

## **Demande de renseignements no 1 d'Option consommateurs à la Société en commandite Gaz Métro**

### **Demande d'approbation du plan d'approvisionnement et de modification des Conditions de service et Tarif de Société en commandite Gaz Métro à compter du 1er octobre 2012 (Phase 1)**

#### **Dossier R-3809-2012 Phase 1**

---

#### **PART 1: PERFORMANCE INDICATOR FOR OPTIMIZATION OF THE SUPPLY TOOLS**

1. References: i) B-0023, GM-4, Doc. 1, p. 20, Table 3
- ii) B-0023, GM-4, Doc. 1, p. 23, Table 6

#### Preamble

OC is particularly concerned with how the savings from optimization of the supply tools, as well as the related performance bonuses, will be distributed among the various rate classes.

#### Questions:

- 1.1. Please modify Table 3 in Reference (i) to provide the line information details related to Total Costs for each service (i.e. *Coûts totaux de transport* (line 12) *Coûts totaux d'équilibrage* (line 27) and *Coûts totaux transport + équilibrage* (line 28)) for each rate class (D1, D3, D4 and D5), broken down by rate blocks (*paliers*) and sub-blocks (*sous-paliers*) in the case of D1. Please explain any important assumptions made by GM to answer this question.
- 1.2. Please explain how the performance bonus for each year will be allocated by rate class. Again, please explain any important assumptions made by GM to answer this question.
  - 1.2.1. To illustrate how such an allocation would take place, please provide a breakdown of the allocation of the performance bonus of \$1.391M from the



### Preamble

OC is interested in understanding how the level of the performance bonuses will evolve over the life of the indicator, based on forecast data for the years in which the indicator may be applied.

### Questions:

- 3.1 Assuming that the performance indicator proposed in B-0023 is approved from 2013 through 2015 (with 2010 as the base year), please update Table 4 (Reference (i)) for each rate year, 2013, 2014 and 2015, using the forecast data for 2013, 2014 and 2015 respectively (instead of the 2012 costs).
- 3.2 Assuming that the performance indicator proposed in B-0023 is approved from 2013 through 2015 (with 2010 as the base year), please update Table 6 (Reference (ii)) for each rate year, 2013, 2014 and 2015, using the forecast data for 2013, 2014 and 2015 respectively (instead of the 2012 costs).
- 3.3 Please confirm that the forecast data for 2013, 2014 and 2015 used to update Tables 4 and 6 in questions 3.1 and 3.2 above, are found in Reference (iii) above.
  - 3.3.1 If not, please explain and specify the source of the forecast data for 2013, 2014 and 2015 used to update Tables 4 and 6 in questions 3.1 and 3.2.

4. Reference:
- i) B-0023, GM-4, Doc. 1, p. 18, Table 1
  - ii) B-0023, GM-4, Doc. 1, p. 19, Table 2
  - iii) B-0023, GM-4, Doc. 1, p. 20, Table 3
  - iv) B-0016, GM-1, Doc. 12, p. 1.

### Preamble

It is Gaz Métro's responsibility to make clear what the level of performance bonus will be for the years it is (or may be) requesting the bonus, as well as the underlying data and calculations required to derive the bonus. Assuming that the performance indicator proposed in B-0023 is approved from 2013 through 2015 (with 2010 as the base year), OC is trying to understand what the level of bonus will be for the years from 2013 through 2015 and how Gaz Métro will derive the

data that it is proposing to use to in order calculate its bonuses from 2013 through 2015. Tables 1 to 3 are the basis for the inputs into Table 4 and 6.

Questions:

