ADDITIONAL EVIDENCE

Follow up on the August 23, 2017 letter of the Régie de l'énergie (A-0128)

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INTRODUCTION

On August 23, 2017, the Régie de l'énergie ("Régie") sent to Gaz Métro Limited Partnership ("Gaz Métro") a communication (A-0128) asking Gaz Métro to add certain additional information to the evidence already tabled within the framework of Phase 2 of this application. As a result, the Régie was asking the distributor to explain the principal steps of the planing method with regards to gas supply and specify how the modifications proposed in the cost allocation study allow for better reflecting the planing method with regards to gas supply. In addition, it was requesting that the following be added:

- Reconcile each of the cost items of the proposed method with that of the current method;
- Explain the nature of each of these cost items;
- Justify the functionalization of each of cost item;
- Justify the allocation factor of each cost item;
- Provide an explanatory text of the mode of calculation of each allocation factor.

These topics are discussed in this document. The splitting of Phase 2 in two separate steps is also discussed as well as the fact that Gaz Métro will not involve the services of an expert for this phase, two subjects also covered by the Régie in its August 23 communication (A-0128).

1 SUPPLY PLANNING

Each year, Gaz Métro submits a detailed supply plan that must be approved by the Régie. In the supply plan, a special section is devoted to "supply planning" and details the process followed to establish tools that will be required to meet demand over the next four years. In the context of the 2018 rate case (R-3987-2016), the Régie approved the 2018-2021 supply plan (decision D-20187-094), detailed in exhibit B-0195, Gaz Métro-6, Document 1, which includes such a section on pages 80 to 93.

As seen in the supply plans submitted annually for the Régie's approval, supply planning can be summarized as follows:

i. Establishing the customers' needs for the current year and the four years to follow. The results of this step for the 2018 rate case are given in exhibit R-3987-2016, B-0195, Gaz Métro-6, Document 1, section 5. Additionally, a presentation on this matter was given as part of the 2018 rate case (work meeting on May 2, 2017, R-3987-2016, B-0190, Gaz Métro-6, Document 6).

ii. Calculating peak needs and extreme winter needs. The results of this step for the 2018 rate case are given in exhibit R-3987-2016, B-0195, Gaz Métro-6, Appendix 6. Additionally, a presentation on this matter was given as part of the 2018 rate case (work meeting on May 2, 2017[1]).

iii. Comparison between peak needs and extreme winter needs relative to tools under contract. The results of this step for the 2018 rate case are given in exhibit R-3987-2016, B-0195, Gaz Métro-6, Document 1, section 8.1.1.

iv. Supply structure planning (buying or disposing of tools) in order to reconcile customers' needs with the tools under contract, at the lowest possible cost (see R-3987-2016, B-0195, Gaz Métro-6, Document 1, section 8).

v. Daily and operational supply planning. This subject was covered in exhibit R-3867-2013, B-0184, Gaz Métro-5, Document 4, pages 5 to 17. Additionally, a presentation on this matter was given as part of the 2018 rate case (work meeting on May 3, 2017[2]).

The functionalization, allocation, and pricing of costs is not meant to overhaul supply planning methods, but rather to fairly distribute costs between customers and price them adequately.

2 LINKS BETWEEN SUPPLY PLANNING AND GAZ MÉTRO'S PROPOSAL

Gaz Métro states, in its exhibit B-0133, Gaz Métro-5, Document 1 as well as in its additional evidence, exhibit B-0185, Gaz Métro-5, Document 5, what forms the supply cost and causal links between customer consumption profiles and costs incurred for supply.

[1] Presentation entitled *Établissement de la demande continue en journée de pointe*. The presentation had not been filed with the Régie. It is submitted in Appendix 1.

[2] Presentation entitled *Entreposage hors franchise*. The presentation had not been filed with the Régie. It is submitted in Appendix 2.

Without reproducing that entire document here, the following paragraphs briefly explain what unites Gaz Métro's proposal and supply planning.

