone. If the volumes
13 withdrawn by customers in the consumption zone can take up all the volumes injected by
14 producers delivering within the territory and no transit is then required on the TCPL/TQM
15 transmission system, there will be no charges applicable for that consumption zone.

16 The capacity of the consumption zone will be affected in two ways: by the volumes of gas
17 injected by producers delivering within the territory and by customers' consumption. The
18 more volumes injected by producers delivering within the territory increase and/or
19 consumption by customers in the zone decreases, the greater the capacity shortfall in the
20 zone will be compared to the gas received and vice versa. Moreover, volumes moved
21 outside the territory will not be included in determining the additional TCPL/TQM
22 transportation needs because the producers are responsible for contracting those capacities
23 with TCPL/TQM themselves.

24 Gaz Métro will therefore have to modulate the utilization of the TCPL/TQM transportation
25 tools in order to allow gas to transit to other consumption zones on Gaz Métro's distribution
26 system, where necessary.

27

1 The unit price by volume delivered will apply to the volume delivered daily within the territory
2 by the producers. The price will be expressed in ϕ/m^3 .

3 3.2.2 Unit price for volume delivered outside territory

4 As stated in Section 2.2.2, producers who wish to move their natural gas outside the territory
5 will have to use Gaz Métro's existing transmission pipelines. If producers choose an ex-
6 territory delivery point, charges for the use of Gaz Métro existing transmission system will
7 apply. Those charges will equal the producers' share of the costs of the existing distribution
8 system (Category B costs).

9 However, those costs would not be billed in the exceptional situation where a connection
10 pipeline is connected directly to the TCPL/TQM transmission system because the existing
11 gas system would not be used to move the natural gas outside the territory.

12 The unit price by volume delivered will apply to the daily volume producers deliver outside
13 the territory. The price will be expressed in ϕ/m^3 .

14 3.3 STRUCTURE OF THE RECEIPT RATE

15 3.3.1 Establishment of structure

16 The receipt rate will be the sum of the pricing at receipt point (see Section 3.1) and the
17 pricing at delivery points (see Section 3.2) and may be expressed as follows:

18
$$\mathbf{P-RP_x + P-DP_F + P-DP_{OF}}$$

19 **Where P-RP_x** = Pricing at receipt point X

20 **P-DP_F** = Pricing at delivery point within the territory

21 **T-PL_{OF}** = Pricing at delivery point outside the territory

22 The billing at the receipt point will be:

23
$$\mathbf{P-RP_x = MCC (m^3/day) \times MDO \text{ price } (\phi/m^3/day) + \text{Volumes injected } (m^3) \times \text{Unit price}$$

24
$$\text{by volume injected } (\phi/m^3)$$

25 **Where MCC** = Maximum contractual capacity (m^3/day)

26 **MDO price** = Price of minimum daily obligation ($\phi/m^3/day$)

1 The pricing at delivery points will be as follows, depending on whether the natural gas is
 2 delivered inside or outside the territory:

3 **P-DP_F** = Volumes delivered within the territory (m³) X Unit price by volume delivered
 4 within the territory (¢/m³)

5 **P-DPL_{OF}** = Volumes delivered outside the territory (m³) X Unit price by volume
 6 delivered outside the territory (¢/m³)

7 The following table shows an example of prices for the receipt rate:

8 **TABLE 1**
 9 **Rate schedule**

Receipt Rate Schedule					
Receipt Points			Delivery Points		
Name	MDO price (¢/m ³ /day)	Unit price vol. injected (¢/m ³)	Inside franchise		Outside franchise
			Consumption zones	Unit price vol. delivered (¢/m ³)	Unit price vol. delivered (¢/m ³)
RP-1	1,40	0,11	Consumption zone 1	0,027	0,70
RP-2	0,50	0,03	Consumption zone 1	0,027	0,70
RP-3	0,74	0,02	Consumption zone 1	0,027	0,70
RP-4	0,77	0,14	Consumption zone 2	-	0,70
RP-5	0,29	0,02	Consumption zone 2	-	0,70

10

11 **3.3.2 Text of Receipt rate**

12 The text of the receipt rate may read as follows.

13 **3.3.2.1 Application**

14 For any customer who wishes to inject natural gas produced in the territory served by
 15 the distributor into the distributor's gas system

16

1 3.3.2.2 *Prices at Receipt Points*

2 3.3.2.2.1 Minimum Daily Obligation

3 For each m³ of maximum contractual capacity (MCC), the unit prices shall be as
4 follows, depending on the receipt point:

Receipt Point	Prices (¢/m ³ /day)
Receipt point 1	Price 1
Receipt point 2	Price 2
Receipt point 3	Price 3
(...)	(...)

5
6 3.3.2.2.2 Unit Prices by Volume Injected

7 For each m³ of volume injected, the unit prices shall be as follows, depending on the
8 receipt point:

Receipt Point	Prices (¢/m ³)
Receipt point 1	Price 4
Receipt point 2	Price 5
Receipt point 3	Price 6
(...)	(...)

9
10 3.3.2.3 *Prices at Delivery Points for Customer Who Injects Natural Gas*

11 3.3.2.3.1 Unit Prices for Volumes Delivered Within the Territory

12 For each m³ of volume delivered within the territory, the unit prices shall be as
13 follows, depending on the consumption zone:

Consumption Zone	Prices (¢/m³)
Consumption zone 1	Price 7
Consumption zone 2	Price 8
Consumption zone 3	Price 9
(...)	(...)

1

2

3.3.2.3.2 Unit Price for Volumes Delivered Outside the Territory

3

For each m³ of volume delivered outside the territory, the unit price shall be x.xx¢/m³.

4

Gaz Métro requests the Régie to approve the structure for the new natural gas receipt rate.

5

6

3.4 METHODS OF ESTABLISHING PRICES

7

This section explains the methods that are proposed to determine the prices applicable to receipt points and to delivery points and proposes fixing the price at the delivery points outside the territory.

9

10

3.4.1 Prices Applicable to Receipt Points

11

Gaz Métro requests the Régie to approve the method for establishing the prices applicable to receipt points. The prices will be calculated on the basis of this method when investment requests are made. The method for establishing prices is a financial calculation based on revenue requirements. To determine the revenue requirements, Gaz Métro has to obtain the following costs: the distribution costs related to the investments in connection pipelines (Category A) and the portion of the distribution costs not related to the gas system allocated to producers (Category C).

12

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With respect to Category A costs, the level of the investments and the costs required to connect the producers' facilities to Gaz Métro's system will be known when investment requests are made.

19

20

21

For Category C costs, Gaz Métro is proposing the Régie to establish, as per the present application, a ratio of distribution costs not related to the gas system that will apply to

22

1 producers and that will be used to determine the required revenues used to establish the
2 prices applicable to receipt points.

3 *3.4.1.1 Portion of Distribution Costs not Related to Gas System Allocated to*
4 *Producers*

5 New customers have to pay their fair share of the costs incurred to serve all present
6 customers, which means this share has to be determined when producers are added. To
7 do this, the costs that have to be shared by customers and producers were first identified
8 on the basis of the 2008-2009 cost of service allocation study. After those costs were
9 determined, Gaz Métro applied, based on investment project assumptions (volumes
10 injected, investments, etc.), the methods for allocating those costs to determine the
11 portion thereof to be paid by producers. Gaz Métro expressed those costs as a
12 percentage of the investments in new pipelines, based on the same assumptions, in
13 order to be able to fix the ratio that would apply on the investments when future
14 investments are requested. The following paragraphs describe each of these steps in a
15 little more detail.

