

No.: R-3867-2013 — PHASE 3

GAZ MÉTRO LIMITED PARTNERSHIP, a duly incorporated partnership having its principal place of business at 1717 du Havre Road, in the city and district of Montréal, province Québec,

(hereinafter "Gaz Métro")

**APPLICATION REGARDING PHASE 3 OF THE GENERIC MATTER BEARING ON
THE ALLOCATION OF COSTS AND RATE STRUCTURE OF GAZ MÉTRO
[Sections 31(1), 31(5), 32(3), 49(6) and 51 of the *Act Respecting the Régie de
l'énergie*, CQLR c. R-6.01 (the "Act")]**

**IN SUPPORT OF ITS APPLICATION, GAZ MÉTRO RESPECTFULLY SUBMITS THE
FOLLOWING:**

I. HISTORY AND BACKGROUND

1. On January 30, 2014, the Régie rendered its Decision D-2014-011, which recognised the intervenors and specified the procedural framework of this case;
2. In this decision, the Régie more specifically:
 - (a) split the matter in two phases, the first bearing on the examination of cost allocation methods, the second focusing on the rate structure, cross-subsidization and rate strategy;
 - (b) requested that Gaz Métro schedule three working sessions bearing on the subject of the first phase;
 - (c) asked Gaz Métro to adduce evidence, following the working sessions, integrating all of its cost allocation proposals.
3. The working sessions of phase 1 were held April 3 and 17, 2014 and May 7, 2014;
4. Gaz Métro presented its cost allocation proposals in the context of phase 1, as appears more specifically from Exhibit Gaz Métro-2, Document 1;
5. The phase 1 hearings took place from April 13 to 17, 2015, date on which the Régie took the applications formulated by Gaz Métro regarding cost allocation methods under advisement;

6. Since the Régie handed down its procedural decision D-2014-011 in this case, it has handed down a series of decisions in several cases postponing the examination of various subjects in the context of phase 2 of this matter, as appears more specifically from the list of follow-ups reproduced on page 9 of the Exhibit Gaz Métro-5, Document 1;
7. According to Gaz Métro, the greater number of subjects to be dealt with in this matter requires the creation of new phases so that the Régie can effectively dispose of the applications regarding these numerous subjects, and so that Gaz Métro can take the decisions handed down by the Régie into consideration when developing its subsequent applications;
8. Consequently, upon filing its phase 2 application on April 28, 2016, Gaz Métro proposed that this generic matter be split into four phases, namely:
 - (a) phase 1 pertaining to the cost allocation methods, [...] the final decision for which was handed down June 23, 2016 (D-2016-100);
 - (b) phase 2 regarding the review of the supply, transmission and balancing services, as well as the consolidation of the interruptible service, in respect of which a filing was presented in April of 2016;
 - (c) phase 3 regarding the fixing of the marginal costs of the long-term service deliveries ("marginal costs") that are contemplated by this filing;
 - (d) phase 4 pertaining to a review of the distribution service;
9. On August 4, 2016, the Régie handed down a procedural decision during phase 2 (D-2016-126), in which it indicated, among other things, that in the absence of evidence regarding the fixing of marginal costs, it reserved its decision on the subject "[TRANSLATION]" as well as on the relevance of handling the matter separately in a phase dedicated to that subject;
10. Gaz Métro submits that the complexity of an examination of marginal costs argues in favour of creating a separate phase dedicated thereto;
11. Furthermore, in order to allow the Régie to decide whether there is a need to create a separate phase, Gaz Métro submits that it would be expedient for such a decision on the marginal costs to be handed down in March 2017 so that it can take that decision into consideration when establishing the development plan that will be filed in the context of the 2018 rate case;
12. Consequently, subject to the Régie's decision to be rendered on this proposal to create a separate phase dedicated to the fixing of marginal costs, and also subject to any decision the Régie may render regarding the order of the various phases in this matter, Gaz Métro introduces, through the intermediary of this application, its proposal regarding the marginal costs in the context of phase 3;

II. STUDY ON THE MARGINAL COSTS OF THE LONG-TERM SERVICE DELIVERIES APPLIED TO THE PROFITABILITY ANALYSIS (EXHIBIT GAZ MÉTRO-6, DOCUMENTS 1 AND 2)

13. During the 2015 rate case (R-3879-2014), Gaz Métro filed the results of its study seeking to fix the marginal costs of long-term service deliveries ("marginal costs") applied to the profitability analysis, which analysis is attached to Exhibit Gaz Métro-6, Document 1 as Schedule A;
14. More specifically recognizing the complexity of the subject, in its procedural decision D-2015-048 (paras 13 to 16) regarding the 2015 rate case, the Régie postponed its handling of the study to determine marginal costs in this matter in order to, among other things, allow the parties to seek the services of an expert in this area;
15. For the purposes of preparing this application, Gaz Métro retained the services of Dr. Edwin Overcast from the firm Black & Veatch;
16. In Exhibit Gaz Métro-6, Document 2, Gaz Métro adduced the results of the study conducted by Dr. Overcast;
17. Gaz Métro concurs with the conclusions of Dr. Overcast and requests that the Régie approve the method he proposes (Exhibit Gaz Métro-6, Document 2) to determine the marginal cost of the long-term service deliveries specific to each project and to authorize Gaz Métro to use it in its analysis of the profitability of a customer connection project, an additional load applied to an existing customer, as well as in the analysis of the overall profitability of the development plan, as appears from Exhibit Gaz Métro-6, Document 1;
18. This application is well-founded in facts and in law.

FOR THESE REASONS, MAY IT PLEASE THE RÉGIE:

ALLOW this application;

In respect of the procedural handling of this matter

CREATE a phase 3 bearing on the examination of the method for fixing the marginal costs of long-term service deliveries;

In respect of fixing the marginal costs of long-term service deliveries (Exhibit Gas Métro-6, Documents 1 and 2)

APPROVE the method proposed by Dr. Edwin Overcast to determine the marginal cost of the long-term service deliveries specific to each project, as described in Exhibit Gas Métro-6, Documents 1 and 2)

AUTHORIZE Gaz Métro, from the moment the decision is rendered, to use this method in the profitability analysis of a customer

connection project, an additional load applied to an existing customer, as well as in the analysis of the overall profitability of the development plan;

Montréal, October 4, 2016

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