In supply planning, Gaz Métro calculates a peak need primarily from a regression model[3]. This regression's main explanatory factor is temperature[4]. It makes it possible to obtain a maximum expected demand at a very cold temperature. Maximum expected demand, or peak need, is in a way the coincident peak for which supply tools must be purchased.

As demonstrated in the submitted evidence[5], given that the distributor has no pre-existing contract, annual transport tools to meet the peak need may be purchased to supply the franchise. In such a case, the response to all customers' needs would be assured. This is because, with enough transport tools to meet peak need, demand on all other days would be less than the distributor's total capacity.

Based on such supply conditions, as all customer needs for every day of the year are met based on peak need, the customers who cause the entirety of supply costs are also those who cause the peak. The causality of the supply tools' costs is therefore a function of the portion of the peak attributable to each customer.

The portion of the peak attributable to each customer is calculated using the **P** factor. Simply put, all of the supply costs could be distributed based on the relative **P** factors of each customer. However, this approach would not be desirable for two reasons. First, Gaz Métro has unbundled its rates in order to enable customers to directly purchase supply tools by creating separate "transport" and "balancing" services. Next, using the **P** factor alone would mean that a customer with a **P** factor of zero would get free service for delivering natural gas.

The distributor's actual situation also depends on existing contracts that must be considered. For reasons of adding flexibility and reducing costs, Gaz Métro has replaced certain transport tools with franchise storage tools. These franchise storage tools meet a portion of peak need, which reduces the need to purchase transport tools.

[3] Some large customers are added to the margin.

[4] The previous day's temperature and the wind are also factored in.

[5] B-0185, Gaz Métro-5, Document 5, section 2.2.

As demonstrated in section 2.1.4 of exhibit B-0133, Gaz Métro-5, Document 1, to maximize the effect of replacing transport tools with storage, the storage tool must be able to provide an equivalent to the peak and cover the same capacity as the transport tool. To cover the same capacity as the transport tool, injection and withdrawals are necessary, and form part of the transport tool's replacement cost.

To confirm that the storage tools are able to optimally replace the transport tools, a supply plan covering extreme winter has been calculated. As explained in section 2.3.2 of B-0185, Gaz Métro-5, Document 5, extreme winter demand will only exceed peak demand when the storage tools cannot optimally replace the transport tools. The causality of the franchise storage tools' costs is therefore the same as for the transport tools they replace.

Based on these observations, the causality of the delivery costs (transport and balancing combined) is the relative demand of each customer considered in peak demand. This cost causality works, regardless of whether the tools purchased to meet peak demand are transport tools, storage tools, or a combination of both. However, this causality, expressed by the **P** factor, makes it hard to establish a transport service as defined during the rate unbundling (i.e. relatively neutral compared to the market price or the transporter's price). Additionally, this enables some customers to get free service even though if those customers had to pay for their supply directly, they would need to spend a certain amount.

The average demand and excess method helps address these issues[6]. Thus, for the transport service, a theoretical cost equivalent to the need for a stable annual demand is established (load factor ["LF"] of 100%)[7]. This makes it so that no customer gets free service, because all customers then have a cost equivalent to an annual transport tool. Gaz Métro's proposal meets this definition while considering the current multi-point purchasing context. Thus, the theoretical cost for meeting stable annual demand is established based on the average cost of the annual transport tools held, the average cost of compression gas (fuel) required to transport the supply at a stable annual profile, and the site premium for transporting the supply at a stable annual profile for purchases at different reference points (for supply). This approach gives a cost that reflects a stable

[6] B-0133, Gaz Métro-5, Document 1.

[7] During unbundling, this theoretical cost was equivalent to that of the transporter on the *firm transport long haul* ("FTLH") segment between Empress and the franchise.

purchasing profile, which is neutral to the customer and which offers customers seeking direct supply a competitive rate (depending on stable deliveries).

