REQUEST FOR INFORMATION No. 3 FROM THE RÉGIE DE L'ÉNERGIE (THE RÉGIE) TO ROEÉ EXPERT, MR. CHERNICK, RELATING TO THE GENERIC FILE ON ÉNERGIR'S COST ALLOCATION AND RATE STRUCTURE

1. References: (i) Exhibit C-ROEE-0115, p. 3;
(ii) Exhibit B-0264, p. 23;
(iii) File R-4024-2017, Exhibit B-0053; p. 4, File R-3992-2016, Exhibit B-0044, p. 4; File R-3951-2015, Exhibit B-0111, p. 4 and File R-3916-2014, Exhibit B-0042, p. 4.

Preamble:

(i) "*The customer failure rates discussed by Mr. Chernick on page 19 (from B-0308, response 11.6) are 1.5% to 1.8%, implying that 98.2% to 98.5% of customers survive from one year to the next. After 25 years, assuming that the decay rate is constant, the survivors would be 0.98225 = 64 % to 0.98525 = 69 %, so 31 % to 36 % of large customers would be expected to have shut down.*"

(ii)
«

11.6. Please provide any data available to Gaz Métro on the turnover rate of its customers by class or market segment.

Response:

Subject to representations that Gaz Métro may make regarding the potential use of the information sought by this question, taking into account the preamble clarification, the issues already discussed in Phase 3A and those discussed in this Phase 3B, Gaz Métro submits the following information:

Attrition Rate by Major Segment
Customer losses in % of previous year's customers

	2014	2015	2016
Residential	1.8%	1.7%	1.8%
Commercial	1.8%	1.9%	1.8%
Industrial	1.4%	1.6%	1.5%
Total	**1.8%**	**1.8%**	**1.8%**

(iii) Énergir presents to the various rate files an analysis of the differences in the Major Industry market with Table 1 – Major Industry Market.

Requests:

1.1 Taking into account the erosion factor observed in reference (i) and (ii) and the decrease of Major Industry customers found in reference (iii), please comment on the desirability of using an erosion factor in the profitability analysis of Major Industry projects.

1.2 Please comment on the desirability of using a 20-year analysis period for evaluating the profitability of system extensions for Major Industry customers.

2. References: (i) Exhibit C-ROEE-0112, p. 3;
(ii) Exhibit C-ROEE-0112, p. 11;
(iii) Exhibit C-ROEE-0112, p. 15;
(iv) Exhibit B-0258, Appendix Q-2.1, p. 1.

Preamble:

(i) *All identifiable incremental costs should be included in the project profitability analyses"*

(ii) "*It is probably impractical to identify the exact upstream investments that will be added or accelerated due to each individual line extension, especially considering the uncertainty of future growth patterns.*
[…]
the normal approach for estimating incremental costs due to load growth is to estimate the amount of load-related investment over a representative recent or forecast period, along with design-day load growth that drives that investment."

(iii) "*Gaz Métro's review of the profitability threshold also assumes that the revenue levels of the first few years of the line extension will continue through the expected physical life of the main, ignoring customer attrition* […]"

(iv) Table: Reinforcement of distribution network

Requests:

2.1 Please comment on the evolution of the actual reinforcement amounts presented in reference (iv). In particular, please elaborate on the factors that may explain this variability, taking into account the elements presented in reference (ii).

2.2 To the extent that reinforcement costs could be associated with specific projects, please comment on the possibility of including these costs in each of the projects rather than integrating them into the overall portfolio.

2.3 Please comment on the possibility that exceptions (industrial parks and road repaving or other projects) are only made under the condition of meeting an overall PI of 1.1 at all times.

2.4 Please explain why load additions should not be included in development plans including densification, taking into account the conclusion to reference (ii) in the second paragraph.

3. Reference: Exhibit B-0281, p. 9, response to question 8.1.

Preamble:

"8.1 Please clarify the exact amount of the budget planned for industrial park and road repaving projects.
Response:
Gaz Métro clarifies that it put in place a budget of approximately $1.5M, which will be accessible in order to reach a PI of 0.8 for industrial park and road repaving projects that have an expectation of future densification. This budget can be revised each year and will be established during the rate case. Gaz Métro reiterates that this budget will be drawn from the overall profitability of the development plan."

Request:

3.1 Please comment on the desirability of the exceptions (industrial parks and road repaving or other projects) being limited to a fixed amount that would be based on the overall profitability surplus observed in the last annual report.

4. References: (i) Exhibit C-OC-0047, line 19;
(ii) Exhibit B-260, Excel file, tab GM9 doc4-Q7.1 SMACII.

Preamble:

(i)

	Evaluation Methods and Common Inputs	Gaz Métro Proposal (Black & Veatch)	OC	ROEÉ
19	Mains	2.254% (equivalent to 44 year life)	Agree with Gaz Métro · but risk of shorter useful life identified by ROEÉ is one factor considered in OC's higher threshold P. I. for portfolio	3.33% (30 years) B· 0258, OC 7.2

The Régie understands that Énergir's proposal for mains is to apply, in the evaluation method, an amortization rate corresponding to that used by the distributor in its required revenue of 2.254%, equivalent to an amortization over 44 years, for the mains over a 40-year project evaluation period. For its part, the ROEÉ proposal consists in applying a mains amortization rate based on the project evaluation period (i.e. 100%/30 years = 3.33%).

(ii) Énergir presents an Excel file containing the details of the calculations of a profitability analysis. The Régie observes that the cash flow associated with the project does not contain amortization of capitalizable expenses but rather all the capitalizable costs in year 0. The rate impact uses the amortization rates of the capitalizable expenses based on the useful life of the assets.

Request:

4.1 Using the Excel file in reference (ii), please illustrate the impact of Énergir's proposal and the ROEÉ proposal on the IRR, PI and rate impact on the assumption that the project evaluation period is 20 and 40 years. Please comment on the results of the different approaches. Please submit your results as an Excel file.