- 4.1. For the rate year 2013, please update Table 1 (Reference (i)) using the forecast data for 2013 (instead of the 2012 costs) in order to calculate (a) the Functionalized 2010 Actual Results with 2013 forecast costs (i.e. columns (4), (5) and (6) under *Résultats Réels 2010 fonctionnalisés*; and (b) the Differential with the 2010 Actuals (*Écart*) in columns (7), (8) and (9).
- 4.2. For the rate year 2013, please update Table 2 (Reference (ii)) using the forecast data for 2013 (instead of the 2012 costs) in order to (a) calculate the Functionalized 2010 Actual Results for (i.e. columns (1), (2) and (3) under *Résultats Réels 2010 fonctionnalisés*); and (b) the Functionalized 2010 Actual Results with 2013 prices (i.e. columns (4), (5) and (6) under *Résultats Réels 2010 fonctionnalisés prix pour 2013*), as well as (c) the Differential between (a) and (b) (*Écart*) in columns (7), (8) and (9).
- 4.3. For the rate year 2013, please update Table 3 (Reference (iii)) using the forecast data for 2013 (instead of the 2012 costs) in order to calculate (a) the Functionalized 2010 Actual Results with 2013 prices (i.e. columns (1), (2) and (3) under *Résultats Réels 2010 fonctionnalisés prix pour 2013*); and (b) the forecast results for the 2013 rate case (i.e. columns (4), (5), (6) under *Dossier tarifaire 2013*); as well as (c) the Differential between (a) and (b) (*Écart*) in columns (7), (8) and (9).
- 4.4. For rate year 2014, please update Tables 1, 2 and 3 (References (i), (ii) and (iii)) in the same way as requested in 4.1 to 4.3 using 2014 forecast data.
- 4.5. For rate year 2015, please update Tables 1, 2 and 3 (References (i), (ii) and (iii)) in the same way as requested in 4.1 to 4.3 using 2015 forecast data.
- 4.6. Please confirm that the forecast data for 2013, 2014 and 2015 used to update Tables 1, 2 and 3 in questions 4.1 to 4.5 above, are found in Reference (iv) above.
- 4.7. If not, please explain and specify the source of the forecast data for 2013, 2014 and 2015 used to update Tables 1, 2 and 3 in questions 4.1 and 4.5 above.
- 4.8. OC is aware that assumptions will have to be made to provide the information requested in questions 4.1 through 4.7 above. One of the key assumptions will be related to forecast results for the 2013, 2014 and 2015 rate cases (which

correspond to columns (4), (5), (6) in the updated Table 3 as requested above for each of these years). Please explain these assumptions and any other important assumptions made by GM to answer these questions.

5. References:
- i) B-0023, GM-4, Doc. 1, p. 21, Table 4
  - ii) B-0016, GM-1, Doc. 12, p. 1, line 36
  - iii) B-0016, GM-1, Doc. 12, p. 1, line 41

#### Preamble

OC is attempting to reconcile the cost variation shown in B-0016, line 36 (Reference (ii)) with the calculation of net value for transmission and load balancing in Table 4 (Reference (i)).

#### Questions:

- 5.1. In Reference (iii), line 41, please clarify whether the cost variation by year (for 2013, 2014 and 2015 respectively) is incremental or cumulative with respect to 2012.
- 5.2. Please confirm that the additional value created in 2013 (vs. 2012) for the combined transmission and load-balancing costs would be \$5,699,000 (i.e. \$415,502,000 - \$409,803,000), as per Reference (ii), line 36. If not, please explain.
- 5.3. Please confirm that the value created in 2013 for the purpose of the performance indicator calculation would be the sum of the value created in 2012 (vs. 2010) plus the additional value created in 2013 (vs. 2012), which would amount to \$85.4 M (as per Reference (i)) + \$5.7M (as per Reference (ii)) = \$91.1M. If not, please provide the value created in 2013 for the purpose of the performance indicator calculation and please explain the link, if any, between B-0016 (Reference (ii)) and the calculation of the value created for the purpose of the performance indicator.
- 5.4. Please confirm that the additional value created in 2014 (vs. 2012) for the combined transmission and load-balancing costs would be \$22,079,000 (i.e. \$423,656,000 - \$401,577,000), as per Reference (ii). If not, please explain.

- 5.5. Please confirm then that the value created in 2014 for the purpose of the performance indicator calculation would be the sum of the value created in 2012 (vs. 2010) plus the additional value created in 2014 (vs. 2012), which would amount to \$85.4 M (as per Reference (i)) + \$22.1M (as per Reference (ii)) = \$107.5M. If not, please provide the total value created in 2014 for the purpose of the performance indicator calculation and please explain the link, if any, between B-0016 (Reference (ii)) and the calculation of the value created for the purpose of the performance indicator.
- 5.6. Please confirm that the additional value created in 2015 (vs. 2012) for the combined transmission and load-balancing costs would be \$109,862,000 (i.e. \$420,435,000 - \$310,573,000), as per Reference (ii). If not, please explain.
- 5.7. Please confirm then that the value created in 2015 for the purpose of the performance indicator calculation would be the sum of the value created in 2012 (vs. 2010) plus the additional value created in 2015 (vs. 2012), which would amount to \$85.4 M (as per Reference (i)) + \$109.9 M (as per Reference (ii)) = \$195.3 M. If not, please provide the total value created in 2015 for the purpose of the performance indicator calculation and please explain the link, if any, between B-0016 (Reference (ii)) and the calculation of the value created for the purpose of the performance indicator.

6. Reference:        i)        B-0023, GM-4, Doc. 1  
                          ii)        B-0016, GM-1, Doc. 12, p. 1

### Preamble

In the example of the performance indicator calculations in Tables 1, 2, 3, 4 and 6 of Reference (i), Gaz Métro uses costs from the 2012 Rate Case (*DT 2012*) to illustrate the level of bonus. In its profitability analysis presented in Reference (ii), Gaz Métro uses forecast data for 2013 through 2015 to present its forecast cost savings resulting from the implementation of its 2013-2015 Supply Plan.