Next, for the balancing service, the theoretical cost for meeting stable annual demand is deduced from the total costs required to meet peak demand. The remaining cost represents the additional cost required to meet actual demand. As costs are linked to the **P** factor and the cost portion linked to average demand (**A** factor) was subtracted from the costs for peak demand, then remaining costs have a causality of **P** - **A**. The causality of **P** - **A** may also be expressed by the customers' LF, i.e. **A**/**P**, which enables a better comparison between customers because two customers with the same LF incur the same unit costs[8]. Gaz Métro's proposal for balancing perfectly reflects this reality in its handling, which makes it possible to better distribute costs between customers.

Additionally, Gaz Métro proposes handling the costs which are not linked separately to peak demand[9]. Thus, when costs are incurred for tools that do not make it possible to address peak demand, those costs have a different causality from the **P** factor. Gaz Métro has identified from among those costs the tools exceeding peak demand as well as costs related to operational flexibility. For both those costs, as there is no direct causal link, the consumption volume is proposed to serve as an allocation factor. According to Gaz Métro, this proposal is an improvement, because the current treatment of these costs based on the profile unfairly attributes additional costs to seasonal customers even though they are no more responsible for them than customers whose consumption is stable.

Finally, Gaz Métro proposes treating interruptible service the same way as other supply tools. Thus, a customer that "offers interruptible" to Gaz Métro will be allocated costs just like any other customer, i.e. based on its actual average demand and its actual excess demand (**P** - **A** without altering the parameters **P** and **A**). In the submitted evidence[10], customers are compensated with a fixed and variable premium based on the quantity of transport tools replaced by the customer's offering. In such cases, interruptible may be assessed in comparison to the other tools available (at a comparable cost) without influencing the allocation of costs, because the premium paid to the customer is direct rather than as a discount on its interruptible parameters. For Gaz Métro,

[8] See the demonstration in exhibit B-0133, Gaz Métro-5, Document 1, section 2.1.3.

[9] B-0133, Gaz Métro-5, Document 1, section 7.2.

[10] B-0134, Gaz Métro-5, Document 2.

this represents a notable improvement, which will make it possible to compare the cost of interruptible tools to the other tools available. Additionally, the use of the actual profile for all customers enables a fairer allocation of costs, and eliminates a potential distortion between customers.

3 GUIDING PRINCIPLE ADOPTED FOR FUNCTIONALIZATION AND COST ALLOCATION

As part of rate unbundling, functionalization and cost allocation for gas supplies has been the subject of several reports and expert testimonies. Once those reports and expert testimonies were received, the Régie made a decision in favour of the method proposed by the expert Sharon L. Chown[11]. This decision ratified the principle of average demand and excess with respect to the methods proposed by Gaz Métro (Set Theory) and IGUA (Peak and Excess).

In evidence B-0133 (Gaz Métro-5, Document 1, section 2.1), Gaz Métro analyzes the principle adopted based on the report and testimony of expert Chown in order to ascertain that it still applies in the current context. After analysis, Gaz Métro concluded that:

> "*The method of average demand and excess selected during service unbundling[…] evokes this same dynamic and leads to the conclusion that* ***the supply costs must be separated between transport and balancing services based on a LF equivalent to 100%****.*"[12]

Along those lines, Gaz Métro therefore adopts, for its evidence filing, the average demand and excess method presented in the report and the testimony of expert Chown and does not believe it is necessary to incur sizable expenses to hire the services of another expert for the purposes of this case.

The guiding principle that makes it possible to separate costs between services is very important because it directly influences the cost allocation that must be done afterwards.

For example, based on the principle of average demand and excess, the costs allocated to transport must be equal to the costs that a perfectly stable customer might incur if it provided its own service. This makes it possible to establish a transport rate according to a stable demand

[11] Decision D-97-047. In this decision, the Régie selected the method of average demand and excess proposed by Ms. Sharon L. Chown, in the name of Approvisionnement Montréal, Santé et Service Sociaux (AMSS), in file R-3323-95.