16 Identification of costs

17 Gaz Métro questioned each distribution cost not related to the actual gas system to
18 establish a causal link between serving producers and those costs (see Column 1 of
19 Table 2) in order to determine whether or not they applied. From amongst all those
20 costs, the following were retained:

- 21 > Operations expenses
22 Administration
23 Customer service
24 Contracts, customer calls and orders
25 Subscriber billing
26 Credit and collection
27 Bad debt provisions
28 Other charges – subscriber billing
29

- 1 ‣ Amortization expenses (not related to the actual gas system)
- 2 General installations
- 3 ‣ Amortization of deferred charges (not related to the actual gas system)
- 4 Provision for self-insurance
- 5 IT development – amortization
- 6 Termination payments
- 7 Intervenors' expenses
- 8 Duty to Régie de l'énergie
- 9 ‣ Taxes and duty
- 10 Duty to Régie de l'énergie
- 11 Duty to Régie du bâtiment
- 12 Business tax
- 13 Capital tax (not related to the actual gas system)
- 14 ‣ Income tax (not related to the actual gas system)
- 15 ‣ Return on rate base (return on investments other than those related to the actual
- 16 gas system)

17 The duties to the Régie de l'énergie and the Régie du bâtiment are already included in a
18 separate category in revenue requirements (see Section 3.4.1.2). In order to avoid cost
19 duplication, the ratio calculated will therefore exclude the cost of those duties. The total
20 costs to be shared by customers and producers are shown in Column 2 of Table 2.

21 Application of Allocation Methods

22 The costs selected were then split, using different allocation bases, between producers
23 and existing customers by adding the producers to the existing clientele. Gaz Métro did
24 this by establishing a few hypothetical scenarios concerning the volumes injected into
25 the system as well as the investments made by Gaz Métro to serve these new
26 customers. A ratio was then calculated by dividing the distribution costs (other than
27 duties) allocated to the producers by the investments under the various scenarios. The
28 ratios vary between 2.8% and 5.6%.

29 Establishment of Ratio

30 Gaz Métro chose a ratio of 4%, which is near the average of the variability range
31 calculated on the basis of the various scenarios. The following table illustrates one of the

1 scenarios studied, i.e. a producer who injects approximately 500M m³ with an investment
 2 of \$45M.

3 The result of the allocated costs, for this scenario, is shown in Column 7.

4 **Table 2**
 5 **Example of Distribution Allocated Costs (Not Related to the Actual Gas System)**

Distribution Costs	Producer						
	BUDGET 2008/2009	BUDGET 2008/2010 PRODUCER	Function of number of customers	Function of volumes	Function of revenues	Other	Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
OPERATIONS EXPENSES	156 096 000	107 787 000	138	0	91 656	822 773	914 566
GLOBAL ENERGY EFFICIENCY PLAN	14 282 000	0	0	0	0	0	0
ENERGY EFFICIENCY FUND	1 892 000	0	0	0	0	0	0
GREEN FUND	37 957 000	0	0	0	0	0	0
AMORTIZATION EXPENSE	86 248 000	19 911 000	0	0	0	234 729	234 729
AMORTIZATION OF DEFERRED CHARGES	57 697 000	15 466 000	0	62 072	62 072	156 529	280 672
TAXES AND DUTY	25 057 000	1 876 263	0	0	0	21 770	21 770
INCOME TAX	32 398 000	2 831 238	0	0	256 929	0	256 929
CONSUMPTION AND OTHER REBATES	1 062 000	0	0	0	0	0	0
RETURN ON RATE BASE	124 318 000	12 830 777	0	0	0	141 362	141 362
TOTAL DISTRIBUTION COSTS	537 007 000	160 702 278	138	62 072	410 656	1 377 163	1 850 028
RATE BASE	1 638 631 000	45 792 000					

6
 7 The costs allocated for such a scenario are \$1,850,028, which, divided by the
 8 investments of \$45,792,000, give a ratio of 4%.

9 The ratio of 4% shall be applied to the investments in the revenue requirements used to
 10 establish the prices at the receipt points (see Section 3.4.1.2). This ratio could be
 11 modified in subsequent rate cases depending on the evolution of the distribution costs
 12 (not related to the actual gas system) and eventual adjustments to the allocation
 13 methods.

1 **Gaz Métro requests the Régie to approve a ratio of 4% of investments as**
2 **distribution costs (other than duties) not related to the actual gas system as well**
3 **as its application in the establishment of revenue requirements when investments**
4 **are requested in order to establish the prices at the receipt points.**

5 *3.4.1.2 Establishment of Prices at Receipt Points*

6 The prices at each receipt point will be determined on the basis of the investment costs
7 for each project and the portion of the distribution costs not related to the gas system
8 allocated to producers (ratio of 4% applicable to investments, established in previous
9 Section).

10 Gaz Métro is proposing that all investments related to the pipelines and installations that
11 are part of the connection pipelines be amortized on the basis of their estimated useful
12 life of 20 years. This amortization period reflects the relationship between the time those
13 assets will be used (based on information obtained by Gaz Métro) and the unlikelihood
14 they will generate revenue beyond 20 years. Gaz Métro will aim for a breakeven point
15 equal to the expected life of the asset to establish the prices applicable to receipt points.

16 The cost of capital used to establish the prices at the receipt points will be the weighted
17 cost of capital approved each year by the Régie, which is coherent with Gaz Métro's
18 present prices of the distribution rates that are established each year using the weighted
19 cost of capital.

20 The prices at the receipt points will vary on the basis of the characteristics of each
21 project and each proposal will have to be examined by the Régie in the case of
22 investments requests.

23 Gaz Métro sets out below an example of how such price would be determined and
24 presented in the case of each investment request. The assumptions for the example are
25 a receipt point that includes a number of producers' facilities permitting the injection of a
26 total volume of 500M m³/year of natural gas and investment of \$45M to connect that
27 receipt point to Gaz Métro's system. Table 3 shows the inputs that will be used to
28 calculate the revenue requirements.

1
2

TABLE 3
Inputs to Revenue Requirements

Project assumptions	
Annual volume (m ³)	500 000 000
Total capital investment (\$)	45 000 000
Distribution costs not related to gas system (4.0% of investment) (\$)	1 800 000
Regulated parameters	
Useful life of assets (years)	20
Rate of duty to Régie de l'énergie (\$/10 ³ m ³)	0,311486
Rate of duty to Régie du bâtiment (\$/10 ³ m ³)	0,411000
Tax rate on public utilities	1,50%
Income tax	26,90%
Borrowing rate (weighted cost)	6,91%
Equity rate (weighted cost of common and preferred shareholders' equity)	8,55%
Percentage debt	54%
Percentage shareholders' equity (common and preferred)	46%
Weighted cost of capital	7,67%
Breakeven point (years)	20

3

4 Based on these assumptions, it is possible to calculate the revenue requirements, and
5 therefore the price applicable to this receipt point, required in such manner as producers
6 pay all the costs.

7 Table 4 details the cost of service, the evolution of the portion of the rate base related to
8 the assets in question and the difference between the cost of service and the annual rate
9 revenue (the Table shows years 0, 1, 2 and 20).

1
2

Table 4
Calculation of Revenue Requirements

Cost of service	2009 Year 0 in \$	2010 Year 1 in \$	2011 Year 2 in \$	2012 Year 20 in \$
Distribution costs not related to gas system		(1 800 000)	(1 800 000)	(1 800 000)
Tax rate on public utilities		(641 250)	(607 500)	-
Duties		(361 243)	(361 243)	(361 243)
Amortization		(2 250 000)	(2 250 000)	(2 250 000)
Interest cost		(1 636 678)	(1 552 746)	(41 966)
Income taxes		(966 141)	(466 601)	(527 830)
Cost of equity		(1 725 461)	(1 636 976)	(44 243)
Total cost of service		(9 380 773)	(8 675 066)	(5 025 282)
Rate base				
Equity	(20 700 000)	(20 182 500)	(19 147 500)	(517 500)
Debt	(24 300 000)	(23 692 500)	(22 477 500)	(607 500)
Costs and rates				
Cost of service		9 380 773	8 675 066	5 025 282
Revenue		7 528 718	7 528 718	7 528 718
Difference between cost and revenue		1 852 055	1 146 348	(2 503 436)
NPV of difference		1 720 122	988 842	(571 008)
Cumulative NPV of annual differences		1 720 122	2 708 964	0

3

4 In the example, the revenue requirements are of \$7,525,000 per year, which, divided by
5 the injected volumes of 500M m³/year, gives a price of 1.50¢/m³.

