

Responses to Information Requests no 1 of Union des consommateurs (UC) to Gaz Métro

SHARING MECHANISM FOR DISTRIBUTION

- References:**
- i) B-0183, GM-12, Doc 24, pp. 3-6
 - ii) B-0156, GM-11, Doc 13, pp. 25-26

Preamble

- i. "Contrary to the terms of the incentive scheme in effect until September 30, 2012, customers will be allocated 100% TP / MAG from transmission and load balancing."

"100% of the TP/MAG equivalent to the first fifty (50) basis points of variation with respect to the authorized base rate of return would be allocated to distributor;

The TP/MAG equivalent to the subsequent one hundred (100) basis points of variation with respect to the authorized base rate of return would be shared equally (50/50) between the distributor and the customers, and

100% of the TP/MAG in excess of one hundred fifty (150) basis points of variation with respect to the authorized base rate of return would be allocated to customers."

- ii. "For rate year 2013, Gaz Métro will be under regulation known as cost of service and will be at risk for over- and under-earnings recorded at year end. As of 2014, Gaz Métro should again be under incentive regulation. If the process of establishing the authorized revenue for the distributor income no longer takes forecasts into account, as provided under the terms of the incentive mechanism proposed in Phase 3 of R-3693-2009, Gaz Métro believes its short-term regulatory risk will be therefore significantly higher. This is explained by:
 - the symmetry recommended by the Board with respect to the probability of losses and gains; combined with
 - the absence of the mitigation tool for the risk of loss, this tool being the use of conservative estimates." (our emphasis)

Questions:

8.1 With respect to part (i) of the preamble, on what basis or on what principle does Gaz Metro justify its choice of attributing 100% of TP/MAG in transmission and load balancing to its customers.

Response:

This question is discussed in Phase I of the current filing. Gaz Métro refers UC to Exhibits B-0023, Gaz Métro-4, Document 1 and B-0113, Gaz Métro 5, Document 14, particularly the responses to questions 5.1, 5.2, 7.1 (including the Descriptive Document), 11.1, 11.2, 11.3, 13.1, 13.2 and 13.3 finally.

8.2 With respect to part (i) of the preamble, please explain why Gaz Metro proposes to attribute to customers 100% of the risk for TP/MAG in excess of one hundred fifty (150) basis points?

Response:

Gaz Métro believes that an impact of 100 basis points over the allowed return is significant and that the distributor will therefore have a strong incentive to take the best possible actions in its own interest and in that of the customers. Ultimately, Gaz Métro believes that a sharing rule that would not limit the return achieved to a reasonable range by the end of the year could affect the ability of a distributor to attract capital at a reasonable cost, which would not be in the public interest.

8.3 With respect to part (i) of the preamble, please indicate why Gaz Metro indicate why Gaz Métro is not proposing to participate in risk-taking related to variances in excess of 150 basis points with respect to the base authorized rate of return?

Response:

See Response to 8.2.

8.4. With respect to underlined portion of part (ii) of the preamble, please explain why Gaz Métro considers itself at risk for over- and under-earnings for rate year 2013, whereas according to its proposals, customers assume 100 % of the risk for TP / MAG for transportation and load-balancing and 100% of the risk for TP / MAG in distribution for variances in excess of 150 basis points

with respect to the base authorized rate of return?

Response:

Gaz Métro considers itself at risk because it will bear 100% of the MAG (under-earnings) for the first 50 basis points because it will bear 50% of the additional 100 basis points in the distribution. Gaz Métro could therefore have its base authorized rate of return from year-beginning amputated by 100 basis points.

8.5. With respect to part (ii) of the preamble, please explain why a symmetry with respect to the probability of losses and gains (TP/MAG) between Gaz Metro and its customers increases Gaz Metro's regulatory risk?

Response:

As specified in the preamble (ii), it is the fact of combining the symmetry with respect to the probability of losses and gains with an absence of the mitigation tool for the risk of loss that increases the short-term regulatory risk for Gaz Metro.

In addition, as stated in the preamble (ii), Gaz Métro believes it will be more at risk if the process of establishing the distributor's authorized revenue no longer takes into account forecasts. However, the statement quoted specifies that this situation could become reality could be effective as of 2014.

In 2013, Gaz Métro does not believe that the symmetry in the sharing mechanism (TP / MAG) between Gaz Métro and its customers significantly changes Gaz Métro's regulatory risk since the TP were already shared 75/25 in favor of customers and the MAG 50/50. Although the sharing rule in force in recent years cannot be described as symmetric, the amount of risk assumed by Gaz Métro in 2013 is similar to the levels for recent years.

8.6 With respect to part (ii) of the preamble, what type of asymmetry with respect to the TP/MAG maintains Gaz Metro's regulatory risk at an average historical level.

Response:

See response to Question 8.5.

Gaz Métro specifies that the range supported at 100% by Gaz Métro for the first 50 basis points increases the incentive while the 150 basis points reduces the incentive with respect to recent years.

Gaz Métro also believes that with respect to the sharing of TP / MAG, the sharing rule proposed provides an incentive similar to the previous incentive mechanism.

8.7 With respect to parts (i) and (ii) of the preamble, does Gaz Metro believe that by assuming a larger share of the TP/MAG (vs. what GM is proposing) that its regulatory risk will improve.

Response:

Yes. Gaz Metro believes that its risk will increase when it bears a greater share of an eventual loss.

8.8 With respect to parts (i) and (ii) of the preamble, does Gaz Metro believe that by assuming a larger share of the TP/MAG (vs. what GM is proposing) that the incentive for good performance will improve.

Response:

Yes. Gaz Metro believes that assuming a larger proportion of the TP/MAG in distribution will increase the incentive.

With respect to the TP/MAG for transmission, please refer to the response to the question 8.1.

With respect to the power of the incentive, please refer to the responses to Régie's questions 19.1 to 19.4 at Exhibit GM-18, Doc 1.

8.9 What link does Gaz Metro make between the share of TP/MAG that it assumes and incentives for good performance?

Response:

Please see response to 8.8.

8.10 With respect to part (ii) of the preamble, how can Gaz Metro's customers and the Régie ensure that Gaz Metro's forecasts are not conservative for the 2013 rate year?

Response:

It is important not to confuse the mitigation tool for the risk of loss (this tool being the recourse to conservative forecasts) under an incentive regulation in effect for several years without a full review of the cost of service with the process for reviewing the costs and the setting of rates under cost of service regulation.

Gaz Metro believes that the process for reviewing the cost of service in the rate case is the appropriate tool to assure customers and the Régie that Gaz Metro's forecasts are the best possible. This opinion is also consistent with Régie decision D-2012-076 (paragraph 229):

[229] The Régie notes that there has been no comprehensive review of Gaz Métro's cost of service since the rate year 2000, that is, since more than 12 years. During all these years, the establishment of the revenue requirement was entrusted to a working group within the framework of a PEN (ADR or settlement). Insofar as a new mechanism incentive for the performance of distribution activities must be implemented, the Régie considers it desirable to do a thorough and detailed review of the distributor's revenue requirement before implementing this mechanism.

8.11 With respect to part (ii) of the preamble, how does Gaz Metro qualify its forecasts for the 2013 rate year? Are they conservative, realistic or optimistic?

Response:

In the context of the 2013 rate case, Gaz Metro filed the best possible forecasts for the purposes of determining the cost of service and the rates.