[12] B-0133, Gaz Métro-5, Document 1, p.22.

equivalent. Next, all other supply costs are allocated to balancing, and represent costs incurred by the fact that the vast majority of customers do not consume at a stable profile.

4 SUBDIVIDING PHASE 2

In the following lines, Gaz Métro submits its comments regarding the announcement by the Régie in its August 23 communication (A-0128) aimed at subdividing phase 2 into two steps.

The intended goal of unbundling rates was to offer customers a broader variety of rate choices, enabling them to better manage their energy needs. Among other things, this meant encouraging open competition in all services available to natural gas consumers, and therefore making them pay the true cost of each service (except for distribution)[13]. For supply, transport, and balancing services, Gaz Métro is of the opinion that they must be billed based on the principle of a "user-payer", and that they must therefore be as free as possible from cross-subsidization. Thus, setting the cost allocation for supply, transport, and balancing services is equivalent to setting rates. For transport, this means that the allocation must take into account the desired goal of unbundling: enabling a transport rate that is similar to the market rate.

Furthermore, the rate choices will also have an impact on the cost allocation. For example, under the current interruptible service, the willing customer is considered to receive less service than a customer with firm service, because no supply tool has been contracted for it during peak times. By this logic, it is important to allocate to the interruptible service customer a balancing cost different from other customers. The customer's **A**, **H**, and **P** parameters are therefore modified. Gaz Métro proposes replacing the current interruptible service with a new interruptible option[14]. A customer willing to select this new interruptible option would no longer be considered to be receiving less service, but would rather become the equivalent of a tool supplier for the distributor. In such an approach, for cost allocation, all customers must also be equally considered based on their consumption factors, regardless of whether they offer Gaz Métro an interruptible option or not. The economic benefit of the customers resulting from the interruptible option can then be measured and compared to the distributor's other supply options, which makes it possible to ensure savings to customers (which is not the case based on the current interruptible service).

[13] B-0185, Gaz Métro-5, Document 5, section 5.

[14] B-0134, Gaz Métro-5, Document 2.

Thus, to make an adequate allocation, it is important to first determine what will be the interruptible offering that customers will be able to access. However, Gaz Métro respectively submits that subdividing phase 2 as announced by the Régie would make such an exercise difficult if not impossible.

As it is important to reduce cross-subsidization in supply, transport, and balancing services as much as possible, and since changes to the service conditions may influence the cost allocation, Gaz Métro reiterates that the entirety of phase 2 should be treated as a single step and not in two steps separate from one another.

5 ADDITIONAL INFORMATION TO SUPPLEMENT THE EVIDENCE

As explained in section 2, Gaz Métro's proposal with respect to cost functionalization attempts to establish a theoretical cost for transport, which is as close as possible to the supply cost of perfectly stable demand. Because the proposed method attributes a transport cost on a different basis than the current functionalization method, the proposed method's cost items cannot be directly reconciled with those of the current method. Gaz Métro, has provided indirect reconciliation of the cost items in exhibit Gaz Métro-5, Document 9.

To supply the franchise, Gaz Métro determines the tools needed in order to be able to meet peak demand (or in some cases, in extreme winter). In exhibit B-0190 (Gaz Métro-5, Document 5, Appendix 3), Gaz Métro presented, in the tab "Pièce appros DT2017", all of the tools required to ensure peak-period service, as well as the costs that would arise from meeting customer demand. The information presented in this this exhibit is included in exhibit Gaz Métro-5, Document 9, page 1 ("Reconciliation" tab)[15], in order to compare the current cost functionalization and the proposed cost functionalization. In both cases, cost functionalization is based on the principle of average demand and excess.

- **Current functionalization**[16]: The current cost functionalization method is based on the ordering of tools and the average demand projected at the start of the year[17]. Thus, in the

[15] The information is also included on pages 2 to 4 of the exhibit Gaz Métro-5, Document 9 in order to reconcile the costs with those submitted as part of the 2017 rate case.

