

**GAZIFÈRE INC.
COST OF CAPITAL ADJUSTMENT
CAUSE TARIFAIRE 2013**

The before tax overall cost of capital will be used to calculate the adjustment for cost of capital variations. Inputs to the calculation of the cost of capital adjustment are the following:

roe_t = allowed return on equity for year t,

$ltcd_t$ = cost of long term debt for year t,

$stcd_t$ = cost of short term debt for year t,

$\%rr_t$ = the percentage of the revenue requirement, based on actuals from the previous year, that is made up of capital costs, including taxes,

rr_t = revenue requirement calculated by the CPBR formula for year t before exclusions, Z factors and earning sharing,

tx_t = nominal tax rate for year t,

occ_t = overall cost of capital before taxes for year t,

w = capital structure weights of equity, long term debt and short term debt respectively.

First, the overall cost of capital before taxes must be calculated for years 1 and 2. The overall cost of capital before taxes is calculated as:

$$occ_t = \frac{roe_t}{(1-tx_t)} \times w_{equity} + ltcd_t \times w_{longtermdebt} + stcd_t \times w_{shorttermdebt}$$

The percentage change in the overall cost of capital ($\% \Delta occ_t$) before taxes is then calculated as:

$$\% \Delta occ_t = \frac{occ_t}{occ_{t-1}} - 1$$

This percentage change in the overall cost of capital is then multiplied by the revenue requirement calculated by the CPBR formula times the percentage of capital costs that comprised the previous year's revenue requirement to calculate the cost of capital

$$ccq = rr_t \times \%rr_t \times \% \Delta occ_t$$

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The following provides the cost of capital adjustment for the test year:

Line No	Description	2012		2013	
		1		2	
1	Assumptions				
2	Allowed ROE	8,29%	(1)	7,96%	(2)
3	Cost of Long Term Debt	6,02%	(1)	5,72%	(3)
4	Cost of Short Term Debt	4,47%	(1)	3,29%	(4)
5	Nominal Income Tax Rate	26,9%	(1)	26,9%	(5)
6	% of Revenue Requirement Comprising Capital Costs			33,1%	(6)
7	Revenue Requirement (as per CPBR Formula) (000\$)			21 986,1	(7)
8					
9	Capital Structure				
10	% Equity in Capital structure			40%	
11	% Long Term Debt in Capital Structure			55%	
12	% Short Term Debt in Capital Structure			5%	
13					
14	Calculations				
15	Before Tax Cost of Capital	8,07%	(1)	7,67%	
16	Percentage Change in Before Tax Cost of Capital			-4,96%	
17	Cost of Capital Adjustment (000\$)			(360,7)	

- Notes: (1) Voir Requête 3758-2011, GI-27, document 2.2, page 2 de 2, lignes 2 à 5 et ligne 15, colonne 2, D-2011-186.
(2) Voir GI-17, document 2.2.1, page 1 de 6, ligne 37.
(3) Voir GI-17, document 2.2.2, page 1 de 1, ligne 30.
(4) Correspond au taux d'intérêt préférentiel prévu pour 2013.
(5) Correspond au taux d'imposition nominal prévu pour 2013, soit un taux d'imposition fédéral de 15,0% et un taux d'imposition provincial de 11.9%.
(6) Voir GI-2, document 1, page 1 de 3, ligne 17, colonne 3, révisé le 1er juin 2012, soit 7 356 974\$ divisé par le revenu de distribution 2011 excluant les comptes différés et l'amortissement des comptes de stabilisation de 2011 inclus dans le calcul des exclusions 2011 pour un montant net de 22 249 202\$.
(7) Voir GI-17, document 2, page 2 de 2, ligne 60.