6 As can be seen, the rate revenues are fixed whereas the costs decrease over the same
7 period. Consequently, the rate revenue is less than the cost of service during the initial
8 years and is higher during the last years. However, the rate revenue is established so
9 there is no impact on the rates of other rate categories over the life of the investment.
10 For this to happen, the cumulative net present value of the annual differences between
11 the cost of service and the rate revenue must equal 0 after 20 years (last line in Table 4).
12 In other words, a breakeven point equal to the expected useful life of the asset is
13 targeted.

14 The price at a receipt point may be revised when there are new producers who wish to
15 use the same connection pipelines or if Gaz Métro connects new customers to pipelines

1 previously used only to connect producers' facilities to the gas system. For example, if
2 the assets in place allow, another contract could be signed to give a producer access to
3 a connection pipeline already used, which, by increasing the utilization of the investment,
4 would reduce the price required to recover the costs incurred. If another producer
5 wished to inject the same volume (i.e. an additional 500 Mm³) and did not require
6 additional assets, the required rate revenue would still be \$7,525,000 per year divided by
7 the new volumes of 1,000M m³/year, which would then give a price of 0.75¢/ m³.
8 Gaz Métro will revise the prices for the receipt points in question in the rate case
9 following the investment request.

10 *3.4.1.3 Breakdown of Price between MDO and Unit Price by Volumes Injected*

11 Once the price at the receipt point established, it was necessary to determine what
12 portion of that price would be priced on the basis of the MDO (fixed portion) and what
13 would be priced on the basis of a variable price by volume injected.

14 In the example in Table 4, the revenue requirements are \$7,525,000 and include the
15 distribution costs related to the investments (Category A) as well as the distribution costs
16 not related to the gas system (Category C).

17 Category A costs are entirely fixed costs. However, distribution costs not related to the
18 gas system (Category C) have to be broken down between their fixed and variable
19 portions. Category C variable costs are mainly the duties of \$361,243 paid to the Régie
20 and the Régie du bâtiment. The fixed portion of the costs is the difference of \$7,163,757,
21 i.e. the total revenue requirements of \$7,525,000 less the variable costs of \$361,243.

22 The MDO price will therefore be established by dividing the fixed revenues of
23 \$7,163,757 by the volumes of 500M m³/year, which gives a unit price of 1.43¢/m³/day.

24 The unit price by volume injected will be established by dividing the variable revenues of
25 \$361,243 by the same volumes, which gives a unit price of 0.072¢/m³.

26

1 Of the 1.50¢/m³ total costs at the receipt point, the fixed portion of the rate will therefore
2 equal 1.43¢/m³/day and the variable portion 0.072¢/m³.

3 The prices at the receipt points will be approved by the Régie for each new project when
4 investments requests are filed in accordance with the method proposed in this Section.
5 The prices could then be modified in subsequent rates cases depending on the evolution
6 of costs (rate of return, income taxes, etc.).

7 **Gaz Métro requests the Régie to approve the methodology for establishing the**
8 **prices at the receipt points that will apply to investment projects.**

9 3.4.2 Prices Applicable to Delivery Points

10 Section 3.2 showed that the unit prices at the delivery points were different depending on
11 whether gas is delivered inside or outside the territory.

12 3.4.2.1 Unit Prices by Volumes Delivered Within the Territory

13 The unit prices for volumes delivered within the territory have to make possible the
14 recovery of the additional transportation costs on the TCPL/TQM system that may be
15 incurred when the volumes injected by producers exceed the capacity of the
16 consumption zone (see Section 3.2.1). These costs will be incurred to serve the
17 producers, who will pay for them.

18 Gaz Métro will evaluate the need to contract TCPL/TQM transportation on the basis of
19 the total volumes injected in a particular consumption zone and the winter and summer
20 consumption profile of the customers in that zone. If the volumes injected in the zone
21 exceed the volumes consumed by the customers, the cost of transporting that surplus
22 TCPL/TQM transportation capacity that Gaz Métro will have to contract to move the gas
23 to another consumption zone will be calculated. The cost of the TCPL/TQM
24 transportation service will fluctuate on the basis of the distance covered. The distance
25 the surplus gas will have to travel from one particular consumption zone to other
26 consumption zones will be a function of the capacity of those other consumption zones.

27 As already stated in Section 3.2.1, the volumes delivered outside the territory are not
28 included in determining the additional TCPL/TQM transportation needs. Gaz Métro will

1 then return the natural gas to the producers at the interconnect points with the
2 TCPL/TQM transmission system.

3 Accordingly, the volumes delivered outside the territory will not be included in the
4 calculation of the consumption zone, in order to determine the TCPL/TQM transportation
5 needs, if producers have clearly expressed their intention to contract TCPL/TQM
6 transportation themselves. Unless a producer so indicates, Gaz Métro will assume that
7 the volumes injected will eventually be consumed within the territory and will contract the
8 required TCPL/TQM transportation capacities.

9 The annual cost of the additional TCPL/TQM transportation capacities will then be
10 divided by the volumes injected in the consumption zone and expected to be delivered
11 within the territory by the producers. The unit price will apply to that consumption zone.
12 The unit price obtained will be billed for all volumes actually injected that have the
13 territory as the delivery point.

14 It is understood that Gaz Métro will use forecasts for volumes injected daily and annually
15 that have the territory as the delivery point, based on information that will be provided to
16 it by producers. For illustration purposes, the following example shows the calculation
17 methodology for a particular consumption zone.

18 Example: A producer injects 10,000 GJ/day into the system and plans to move
19 1,000 GJ/day outside the territory. Customers in that consumption zone consume
20 8,000 GJ/day. Accordingly, surplus consumption capacity of 1,000 GJ/day for customers
21 in that zone is injected and will have to be transported to another consumption zone. In
22 this example, the costs incurred on the TCPL/TQM transmission system would be
23 \$20,000/year.

24 Those costs will apply to volumes injected that have the territory as the delivery point,
25 i.e. 10,000 GJ less 1,000 GJ/day, therefore 9,000 GJ/day, multiplied by 365 days, which
26 results in an annual volume of 3,285,000 GJ. The costs of \$20,000 will then be divided
27 by those volumes. For this example, the resulting unit price of \$0.006/GJ
28 (i.e. 0.027¢/ m³) would then apply to the volumes of 3,285,000 GJ.

1 The prices applicable to each consumption zone will initially be established when
2 investments requests are filed, in accordance with the method proposed in this Section.
3 Those prices could be modified in subsequent rates cases depending on the evolution of
4 the TCPL/TQM transportation needs, which are influenced by producers' volumes
5 injected that have the territory as the delivery point as well as the consumption of
6 customers in that zone. Moreover, if a new producer connects to a consumption zone for
7 which there was already a price by volume delivered within the territory, Gaz Métro will
8 revise the price for that zone in the rate case following the investment request.

9 **Gaz Métro requests the Régie to approve the methodology for establishing prices**
10 **at the delivery point within the territory that will apply to an investment project.**

11 *3.4.2.2 Unit Price by Volumes Delivered Outside the Territory*

12 As already indicated, the costs of using Gaz Métro's existing transmission system would
13 be shared by customers and producers when natural gas is moved outside the territory.
14 The unit price for the volume delivered outside the territory is established on the basis of
15 a share of Gaz Métro's transportation costs for the existing distribution system. It is
16 proposed that a single rate zone be established for the price applicable to that
17 component of the receipt rate.

18 Gaz Métro therefore needed to identify the costs related to Gaz Métro's transmission
19 lines so they could be allocated between present customers and the producers.

20 The first step is to define the portion of the mainlines that are transportation pipelines.
21 The "capacity attributed and used" (CAU) model provides the "CONDPRIN" allocation
22 base that makes it possible to allocate the mainlines. The application of that allocation
23 base in connection with the 2008/2009 cost allocation study made it possible to identify
24 that 32% of the gas system's pipelines are transmission pipelines.