[16] Gaz Métro-5, Document 9, page 1 ("Conciliation" tab), columns 2 to 4.

[17] B-0133, Gaz Métro-5, Document 1, section 6.1.

2017 rate case, the tools are ordered as follows, up to the amount of average demand (and therefore functionalized to the transport service): the tools TCPL LH, LH and SH Dawn in exchange and a part of the tool TCPL SH Parkway. A portion of the cost of the tool TCPL SH Parkway is therefore transferred to balancing, while the following tool, SH Dawn, is fully functionalized to balancing. The multi-point purchase premium is also allocated entirely to transport. Additionally, certain transport tools are transferred, which leads to optimization income and a transfer of costs between transport and balancing. Some inventory costs and temporarily deferred expenses are also functionalized to transport.

- **Proposed functionalization**[18]: Gaz Métro proposes instead to calculate the portion equivalent to a LF of 100% based on all the tools that could be used to address such a demand profile. Such a process, rather than directly attributing tools, makes it possible to calculate a de-seasonalized cost that better reflects stable annual demand[19]. As the cost is calculated in comparison to all annual transport tools, there is no specific cost per tool, but rather a total cost for all tools. Thus, before the multi-point purchase bonus, out of annual transport tool costs of $272.3 million, $230.2 million is functionalized to transport[20]. This amount is less than the functionalized cost for transport tools under the current method (including seasonal transport costs included in the transport service under the current method) which is $242.2 million[21]. The gap is explained by the fact that the transport costs are allocated based on the average cost of all the annual tools rather than by their ranking. Additionally, for compression costs, a de-seasonalized rate is used in the proposed method while the current usage that is greater in winter in the current method is such that the cost of compression is slightly higher. Within the multi-point purchase premium, the functionalized amount is less than that obtained with the current method. The $9.2 million discrepancy seen on line 35 ($23.6 million - $14.4 million) is explained by a de-seasonalized calculation of the premium, while the current amount includes a portion of the seasonal cost due to the monthly variation in the tools functionalized to transport.

[18] Gaz Métro-5, Document 9, page 1 ("Conciliation" tab), columns 5 to 7.

[19] B-0133, Gaz Métro-5, Document 1, sections 6.1, 6.2 and 6.3.

[20] Gaz Métro-5, Document 9, page 1 ("Conciliation" tab), l.15.

[21] Gaz Métro-5, Document 9, page 1 ("Conciliation" tab), total cost of transport in current functionalization, l.9 to 18.

In the current functionalization, a cost transfer calculation from transport to balancing at year end will correct the situation[22].

With respect to inventory-related costs, whether they are transactions costs or from the rate base, they are excluded from transport and supply in the proposed functionalization. Gaz Métro does explain in exhibit B-0133, Gaz Métro-5, Document 1, section 4, that totally stable demand would necessarily have an inventory of zero at all times (as the quantities received would be equivalent to the quantities consumed at all times). All inventory-related expenses should therefore be allocated to balancing.

Once the costs have been functionalized between the transport and balancing services, an additional functionalization exercise can be done within the balancing service itself. This is because, in the current functionalization method, the balancing costs are subdivided between "space" and "peak" costs using the ranking of the tools and the winter average. However, the Gaz Métro analysis presented in exhibit B-0133, Gaz Métro-5, Document 1, section 2.1.3, demonstrates that the average winter consumption has no effect on the supply cost. Gaz Métro also explains in section 2.1.4 of the same exhibit that to replace a transport tool with a storage tool, the storage tool must be able to cover the equivalent capacity that was covered by the transport tool. To provide the same coverage, this may require multiple injections and withdrawals. However, without those injections and withdrawals, the transport tool could not be replaced in peak periods. The costs of injections and withdrawals are therefore intrinsic to replacing the tool for peak service.

Finally, it is mentioned in section 7.2 of exhibit B-0133 that some costs are not linked to the peak demand calculated in the supply plan and that they must not be allocated based on customer profiles. Thus, these costs are processed separately.