### Questions:

- 6.1. To facilitate comparability between Reference (ii) and the performance indicator data from Reference (i), please modify the Table in Reference (ii) by adding two columns for 2012 to reflect the cost savings obtained in Rate year 2012 compared to base year 2010. Column 1 should use the data from the 2012 Rate

Case (*DT 2012*) (comparable to Reference (i), p. 20, Table 3, columns 4-6). And Column 2 should use Functionalized 2010 Actual Results with 2012 prices (*Réal/2010 fonctionnalisé prix 2012*) (comparable with Reference (i), p. 20, Table 3, columns 1-3).

7. Reference:
- i) B-0023, GM-4, Doc. 1, pp. 18-20, Tables 1-3
  - ii) B-0023, GM-4, Doc. 1, p. 21, Table 4
  - iii) B-0023, GM-4, Doc. 1, p. 21, lines 8-10

### Preamble

OC is concerned with the effect of weather (and other factors that can affect gas demand) on the calculation of the performance indicator. In particular, the weather in the proposed 2010 base year may not be representative of a typical year.

### Questions:

- 7.1. Please confirm that the value created in Table 4 (Reference (ii)) is calculated based on weather-normalized gas volumes for Rate Case 2012 (*DT 2012*). If not, please explain.
- 7.2. Please confirm that the base year (2010) data in Tables 1-3 of Reference (i) are based on actual gas volumes in 2010, as opposed to weather-normalized volumes. If not, please explain.
- 7.3. As proposed by Gaz Métro, would the performance indicator for 2013 (and any future years) be calculated based on (a) weather-normalized gas volumes for 2013 (and any future years); or on (b) actual gas volumes (i.e. non-normalized) for 2013 (and any future years)? Please explain.
- 7.4. Please explain why the proposed performance indicator 2010 base year calculation is based on actual gas volumes for 2010 instead of weather-normalized gas volumes for 2010.
- 7.5. Please update Tables 1, 2 and 3 (in Reference (i)) using weather-normalized gas volumes for the 2010 base year calculation.

7.6. If Gaz Métro is unable to provide updated Tables in answer to 7.5, please discuss the directional impact on the calculation of net value in Table 4 (Reference (ii)) from using weather-normalized gas volumes for the 2010 base year calculation. In other words, will the use weather-normalized gas volumes for the 2010 base year calculation cause the calculation of net value in Table 4 to go up or down?

## **PART 2: SUPPLY PLAN 2013-2015 AND DISPLACEMENT OF SUPPLY STRUCTURE TO DAWN**

8. Reference:
- i) B-0005, GM-1, Doc. 1
  - ii) B-0020, GM-1, Doc. 16
  - iii) September 4, 2012 announcement of a Memorandum of Understanding between DTE Energy, Enbridge Inc. and Spectra Energy Corp “to jointly develop the NEXUS Gas Transmission (NGT) system, a project that will move growing supplies of Ohio Utica shale gas to markets in the US Midwest, including Ohio and Michigan, and Ontario, Canada.” < <http://www.spectraenergy.com/Newsroom/News-Archive/DTE-Energy-Enbridge-and-Spectra-Energy-to-Develop-New-Major-Pipeline-to-Connect-Growing-Utica-Shale/> > and < <http://www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/midwest-route-to-ontario-new-threat-to-western-gas/article4517672/> >

### Preamble

Gaz Métro must undertake supply-planning in a rapidly evolving environment characterized by fundamental and unprecedented shifts in the North American gas context.

### Questions:

- 8.1. Since filing its evidence on July 6, 2012, does Gaz Métro wish to comment on any significant changes in the markets and/or regulatory environment that could affect its proposals in the current filing? Please explain.

8.2. In particular, since the July 6, 2012 filing, new developments have occurred in the NEB case concerning Mainline TCPL tolls, including a new throughput forecast issued by TCPL which is even lower than past forecasts. How might these changes affect Gaz Métro's proposals, particularly regarding the displacement of the supply structure to Dawn?

8.3. Also of particular interest and potential impact on Gaz Métro's Supply Plan is the September 4, 2012 announcement of a Memorandum of Understanding between DTE Energy, Enbridge Inc. and Spectra Energy Corp to jointly develop the NEXUS Gas Transmission (NGT) system, which will connect growing shale gas supplies to Ontario. Nexus will feed into the Vector Pipeline to provide supply to Dawn. Please comment on how this recent announcement may affect Gaz Métro's proposals, particularly regarding the displacement of the supply structure to Dawn.