25 The fixed assets allocation below is then used to allocate the existing distribution system
26 costs amongst their distribution and transportation functions. The costs related to the
27 gas distribution system are amortization, gas system and capital taxes, the return on the
28 rate base and operations expenses.

1 If the allocation base of one of these costs is "CONDPRIN", the 32% allocation obtained
2 by the mainline allocation is also used to allocate the distribution cost amongst the
3 transportation and distribution functions. This percentage was also used to allocate the
4 cost of the gas unaccounted for in the system.

5 As the costs allocated in accordance with the derived allocation bases (return on rate
6 base, income and other taxes) are the sum of costs some of which were allocated on the
7 basis of "CONDPRIN", they also support part of the costs related to the transmission
8 pipelines. Of all these costs, 16% is allocated to the transportation function.

9 Lastly, "electricity transmission" and "transmission system" costs were considered
10 entirely related to the transportation function.

11 The result of this allocation is shown in the following Table.

1
2

TABLE 5
Costs Related to Transportation Portion

2008/2009 BUDGET	2008/2009 BUDGET	2008/2010 BUDGET Producer	ALLOCATION FACTORS
Unaccounted for system gas	7 190 000	2 282 778	FB01D
Mainlines	13 820 000	4 387 759	CONDPRIN
Electricity transmission	1 666 000	1 666 000	FB01D
Other	133 420 000	0	
TOTAL OPERATING EXPENSES	156 096 000	8 336 536	
GLOBAL ENERGY EFFICIENCY PLAN	14 282 000	0	PGEE
ENERGY EFFICIENCY FUND	1 892 000	0	FEE
GREEN FUND	37 957 000	0	FB01FV
Contributions	(16 358 000)	(5 193 557)	CONDPRIN
Mainlines	45 709 000	14 512 306	CONDPRIN
Land and rights-of-way	684 000	217 165	CONDPRIN
Civil portion of gates	530 000	168 272	CONDPRIN
Delivery and regulation stations (regulation equipment)	3 626 000	1 151 231	CONDPRIN
Other	52 057 000	0	
TOTAL AMORTIZATION EXPENSE	86 248 000	10 855 417	
TOTAL AMORTIZATION OF DEFERRED CHARGES	57 697 000	0	
Gas system tax	11 851 000	1 879 866	REVBRTUD
Capital tax	4 382 000	695 095	BASETARD
Transmission system	2 448 000	2 448 000	CAUCPA
Other	6 376 000	0	
TOTAL TAXES AND DUTY	25 057 000	5 022 962	
Income tax	27 432 000	4 351 404	REVNETD
Other	659 000	0	
TOTAL INCOME TAX RELATED TO RETURN	28 091 000	4 351 404	
TOTAL INCOME TAX NOT RELATED TO RETURN	4 307 000	0	
TOTAL CONSUMPTION AND OTHER REBATES	1 062 000	0	
RETURN ON RATE BASE	124 318 000	19 719 958	BASETARD
TOTAL DISTRIBUTION COSTS	537 007 000	48 286 277	

3

4 In summary, 32% of the costs allocated in accordance with the “CONDPRIN” allocation
5 base are associated with the transportation function. This is also the case for
6 “unaccounted for system gas” costs. The “REVBRTUD”, “BASETARD” and “REVNETD”
7 allocation bases are derived allocation bases and therefore allocate 16% of the
8 associated costs to the transportation function. The “Electricity transmission” and
9 “Transmission system” costs are fully allocated to the transportation function. Of
10 Gaz Métro’s total distribution system costs of \$537M, \$48.3 can therefore be associated
11 with the transportation function.

1 After this amount had been established, it was necessary to identify the portion thereof
2 that has to be billed to producers when natural gas is moved outside Quebec. The cost
3 allocation study identifies the portion of the \$48.3M that is attributable to each rate and
4 an average unit price for the transportation function can therefore be determined per rate
5 by simply dividing those costs by the volumes. As Gaz Métro's present clientele does not
6 include any producers and volumes delivered outside the territory were not known, the
7 cost allocation study is unable to help determine an average unit price for such producer
8 category, which therefore made it essential to find another way to establish the portion of
9 the transportation-related costs that was to be allocated to producers.

10 As the level and the stability of the volumes injected into the system by producers are
11 similar to the consumption characteristics of the present Rate D₄ customers, Gaz Métro
12 chose the average unit cost for Rate D₄, excluding the 4.10 level, to determine the unit
13 price of the volume delivered outside the territory for producer customers. The 4.10 rate
14 was excluded because the sole customer at that rate does not consume the quantity
15 expected of a customer at that rate and is therefore not representative.

16 The transportation costs allocated to Rate D₄ (still excluding the 4.10 level) are
17 \$11,112,086 and the volumes are 1,582,973 10³m³. The resulting unit price that will
18 apply to producers for this new rate is therefore 0.70¢/m³. The price could be updated in
19 subsequent rate cases.

20 **Gaz Métro requests the Régie to fix the price for volumes delivered outside the**
21 **territory at 0.70¢/m³ in this case.**

22 3.5 OTHER PROVISIONS

23 3.5.1 Revision of Maximum Contractual Capacity (MCC)

24 The MCC will be stipulated in the contract. Increases will be permitted if it is physically
25 possible for Gaz Métro to increase the capacity at the receipt point. If new investments have
26 to be made, the receipt point price would have to be adjusted.

27 Producers who wish to reduce their MCC will have to notify Gaz Métro which will then not be
28 obligated to find another producer who wants that capacity but if the distributor finds a

1 producer who is prepared to take the capacity and pay the related costs, Gaz Métro could
2 allow a “transferring” producer to reduce its MCC. The freed-up capacity would then be
3 transferred to the new “receiving” producer who would have to sign a contract with
4 Gaz Métro. If no other producer is prepared to take all or part of this injection capacity at the
5 receipt point, the decrease will not be allowed.

6 3.5.2 Treatment of Maximum Contractual Capacity (MCC) Overrun and Differences
7 between Injected and Nominated Volumes

8 Producers will have to inform the distributor daily of the natural gas volumes they expect to
9 inject at the receipt point as well as the delivery points for the gas injected. This information
10 will be required to confirm the volumes that will have the territory as the delivery point and
11 place the necessary nominations with TCPL in order to transport the natural gas injected to
12 other consumption zones. Moreover, if a producer wishes to move gas outside the territory,
13 the information received from the producers will allow Gaz Métro to confirm to the carrier the
14 gas volumes that will be transferred to the carrier’s account at the various interconnect
15 points between Gaz Métro’s system and the TCPL/TQM transmission system.

16 3.5.2.1 *Daily Overruns of Maximum Contractual Capacity (MCC)*

17 Producers who wish to inject, during a particular day, a volume of gas greater than their
18 MCC, may make a request to this effect through the daily nominations process that will
19 be put in place. Gaz Métro will then determine if it is operationally possible to accept a
20 producer’s gas, based on all the requests received based on the delivery points, the
21 expected local consumption and available TCPL/TQM transportation capacities. If
22 Gaz Métro is in a position to accept the producer’s natural gas that is in excess of the
23 MCC, the producer will be billed the unit price by volume injected applicable to the
24 receipt point as well as the unit price for the volume delivered within the territory
25 applicable to its consumption zone or the unit price for the volume delivered outside the
26 territory, as applicable. The fixed portion of the rate will not be billed for surplus volumes
27 because that service will be rendered through installations that will already be fully billed
28 to producers via the MDO of the receipt rate at the receipt points.

29 If more than one producer makes concurrent requests to inject additional gas volumes
30 and the said volumes exceed Gaz Métro’s ability to accept the gas, Gaz Métro will

1 allocate the available capacity on a prorata basis of the excess volumes nominated by
2 the producers on a daily basis.

3 **3.5.2.2 Differences between Nominated and Injected Volumes**

4 A certain margin of tolerance between the nominated volumes and the volumes actually
5 injected at the receipt point by a producer will be allowed. Gaz Métro is required to
6 respect a 2% daily, 4% cumulative, tolerance margin with TCPL. Variations between the
7 volumes actually injected and forecast volumes will in most cases affect volumes
8 withdrawn from or injected into the carrier's system or injected into that system.