The cost allocation for each service arises from these calculations. Exhibits B-0192 and B-0193, respectively Gaz Métro-5, Document 5, Appendix 5 and Appendix 6, present the current and proposed cost allocation based on the functionalization of costs explained previously. A column was added to the "Allocation" tab in each exhibit in order to provide the reference of the cost shown in each item.

[22] D-2015-177.

The following sections explain why certain distribution factors were revised. It should be noted that exhibit Gaz Métro-5, Document 10 gives an explanation of how each of the factors is calculated.

5.1 SUPPLY

Gaz Métro-5, Document 9, page 6 ("Fourniture" tab)

The supply service is a service whose costs are de-seasonalized, meaning that the costs that should remain in the supply service are those costs linked to supply with a theoretical profile whose LF is 100%.

This is unlike the current allocation method, in which some seasonal costs are allocated to supply. Thus, it includes inventory-related costs (value of the supply in the storage sites). In the proposed method, Gaz Métro demonstrates that the inventory costs are linked to the customers' balancing needs and that they are caused by all customers with a seasonal consumption profile, not just by customers of the distributor's supply service.[23]. As these costs are functionalized to balancing in Gaz Métro's proposal, the "Inventory" category of the rate base is not applicable.

Working capital is the difference between the time when customers pay for their supply and the time when Gaz Métro pays its own suppliers. This cost is assessed at the time of the rate case and is a function of the supply cost set in the budget and the average time taken to pay the supplier. The cost of supply is itself directly based on the volumes planned to be consumed[24]. Each unit consumed thus causes the same cost in terms of working capital. The use of annual sales (by volume) therefore enables an adequate cost allocation.

Next, the unamortized cost item represents the value of the supply price difference. Normally, after supply costs are transferred to balancing for seasonal effects, this account should be free from seasonality. Originally, when rates were unbundled, the transfer of costs to balancing was not planned. Thus, the distribution factor used the difference between the average winter consumption and the average annual consumption to allocate those costs. However, because the cost is de-seasonalized, a volume-based allocation is now more appropriate.

[23] B-0133, Gaz Métro-5, Document 1, sections 2.2.6, 2.3.2 and 4.

[24] The calculation of working capital for the 2017 rate case is presented in exhibit R-3970, B-0244, Gaz Métro-6, document 2, p.11.

The other change relates to income tax. Technically, as Gaz Métro bills the purchase cost to its customers and the costs are de-seasonalized, the net supply income should be zero for all customers. Gaz Métro therefore proposes using annual sales of the supply service (volume) to allocate those costs.

5.2 TRANSMISSION

Gaz Métro-5, Document 9, page 7 ("Transport" tab)

The transport service is a service whose costs are as close as possible to the costs that would be incurred to meet the theoretical needs of customers with a LF of 100% (meaning totally stable demand). The costs are therefore de-seasonalized and come close to the transport market costs to provide service to customers with totally stable demand.

Again, in the current allocation, some seasonal costs are allocated to transport. These include seasonal costs related to inventory. However, as with supply, Gaz Métro proposes instead to functionalize those costs to balancing.

For working capital, Gaz Métro proposes using the transport service's annual sales. This cost is assessed at the time of the rate case and is a function of the transport cost set in the budget and the average time taken to pay the supplier. As the proposed transport costs depend directly on the volumes consumed (which makes it possible to adhere to the principle of medium demand at all times), then the annual sales of the transport service (by volume) show the best causal relationship.

Next, the unamortized cost item represents the various deferred expenses attributed to the transport service. As the transport service is de-seasonalized, these deferred expenses cannot include seasonality. Gaz Métro therefore proposes using the difference between the average winter consumption and the average annual consumption to allocate those costs.

For transport income, Gaz Métro proposes isolating income from competitive make-up gas ("GAC") and allocating them directly.