### **PART 3: RATE MODIFICATIONS RELATIVE TO INTERRUPTIONS**

9. References:
- i) B-0022, GM-3, Doc. 1
  - ii) B-0026, Commentaires de Gaz Métro à l'égard des demandes d'intervention, p. 5

#### Preamble

In Reference (i) (p. 3, lines 7-8), Gaz Métro indicates that the capacity of the system in the Saguenay might not be sufficient to meet the demands of firm customers if the interruptible customers fail to interrupt.

In the case of no. 6 heating oil customers, the price of a forbidden withdrawal (\$19/GJ in the example prior to the proposed modification) is only slightly higher than the price of the alternative no. 6 fuel (\$15-\$18/GJ in the example). As such, Gaz Métro concludes that it is possible and even probable that customers would prefer to pay the penalty given the transaction costs of interruption (Reference (i), p. 4, line 26 to p. 5, line 7).

After the modification of the penalty, customers would have paid \$28-\$31/GJ for forbidden withdrawals in winter 2011-2012 (Reference (i), p. 6, lines 10-13). Clearly, there is a significant differential (i.e., the penalty is higher than the cost of alternative fuel) for no. 6 heating oil customers under the new penalty.

According to Reference (i), p. 6, lines 14 and 15, the proposed modification of the penalty for failing to interrupt would be "slightly dissuasive" for users of no. 2 heating

oil. However, the price of a forbidden withdrawal (\$28-31/GJ in the example with the proposed modification) is only slightly higher than the price of the alternative fuel no. 2 fuel (\$26.43-\$28.35/GJ in the example [Reference (i), p. 5, lines 11-13]).

If the penalty for forbidden withdrawal is not sufficiently dissuasive, customers may fail to interrupt. This can have operational impacts and affect security of supply. But failure to interrupt can also have economic impacts (notably in terms of customer rates, equity, and free ridership). In exchange for agreeing to be interrupted subject to the Conditions of Service and Tariff, customers on Interruptible rates receive a discount relative to customers on firm rates. Unless properly designed and implemented, Interruptible rates can provide discounts to customers that are not offset by benefits in terms of Gaz Métro's actual capability to interrupt. Undue discounts provided to Interruptible customers can result in higher rates for other customers.

Questions:

- 9.1. Is continuity of service for firm customers in the Saguenay region affected only by interruptions of customers in the same region or can continuity of service in the region be affected by interruptions elsewhere? Please explain.
- 9.2. Please confirm that the rate modifications relative to interruptions, as proposed in Reference (i), apply on a system-wide basis, and not just on a portion of the system (in the Saguenay).
- 9.3. Given Gaz Métro's conclusions pertaining to no. 6 oil customers (i.e., that customers may fail to interrupt unless the penalty for failure to interrupt substantially exceeds the cost of switching to the alternative fuel, as discussed in the Preamble), please confirm that it is possible and even probable that no. 2 oil customers would prefer to pay the new penalty given the transaction costs of interruption. If not, please explain.
- 9.4. Given that the new penalty would be only slightly dissuasive for no. 2 oil customers, has Gaz Métro considered a separate and higher penalty level for no. 2 oil customers? If not, please explain.
- 9.5. According to Gaz Métro's comments on OC's intervention request (Reference (ii)), the rate modifications relative to interruptions are being proposed "purely for operational imperatives" (*Gaz Métro souligne que les modifications qu'elle souhaite apporter sont motivées par des impératifs purement opérationnels.*)
  - 9.5.1. Please elaborate on what Gaz Métro means by "purely operational imperatives"?

- 9.5.2. Does this imply that Gaz Métro is less concerned about Interruptible customers who fail to interrupt outside the Saguenay region (vs. customers who fail to interrupt within the Saguenay region)? Please explain.
- 9.5.3. Does this imply that Gaz Métro is less concerned about the economic impacts of Interruptible customers who fail to interrupt (impacts notably in terms of customer rates, equity, and free ridership vs. the operational impacts)? Please explain.
- 9.6. Is Gaz Métro aware of changes in Interruptible rates, penalties and policies in other jurisdictions, particularly neighbouring jurisdictions (e.g. Ontario and the Northeastern States), given the increasingly competitive position of natural gas versus alternative back-up fuels? Please explain.
- 9.7. Is Gaz Métro aware of any upcoming regulations, laws or other changes in Quebec that will affect the use of heating oil as a back-up fuel? Please explain.
- 9.8. In Reference (i), p. 10, lines 19-21, Gaz Métro indicates that an amended version of Chapter 1 of the Conditions of Service and Tariff is presented in Appendix to the current document:

*Les modifications proposées sont circonscrites au Chapitre 1. Application et à l'article 16.4 19 Service de distribution. D5 : Interruptible. Une version amendée de ce chapitre et article est 20 présentée en annexe du présent document.*

Please direct us to the Appendix in question. If Gaz Métro has failed to attach the Appendix, please provide the Appendix.