9 Because of that direct link, Gaz Métro is proposing to apply the load-balancing rules of
10 the TCPL/TQM transmission system to receipt rate customers. The present treatment of
11 daily imbalances in Gaz Métro's rates that provides for Gaz Métro to buy back surplus
12 deliveries and sell gas do not appear appropriate for the receipt rate. Obliging an
13 unforeseen gas delivery to be bought back settles the gas ownership situation but does
14 not make it possible to correct the difference that is created at the carrier's level. The
15 difference will have to be corrected in the opposite direction to restore balance, which
16 would result in a second financial settlement.

17 The mechanism under the TCPL/TQM transmission system involves two steps. Firstly, a
18 daily balance has to be respected. While all the volumes measured are recorded, the
19 carrier does not charge anything if the daily difference between the nominated volumes
20 and the volumes actually injected or withdrawn is less than 2% of the total nominated
21 volume at that receipt point. Charges are billed for daily differences greater than 2% and
22 vary according the extent of the imbalance. The carrier's prices are a function of a
23 percentage of the transportation rate for the zone, regardless of where the imbalance
24 occurs on its system. For the sake of simplicity, Gaz Métro proposes converting those
25 prices in \$/GJ (or ¢/ m³) and applying them according to the same difference ranges for
26 customers subject to the receipt rate. The following Table shows the proposed prices.

27 **TABLE 6**

28 **Prices for Daily Imbalances between Deliveries and Nominations**

Prices Applicable to Daily Imbalances
--

Difference	< 2%	2% to 4%	4% to 8%	8% to 10%	> 10%
Price (\$/GJ)	0.000	0.328	0.819	1.229	1.638
Price (¢/m ³)	0.000	1.241	3.103	4.655	6.207

1

2 The prices shown above were calculated on the basis of TCPL's tolls as of January 1,
3 2010. They will be revised when there are changes in the carrier's tolls.

4 Any daily difference is added to or deducted from the previous balance of the cumulative
5 difference account. Charges are payable when the daily balance of the cumulative
6 difference account is greater than 4% of the higher of the nominated volumes or the
7 average nominated volumes for the last 30 days. The cumulative charges are also a
8 function of TCPL's actual transportation tolls. The following Table shows the proposed
9 prices.

10 **TABLE 7**
11 **Prices for Cumulative Differences Account**

Prices Applicable to Cumulative Differences			
Balance	< 4%	4% to 6%	> 6%
Price (\$/GJ)	0.000	0.246	0.411
Price (¢/m ³)	0.000	0.931	1.552

12

13 The prices shown above were calculated on the basis of TCPL's tolls as of January 1,
14 2010. They will be revised when the carrier's tolls are modified.

15 **Gaz Métro requests the Régie to approve the methodology for establishing the**
16 **prices for daily and cumulative imbalances and to fix those prices on the basis of**
17 **TCPL's actual tolls when it renders its decision.**

18 3.5.3 Contract Term, Renewal and Indemnity

19 Gaz Métro will require initial contracts of a minimum term of ten years for receipt rate
20 customers. When the initial contract with a producer expires, the producer might have to

1 renew it or, in certain circumstances, pay an indemnity. If a producer does not renew the
2 contract and the breakeven point is not reached, the producer will have to pay Gaz Métro an
3 indemnity. The indemnity would have to equal the book value of the assets at that time plus
4 the revenue shortfall that the producer would have paid if it had been under contract until the
5 breakeven point was achieved. The breakeven point should, in most cases, correspond to
6 the amortization period, i.e. 20 years.

7 If another producer requested access, during the period covered by the indemnity, to all or
8 part of the MCC freed-up by the producer having paid the indemnity, the producer would be
9 entitled to a refund of a portion of that indemnity in accordance with the agreement between
10 the parties.

11 3.5.4 Composition of Natural Gas and Calorific Content

12 The composition of natural gas and its calorific content could vary depending on the
13 production source. For gas production in Quebec, Gaz Métro would require from producers
14 that the composition of the natural gas as well as its calorific content meet the same criteria
15 as those approved by the NEB in order to be injected into its gas system. Among other
16 things, the gas received will have to be free of sand, dust, impurities, etc. However,
17 Gaz Métro wishes to reserve the right to add additional criteria to the specifications
18 approved by the NEB if the source of the gas means certain contaminants have to be more
19 specifically controlled. A chromatograph will be installed either at the receipt point or the
20 injection point (if different from receipt point) in order to ensure the gas injected is in
21 compliance.

22

1 If the gas received does not comply, Gaz Métro will notify the customer and may
2 immediately suspend receipt of the non-compliant gas while corrective measures are taken
3 or continue to receive the non-compliant gas. In this case, the producer will have to take the
4 necessary steps to comply with the standards within 30 days otherwise Gaz Métro will
5 refuse the non-compliant gas. In all cases, the producer will have to pay amounts owing to
6 Gaz Métro. Moreover, the producer will also have to reimburse the distributor for all costs
7 attributable to the injection of non-compliant natural gas.

8 3.5.5 Pressure

9 At the receipt point, a producer's gas has to be at the pressure stipulated by Gaz Métro in
10 the contract, up to a maximum of 110% of that pressure. The producer has to obtain the
11 tools that will ensure the maximum is not exceeded.

12 3.5.6 Interruptions and Curtailment of Receipt of Natural Gas

13 Gaz Métro could interrupt or curtail the service, on 48 hours notice, in order to do work on its
14 system (repairs, maintenance, upgrades, etc.). If unforeseen circumstances arise, Gaz
15 Métro could interrupt or curtail the service without notice.

16 The order of priority of interruptions at receipt points is determined as follows: firstly,
17 volumes that exceed the MCC will be interrupted and then the affected producers will be
18 interrupted *prorata* to their MCC.

19

1 3.5.7 Custody and control of Natural Gas

2 The gas will be assumed to be in the custody and under the control of Gaz Métro from the
3 time it is received into the Gaz Métro's gas system. The transfer will therefore occur at the
4 receipt point, i.e. the physical location where the producers' installations join Gaz Métro's. If
5 the gas received is intended for consumption by Gaz Métro's customers, either through the
6 distributor's natural gas supply service or the customer-provided service, the gas will remain
7 under Gaz Métro's custody and control until it is delivered to the customers. Custody and
8 control of the gas that is intended to be transported outside of Gaz Métro's territory will be
9 transferred back to the producers at the interconnect points with the TCPL/TQM system.

10 4 CONDITIONS OF NATURAL GAS SERVICE AND TARIFF

11 The *Conditions of Natural Gas Service and Tariff* stipulates the conditions and rates that apply
12 to customers. However, it was designed in the sole context of services rendered to consumer
13 customers. The arrival of producer customers means Gaz Métro will have to modify the present
14 text to include certain changes or certain specificities related to serving this new customer
15 category.

16 Sections 4.1 and 4.2 respectively describe the changes made to Sections I ("General
17 Provisions") and II "Conditions of Natural Gas Service" of *Conditions of Natural Gas Service*
18 *and Tariff* and well as those to Article 16.1 "General Provisions" of that document.

19 Gaz Métro submits the complete *Conditions of Natural Gas Service and Tariff* document
20 including the text of the receipt rate (Gaz Métro-2, documents 1 and 2) that is subject to
21 approval by the Régie in this present application. The original text of *Conditions of Natural Gas*
22 *Service and Tariff* corresponds to the one filed in Phase 2 of Rate Case 2011 (R-3720-2010,
23 Gaz Métro-14, Documents 1 et 2). Changes are highlighted in pink to facilitate identification.

24 **Gaz Métro requests the Régie to approve the changes made to the *Conditions of natural***
25 ***gas service and Tariff* (Gaz Métro-2, Documents 1 and 2).**

1 4.1 SECTIONS I AND II- GENERAL PROVISIONS AND CONDITIONS OF NATURAL GAS
2 SERVICE

3 Customers subject to the natural gas receipt rate will also be subject to the conditions of natural
4 gas service in the *Conditions of Natural Gas Service and Tariff*. However, the specific context of
5 injecting natural gas into Gaz Métro's distribution system will involve modifying some of those
6 conditions.