As for transport costs, in the current allocation, all costs except income tax and the return on rate base are allocated based on the transport service's annual sales volume. Gaz Métro proposes allocating those costs in the same way as they currently are, except with respect to income tax

and GAC. Because the transport service reflects de-seasonalized income and transport costs, the net transport income for each type of customer should be zero (the costs should be equivalent to income). Thus, Gaz Métro proposes instead allocating the income tax costs based on the transport service's annual sales. For GAC, Gaz Métro proposes an allocation only to customers that consumed GAC.

As for the various items, they refer to the exhibits in which the costs are functionalized. Thus, the costs of the accounting exhibit on which the costs are functionalized using the ranking method are distributed based on the major categories that they include. For example, the item "Fixed premium (FT)" is the total of the costs from exhibit R-3970-2016, B-0253, Gaz Métro-8, Document 8, page 1 for lines 3, 4, 12 and 13[25]. The cost allocation items are therefore a shortened representation of exhibit B-0253.

In the proposed allocation method, the items are also copied from the exhibit, which functionalizes the transport costs (Gaz Métro-5, Document 5, Appendix 3, tab "Coût transport DT2017"). The items break down what constitutes the theoretical transport cost for demand equal to 100% of CU: cost of annual transport tools, de-seasonalized compression cost, and cost of the de-seasonalized location differential.

Finally, it is proposed in exhibit B-0185, Gaz Métro-5, Document 5, section 3.4, to functionalize the costs associated with Champion pipelines to distribution, and allocate those costs in the same way as the transmission lines. No allocation factor has therefore been associated with the costs of the Champion pipelines in the proposed allocation method, although factor FB01TN is used in the current method. For comparison purposes, the cost was added to the transport costs anyway[26].

[25] Although the costs are mostly fixed, they may also include compression costs (SH) and deferred expense costs.

[26] Gaz Métro-5, Document 9, p.1, line 36.

5.3 LOAD-BALANCING

Gaz Métro-5, Document 9, page 8 ("Équilibrage" tab)

The balancing service is a service whose costs are formed of all of the excess supply costs linked to serving seasonal demand. Those costs reflect the excess peak need at a theoretical demand of 100% of LF.

In the current functionalization method, these costs are separated between two sub-functions: space and peak. However, Gaz Métro demonstrates in its evidence B-0133, Gaz Métro-5, Document 1, in section 2.1.3, that only the variation in the peak has an influence on excess costs. Thus, in its proposal, Gaz Métro functionalizes the costs required to meet peak demand only based on the customers' peak. However, Gaz Métro has identified two types of costs that are not required in order to meet peak demand: costs related to excess capacity at peak time, and costs related to operational capacity.

In the current allocation, as costs are functionalized based on space and peak, each item is allocated based on the space factor (FB05E – difference between the average winter demand and the average annual demand) or peak factor (FB05P – difference between peak demand and average winter demand) or a combination of both. In the proposed allocation, the costs are instead allocated based on peak only (FB05E – defined in the new allocation as being the difference between peak demand and average year-round demand). Additionally, in the proposed allocation, some costs were subtracted from the costs allocated as a function of peak, and are found in their own items: costs related to excess demand, to peak demand, and operational flexibility costs.

The proposed allocation therefore replaces factors FB05E (**H**-**A**), FB05P (**P**-**H**) with a new factor FB05E (**P**-**A**), adds a new factor FB01E based on annual balancing sales (volume) for costs not linked to the profile and replaces income factors FB07EP (peak-related income) and FB07EE (space-related income) with factors FB07ES (profile-related income) and FB07EPT (non-profile-related income).

With respect to the various sections, as with transport, they include the items from exhibits showing cost functionalization. In the current method, the various sites and services functionalized based on the ranking method are included (R-3970-2016, B-0253, Gaz Métro-8, Document 8, page 2) while in the proposed method, the types of excess costs with a theoretical demand of 100% of LF are the ones included (Gaz Métro-5, Document 5, Appendix 3, "Équilibrage" tab),

namely the excess supply costs (relative to a theoretical demand of 100% of LF), stranded costs not related to temperature, and operational flexibility.