7 4.1.1 Section 1: Application

8 Certain definitions will have to be added to Section 1.3 *Definitions* if those definitions involve
9 functions that are specific to the receipt of natural gas. Moreover, changes will be made to
10 existing definitions to specify the additional applications concerning the receipt of natural
11 gas.

12 The following new definitions will have to be added to the *Conditions of Natural Gas Service*
13 *and Tariff*:

- 14 > **Injection customer delivery point:** Physical or geographic location where natural
15 gas is delivered within the territory on Gaz Métro's gas system or outside the territory
16 (ex-territory)
- 17 > **Nomination:** Request for a quantity of natural gas in connection with a supply or
18 transportation service agreement
- 19 > **Receipt point:** Physical location where producers' facilities join Gaz Métro's
20 connection pipelines to move natural gas to the gas system
- 21 > **TCPL/TQM transportation:** Transportation of natural gas within Gaz Métro's territory
22 between different consumption zones or outside Gaz Métro's territory via the
23 TCPL/TQM transmission system
- 24 > **Volumes delivered within the territory:** Delivery of natural gas to Gaz Métro's entire
25 system
- 26 > **Volumes delivered outside the territory:** Delivery of natural gas to an interconnect
27 point with the TCPL/TQM system

1 > **Consumption zone:** Geographic zone from the interconnect point with the
2 TCPL/TQM system delimiting the portion of Gaz Métro's system connected to that
3 interconnect point.

4 The following present definitions in the *Conditions of Natural Gas Service and Tariff* will
5 have to be modified to reflect the addition of the new natural gas producer customers:

6 “*METERING EQUIPMENT*”

7 *Any equipment used to measure the natural gas withdrawn or injected by the customer,*
8 *including in particular a meter, with or without a remote reading device.”*

9 “*METERING POINT*”

10 *One metering equipment, or more than one metering equipment, if the distributor deems*
11 *appropriate to use more than one, measuring the natural gas withdrawn by a single customer*
12 *and serving one or more buildings or facilities located at a single site occupied by that*
13 *customer or measuring the natural gas injected by a customer.”*

14 “*MINIMUM ANNUAL OBLIGATION (MAO)*”

15 *Minimum annual volume of natural gas, for each contract year, that a customer agrees to*
16 *pay, in accordance with the Conditions of Natural Gas Service and Tariff, whether or not it*
17 *withdraws or injects the natural gas.”*

18 “*MULTIPLIER FACTOR*”

19 *The coefficient applied to the measurement of the natural gas volume withdrawn or injected*
20 *by a customer in order to take account of the characteristics of the metering equipment.”*

21 “*PRESSURE FACTOR*”

22 *The coefficient applied to the measurement of the volume of natural gas withdrawn or*
23 *injected by a customer in order to take account of the atmospheric pressure and the delivery*
24 *pressure.”*

25 “*SERVICE ADDRESS*”

26 *Address that is or will be connected to the distribution system, including the receipt point.”*

27 4.1.2 Chapter 2: Distribution System

28 Because the provisions relating to the distribution system apply to customers who inject
29 natural gas in that distribution system, few changes are required to Chapter 2. However,

1 Gaz Métro proposes specifying that those provisions also apply to those customers. Article
2 2.1 would therefore read as follows:

3 *"2.1 Distribution System*

4 *The distributor shall determine the location of its distribution system, which includes the*
5 *receipt point.*

6 *The distributor shall own the distribution system and shall supply, install, operate and*
7 *maintain the system up to the customer delivery point or the receipt point.*

8 *No one other than the distributor or its authorized agent may at any time or in any way modify*
9 *or alter its distribution system."*

10 4.1.3 Chapter 3: Services

11 Few changes are required to this Chapter but Gaz Métro is proposing to specify that the
12 services provided do not apply to the receipt rate. Gaz Métro is proposing to make the
13 distinction in Article 3.1 as follows:

14 *"The distribution service shall be offered exclusively by the distributor in its territory, as*
15 *provided in the Act Respecting the Régie de l'énergie.*

16 *Except for customers subject to the receipt rate, the following services may, at the option of*
17 *the customer, be obtained from the distributor, or subject to the Conditions of Natural Gas*
18 *Service and Tariff, obtained by the customer himself from one or more suppliers:*

19 *1° gas supply service, including make-up gas service;*

20 *2° compressor fuel service;*

21 *3° transportation service;*

22 *4° load-balancing service.*

23 *The distributor shall provide these services by default, in accordance with the Conditions of*
24 *Natural Gas Service and Tariff, unless the customer notifies the distributor of his intention to*
25 *provide them himself."*

26 4.1.4 Chapter 4: Natural Gas Service Request and Contract

27 The service request principles also apply to an injection request. However, certain details
28 relating to the injection request have to be specified in Chapter 4. Firstly, an addition will be
29 made to the heading in order to specify the injection is also covered. The heading will

1 therefore read “Natural Gas Service or Injection Request and Contract”. The heading of
2 Article 4.1 will also be modified to read “Natural Gas Service or Injection Request” and
3 heading 4.1.1 will read: “Service or Injection Request Procedure”. With respect to Article
4 4.1.1.1, Gaz Métro is proposing to specify that for a customer subject to the receipt rate, the
5 request must be in writing. The article will read as follows:

6 *“4.1.1.1 Address connected to the distribution system*

7 *The service request may be made to the distributor by telephone, mail, e-mail or on the*
8 *distributor’s Internet site. If required by the distributor, the request shall be in writing if the*
9 *person making the request does not occupy the address in question.*

10 *The service request by a customer subject to the receipt rate shall be in writing.”*

11 Changes also must be made to Article 4.5 in order to clarify certain details applicable to the
12 receipt rate. Article 4.5.1 will therefore be modified as follows:

13 *“4.5.1 FORM*

14 *The contract shall be in writing in the following cases:*

- 15 *1° the customer is billed Distribution Rate D_M , D_3 , D_4 , D_5 , or the receipt rate;*
16 *2° the customer is subject to a minimum annual obligation;*
17 *3° the customer has entered into a fixed-price gas supply agreement;*
18 *4° the customer has to pay a financial contribution to the distributor.”*

19 4.1.5 Chapter 5: Measurement

20 The measurement provisions in this Chapter apply to distribution rates customers as well as
21 receipt rate customers. However, certain changes have to be made to take account of the
22 proposed new rate.

23 Firstly, Article 5.1.1 has to be modified to clarify that it also applies to receipt rate customers.
24 This article is modified as follows:

25 *“5.1.1 METERING EQUIPMENT BELONGING TO THE DISTRIBUTOR*

26 *The distributor shall determine the type of metering equipment to be used at the customer*
27 *delivery point or at the receipt point. It shall install, operate and maintain metering equipment*
28 *to measure the natural gas withdrawn or injected by a customer.*

29 *A customer may not modify or tamper with the distributor’s metering equipment.*

1 5.1.3 *METERING EQUIPMENT BELONGING TO THE CUSTOMER*

2 *The customer may install, operate and maintain on pipes belonging to him his own metering*
3 *equipment at his own expense.*

4 *However, the customer's metering equipment shall be installed downstream from the*
5 *distributor's metering equipment in the case of a customer subject to a distribution rate and*
6 *upstream in the case of a customer subject to the receipt rate.*

7 *Customer's metering equipment shall be installed, operated and maintained in a manner that*
8 *does not interfere with the distributor's activities."*

9 Also to clarify that the articles apply to customers subject to the receipt rate, a change has to
10 be made to Article 5.2, which would read as follows:

11 “5.2 *MEASUREMENT OF VOLUME OF NATURAL GAS WITHDRAWN OR INJECTED*

12 *The metering equipment shall indicate the volume of natural gas withdrawn or injected by the*
13 *customer, either in metric or imperial units. For billing purposes, imperial units shall be*
14 *converted to metric units.”*

15 An addition is also made to the fourth paragraph of Article 5.3.2 to specify the reading
16 frequency for customers subject to the receipt rate:

17 “5.3.2 *FREQUENCY OF READINGS*

18 *Furthermore, if the natural gas is billed at Rates D_4 , D_5 , D_3 and D_5 in combination or at the*
19 *receipt rate, the distributor shall read the metering equipment every day. If the natural gas is*
20 *billed at Rate D_M , the distributor shall read the metering equipment every month.”*

21 Article 5.4 also has to be modified so it applies to receipt rate customers:

22 « 5.4 *VOLUME OF NATURAL GAS WITHDRAWN OR INJECTED BY THE CUSTOMER*

23 *The volume of natural gas withdrawn or injected shall be calculated by determining the*
24 *difference between two (2) consecutive readings of the metering equipment. If the distributor*
25 *does not obtain a reading of the metering equipment before the bill is issued, the distributor*
26 *shall estimate the volume of natural gas withdrawn or injected by the customer”.*

27

1 4.1.6 Chapter 6: Billing

2 Like the previous Chapter, the billing provisions apply to all customers even though a few
3 changes have to be made to the context.

4 Article 6.1.1 will be modified so it applies to receipt rate customers:

5 *“6.1.1 VOLUME OF NATURAL GAS BILLED*

6 *For billing purposes, the volume will be adjusted to a calorific power that is greater than*
7 *37.89 MJ/m³.*

8 *The distributor shall bill a customer monthly for the actual or estimated volume of natural gas*
9 *withdrawn or injected at the service address.*

10 *However, the distributor may bill every two months a customer billed at Rate D₁ who*
11 *withdraws less than 1,000 m³ of natural gas per year.*

12 *The billing shall be based on the actual or estimated volume at each metering equipment.*
13 *However, if the distributor uses more than one metering equipment at a single customer*
14 *delivery point or receipt point, the billing shall be based on the sum of the volumes withdrawn*
15 *or injected at those metering equipments as though there were only one.*

16 *When a customer billed at a rate other than Rate D₁ is billed on a basis of an estimated*
17 *volume, his bill shall be revised and sent to him when the actual volume is known”.*

18 4.1.7 Chapter 7: Payment

19 Only one change is proposed to the Payment Chapter, i.e. to Article 7.3.1 concerning the
20 responsibility for payment in the case of a written contract. It is proposed eliminating “natural
21 gas” at the very end of the article because it serves no purpose and could also cause
22 confusion insofar as bills issued by Gaz Métro are not just for the natural gas supply service
23 but also include other services supplied by the distributor, including the distribution service.

24 The modified article therefore reads as follows:

1 *"7.3.1 WRITTEN CONTRACT*

2 *All customers who have entered into same contract shall be solidarily liable for full payment*
3 *of the ~~natural-gas~~ bills".*

4 4.1.8 Chapter 8: Deposit

5 The Chapter dealing with deposits requires changes, certain for clarification purposes and
6 others for more important changes. Article 8.1 will be modified slightly to include the plural in
7 the application of deposits for natural gas services since natural gas service includes
8 distribution, supply, compressor fuel, transportation and load-balancing. The second
9 paragraph of that article also stipulates the plural state or the natural gas services. The
10 paragraph therefore reads as follows:

11 *"8.1 Requirement*

12 *If the distributor requires a deposit for one or more natural gas service(s) at a service*
13 *address, it shall inform the customer of the reasons for it.*

14 *[..]"*

15 Gaz Métro wishes to be able to require a deposit from all customers subject to the receipt
16 rate. It is therefore proposed to add Article 8.1.3 to specify that a deposit is required from
17 customers who are subject to that rate. The new article will read as follows:

18 *"8.1.3 CUSTOMERS SUBJECT TO THE NATURAL GAS RECEIPT RATE*

19 *The distributor may require a deposit when service is requested or during a contract from any*
20 *customer subject to the receipt rate."*

21 As with Article 8.1, a distinction will also have to be made to Article 8.2 to provide the
22 manner in which a deposit will be defined for customers subject to the natural gas receipt
23 service. The present deposit provisions authorize Gaz Métro to request a security deposit
24 equal to the two highest months of consumption. In the context of Gaz Métro's normal
25 operations, this two-month coverage is appropriate. However, in the context of natural gas
26 production in Quebec, Gaz Métro considers that this level of protection would be insufficient
27 and is proposing a security deposit equal to 12 months of service instead.

28 A new Article 8.2.3 will therefore be added and read as follows:

1 "8.2.3 CUSTOMERS SUBJECT TO A NATURAL GAS RECEIPT RATE

2 The amount of the deposit shall not exceed the sum of the amounts equivalent to 12 months
3 of service."

4 Gaz Métro is not proposing any change to Article 8.3. However, a clarification has to be
5 made to Article 8.4 to include customers subject to the natural gas receipt rate. The Section
6 would be modified as follows:

7 "8.4 RETENTION PERIOD

8 A deposit may be initially retained for:

- 9 1° 12 consecutive months if it involves a customer who uses natural gas for domestic
10 use;
- 11 2° 36 consecutive months if it involves a customer who use natural gas for any other use;
- 12 3° 60 consecutive months if it involves a customer subject to the receipt rate.

13 If a customer does not pay at least one natural gas bill on the due date during the deposit
14 retention period, the distributor shall renew the deposit retention period for a period equal to
15 the initial retention period."

16 Additions are also required to Article 8.6 to take account of the particularities of injecting
17 natural gas into Gaz Métro's system. Interrupting the service may not be an option in all
18 cases of customers subject to the receipt rate as Gaz Métro's supply strategy may partially
19 depend on the gas injected by a producer. For this reason, Gaz Métro wishes to be able to
20 apply the deposit on a customer's bill even though there has not been an contract
21 termination or interruption. Gaz Métro is therefore proposing to add Article 8.6.1.3, which
22 would read as follows:

23 "8.6.1.3 CUSTOMERS SUBJECT TO THE NATURAL GAS RECEIPT RATE

24 The distributor may, without prejudicing its other rights and recourses, apply the deposit or
25 the revenue from any security provided on the bill of a customer subject to the receipt rate if a
26 bill remains unpaid on the due date."

27 4.1.9 Chapter 9: Collection

28 No changes are required to this Chapter. Even though the particular context of injecting
29 natural gas into the system may make some collection procedures more difficult, including
30 the interruption of service, it is desirable for Gaz Métro to retain this right in order to protect
31 its clientele as a whole.

1 4.2 ARTICLE 16.1 - GENERAL PROVISIONS

2 The *Conditions of Natural Gas Service and Tariff* covers the distributor's distribution service as
3 well as and other services provided by the distributor. As the receipt service is a service that
4 permits the injection of natural gas into the system for transportation and distribution, the new
5 natural gas receipt rate will be part of the distribution service.

6 The general provisions in Chapter 16: *Distribution* are for the distribution service, which would
7 be divided into two sections. The first section would state the present distribution rates and a
8 second section would be created to describe the receipt rate. However, the general provisions
9 of the distribution service would apply to the both the distribution rates and the receipt rate and
10 a few changes have to be made to Article 16.1 *General Provisions*.

11 4.2.1 Article 16.1.1 Right to Most Advantageous Rate

12 A modification has to be made to indicate this right only applies to distribution rates because
13 there is only a single receipt rate.

14 The article would be modified as follows:

15 "A customer is entitled to the most advantageous rate according to the following conditions:

- 16 a) the distribution rate must be agreed upon for the entire contract term, subject to
17 subsequent amendments, agreed to by the parties, to the subscribed volume, the
18 minimum annual obligation and the agreed upon price;
19 b) a customer who has a verbal contract may change distribution rates subject to
20 agreement with the distributor."

21 4.2.2 Article 16.1.2 Default Distribution Rate

22 No changes are required to Article 16.1.2 because the condition already only applies to the
23 distribution rates and therefore has no impact on the receipt rate.

24 4.2.3 Article 16.1.5 Subsequent Adjustments

25 Article 16.1.5 *Subsequent Adjustments* would have to be modified as follows to include the
26 receipt rate:

27 "The distribution and receipt rates are subject to rate modifications ordered by the Régie de
28 l'énergie after they come into force to reflect any change in operating costs arising from the

1 *decision of a competent authority (legislation, governments and public organizations) (“fait du*
2 *prince”).”*

3 5 IMPACTS ON OTHER SERVICES

4 Gaz Métro is already giving thought to the impacts the development of new gas supply sources
5 will have on managing customer supply. As was the case with the implementation of the LNG
6 terminals, the development of natural gas production in Quebec will impact Gaz Métro’s supply
7 plan. In this regard, at the request of the Régie, Gaz Métro submitted evidence in rate case
8 R-3630-2007 in Gaz Métro-4, Document 1 dealing with the repercussions of the possible
9 implementation of one or more LNG terminals in Quebec on the optimal supply strategies. More
10 specifically, the main impacts the development of gas production may have on Gaz Métro’s
11 other services are described in the following sections. The tangible impacts on future supply
12 plans will be presented to the Régie as soon as gas production becomes a reality.

13 5.1 SUPPLY OF NATURAL GAS AND COMPRESSOR FUEL

14 The development of gas produced in Quebec and injected directly into Gaz Métro’s system is a
15 complementary supply source to gas from Western Canada moved by TCPL. If Gaz Métro gets
16 supply from this new natural gas source, it would reduce its supply purchases from Western
17 Canada. The supply Gaz Métro would purchase from producers would be functionalized
18 between the supply, compressor fuel, transportation and load-balancing services on the basis of
19 the same principles as those presently applied for purchases at Dawn.

20 5.2 TRANSPORTATION

21 The possibility for Gaz Métro or customers to buy natural gas directly in the territory would result
22 in transportation surpluses at certain times.

1 If one of Gaz Métro's present customers provided its own natural gas supply service from
2 natural gas producers in Quebec, the present rules for delivery in the territory involving that
3 customers must therefore provide their own transportation service would apply. This customer
4 would therefore be assigned the transportation capacity already held for him by Gaz Métro
5 unless he provides notice before March 1 so Gaz Métro could dispose of some of the capacity
6 with TCPL. The customer would then be required to deliver the natural gas, including natural
7 gas purchased in Quebec, to Gaz Métro's territory in the manner he finds most suitable.

8 Gaz Métro might also have to unload its firm transportation contracts (FTLH) for volumes
9 equivalent to the capacities of natural gas produced in Quebec. The major portion of
10 Gaz Métro's FTLH contracts are renewable annually, thereby providing the flexibility required to
11 be able to receive gas deliveries directly in its territory. However, a transitional period will be
12 required to ensure security of the supply of natural gas produced in Quebec before irrevocably
13 returning the transportation capacities to TCPL. The transportation surpluses would be sold on
14 the secondary markets. Gaz Métro foresees a gradual return of those capacities to TCPL in
15 order to rebalance the supply structure.

16 In addition, as customers who provide their own supply service deliver their natural gas
17 uniformly throughout the year, the gas volumes received by Gaz Métro on a particular day may
18 be greater or less than the territory's consumption on that day. If there is a substantial increase
19 in volumes delivered to Gaz Métro directly in its territory by customers who manage their own
20 transportation, combined with the fact Gaz Métro will also buy natural gas from Quebec natural
21 gas producers for its own customers, Gaz Métro will have to continue to balance all its
22 customers as at present. However, the change in the location at which Gaz Métro receives the
23 gas from its customers and suppliers means surpluses might have to be moved to storage sites
24 outside its territory to storage units when the increase in volumes exceeds the minimum
25 summer demand. For storage at Dawn, transportation tools between the territory and Dawn
26 could therefore be required and their costs would be functionalized in load-balancing. Moreover,
27 the transportation of natural gas to Dawn would require TCPL make transportation capacities
28 available between GMi-EDA and Dawn. The impacts on Gaz Métro's supply structure would
29 depend on the services that would then be available on the TCPL/TQM transmission system.
30 Gas produced in Gaz Métro's territory but not sold to Gaz Métro or one of its customers
31 providing its own supply service would not be balanced by Gaz Métro and would therefore have

1 to be moved to other markets by the producers. In this situation, Gaz Métro would simply deliver
2 the producer's gas at an interconnect point with the TCPL/TQM transmission system. This
3 preliminary reasoning was already part of the *2008-2010 Gas Supply Plan* (R-3630-2007,
4 Gaz Métro-4, Document 1.23):

5 *"[TRANSLATION] If Gaz Métro, or any other shipper, needed contractual capacities between*
6 *GMI-EDA and Dawn (western direction), TCPL would then have to analyze the feasibility of*
7 *making transportation capacities between Dawn/Parkway and GMI-EDA two-way and define the*
8 *contractual and rate modalities, which would ultimately be fixed by the National Energy Board. So*
9 *far, no specific modality has been proposed in this regard.*

10 *Gaz Métro holds transportation capacities between Dawn and its territory, FTSH contracts*
11 *between Dawn as well as GMI-EDA and M12 and STS contracts that link Dawn to GMI-EDA via*
12 *Parkway. At present, firm STS and FTSH transportation contacts provide for deliveries only in the*
13 *direction of GMI-EDA (eastern direction). Gaz Métro already has C1 contracts between Parkway*
14 *and Dawn, western direction, with Union Gas.*

15 *If Gaz Métro had to physically move gas from its territory towards Dawn for storage purposes, it*
16 *would use transportation capacities two-ways."*

17 5.3 LOAD-BALANCING

18 The treatment of the differences between nominations and volumes actually injected by
19 producers is covered by a specific mechanism, which, along with the related charges, is
20 described in Section 3.5.2.2.

21 On the other hand, the load-balancing service for present customers will not be modified when
22 the producers are added and the treatment of the differences between nominations and
23 customers' daily consumptions will still be covered by the load-balancing service. Gaz Métro
24 has a number of tools for dealing with the load-balancing needs of its customers of its territory.
25 Those tools include storage sites in the territory, Gaz Métro's liquefied natural gas plant,
26 Intragaz's underground storage sites (St-Flavien and Pointe-du-Lac) and the Union Gas
27 underground storage site outside the territory. The other load-balancing tools are gas
28 purchases, made directly at Dawn, contracted in advance or on the spot market. These load-
29 balancing tools will still be required to manage fluctuations in customer consumption regardless
30 of the fact some of the natural gas volumes withdrawn by those customers could be provided by
31 natural gas production sites in Gaz Métro's territory (refer also to Section 5.2).

1 CONCLUSION

2 The production of natural gas in Quebec will have positive impacts on Gaz Métro and its
3 customers. On one hand, Gaz Métro will be able to diversify its supply sources and existing
4 customers will share some of the costs they pay with producers. Producers will be able to move
5 the gas they produce to consumption markets.

6 Gaz Métro has therefore developed a model for connecting producers' facilities to its existing
7 system as well as a rate structure for a new receipt rate. The costs of the new investments
8 required to connect the producers' facilities to Gaz Métro's existing system as well as the costs
9 of moving the natural gas produced to its consumption location (inside or outside the territory)
10 have been divided into four main categories. A methodology for establishing the prices at the
11 receipt and delivery points was developed according to the applicable cost categories.

12 The methodology will be applied when an investment project is submitted to determine the
13 prices at the receipt and delivery points within the territory. The price applicable to volumes
14 delivered outside the territory was established at 0.70¢/m³.

15 A methodology for establishing prices applicable to daily and cumulative imbalances was also
16 developed and proposed by Gaz Métro. Those prices will be revised when TCPL changes its
17 tolls.

18 On the other hand, some sections of the *Conditions of Natural Gas Service and Tariff* shall be
19 modified to include changes or specifications related to the arrival of the producers.

20 Gaz Métro wishes to establish rate conditions as well as applicable modalities that will oversee
21 the implementation of the initial investment projects. In this perspective Gaz Métro is requesting
22 the Régie's authorization to create a receipt rate and the related terms and conditions that will
23 allow it to establish the prices applicable to this rate.