RESPONSE OF GAZ MÉTRO LIMITED PARTNERSHIP (GAZ MÉTRO)

TO THE REQUEST FOR INFORMATION NO. 2 PRESENTED TO GAZ MÉTRO

BY
STRATÉGIES ÉNERGÉTIQUES (S.É.)
ASSOCIATION QUÉBÉCOISE DE LUTTE CONTRE LA POLLUTION ATMOSPHÉRIQUE (AQLP(A)

A. STUDY ON THE MARGINAL COSTS OF LONG-TERM SERVICE DELIVERY APPLIED TO THE PROFITABILITY ANALYSIS (FOLLOW-UP ON DECISIONS D-2013-106 AND D-2015-048)

REQUEST FOR INFORMATION OF S.É.-AQLPA-2-1

References: GAZ MÉTRO, R-3867-2013, Phase 3, Exhibit B-0144, Gaz Métro-6, Document 1, Schedule A, Schedule 1, pages 1 and 2, Details on costs, per market, page 1 (residential) and page 2 (CII).

Question(s):

((a) Please explain the differences between the residential market costs and those of the CII market for the following items:

- Cost of inputting a new agreement;
- Annual cost of payment collection;
- Cost of bad debts;
- Recovery and collection costs.

Response:

Cost of inputting a new agreement:

Gaz Métro refers you to the response to question #1.b of Mr. Baudino's request for information in Exhibit Gaz Métro-8, Document 4.

Annual cost of payment collection:

This average cost will depend on the proportion of each collection method used within the market. Consequently, a larger portion of customers from the CII market use payment methods where collection is more costly.

Cost of bad debts:

The average bad debt costs for CII customers are greater, given that they generally tend to have bigger balances than those of the residential market.

The average bad debt costs for CII customers are higher given that these customers have higher balances than for the residential market.

Recovery and collection costs:

As explained in the response to question 1.1 of the Régie's request for information no. 5, Exhibit Gaz Métro-8, Document 1, the recovery and collection costs were allocated among the markets based on bad debt costs. Please refer to the response provided in the preceding point for an explanation of the difference between the residential and CII markets.

REQUEST FOR INFORMATION FOR S.É.-AQLPA-2-2

Reference: GAZ MÉTRO, R-3867-2013, Phase 3, Exhibit B-0144, Gaz Métro-6, Document 1, Schedule A, Schedule 1, page 3, Major Industries market.

Question(s):

(a) **Please explain the absence of a bad debt item for the Major Industries market.**

Response:

Gaz Métro refers you to the response to question 1.1 of the Régie's request for information no. 5, Exhibit B-0196, Gaz Métro-8, Document 1, for details on the calculation method in the section on bad debts. Consequently, there being virtually no write-offs for Major Industries, the calculation of the average amount of write-offs per customer for this market is $0.

REQUEST FOR INFORMATION S.É.-AQLPA-2-3

References: GAZ MÉTRO, R-3867-2013, Phase 3, Exhibit B-0144, Gaz Métro-6, Document 1, Schedule A, Schedule 1, page 2 (CII market) and page 3 (Major Industries market).

Question(s):

(a) Please explain the reasons why the "*Inspection Spin test for turbines measuring less than twelve inches*" shows a minimum amount of $79.20 for the Major Industries market and a maximum amount of $79.20 for the CII market.

Response:

Gaz Métro refers you to question 1.1 of the Régie's request for information no. 5 in Exhibit B-0196, Gaz Métro-8, Document 1, for explanations regarding the minimums and maximums presented in the tables cited in reference.

REQUEST FOR INFORMATION OF S.É.-AQLPA-2-4

References: GAZ MÉTRO, R-3867-2013, Phase 3, Exhibit B-0144, Gaz Métro-6, Document 1, Schedule A, page 6, lines 19 to 22:

> *The proposed model introduces the notion of a marginal cost of service delivery with minimum and maximum limits for each market. Consequently, the minimum limit will*

apply to customers for which the provided administrative services, measuring equipment and installation are standard.

Question(s):

(a) Do you not think that the consideration of a marginal cost of service delivery with maximum and minimum limits (especially when the difference between the two is great) risks making the process more complicated, especially when the addition is carried out simultaneously for a significant number of customers? Shouldn't a uniform marginal cost be targeted?

Response:

The approach proposed by Gaz Métro seeks to attribute, to each new customer, a marginal cost for long-term service delivery that is linked to its specific characteristics. The notion of minimum and maximum limits is used only for the purposes of presenting evidence. Please refer to question 1.1 of the Régie's request for information no. 5, Exhibit B-0196, Gaz Métro-8, Document 1, for more information.

This approach helps determine a marginal cost that is closer to the customer's reality. As is emphasized in the question, there can be significant differences between the marginal costs of various customers, and it would be unfair to attribute the same marginal cost to all of them.

As for the complexity of applying the proposed method, the feasibility was analyzed within the organization before this approach was proposed. A vast majority of the characteristics proposed fall within fields that already appear in the cost schedules and tools currently being used to analyze the profitability of projects. Gaz Métro is of the opinion that the application of the proposed method would therefore not make the profitability analysis more complex.

B. BLACK & VEATCH, MARGINAL COSTS OF LONG TERM SERVICE DELIVERY (PROJECT NO. 190132), filed under: GAZ MÉTRO, R-3867-2013, Phase 3, Exhibit B-0145, Gaz Métro-6, Document 2

REQUEST FOR INFORMATION S.É.-AQLPA-2-5

References: GAZ MÉTRO, R-3867-2013, Phase 3, Exhibit B-0145, Gaz Métro-6, Document 2.

Question(s):

(a) The Black & Veatch report (B-0145, Gaz Métro-6, Doc. 2, page 3) with which Gaz Métro now concurs (B-0144, Gaz Métro-6, Doc. 1, page 2, lines 20-24) does not seem to be adapted to the (main) reason for which Gaz Métro and the Régie de l'énergie must proceed in this matter, namely identifying a method for determining the marginal costs of **long-term** service delivery (emphasis added). Black & Veatch maintains, in fact, quite surprisingly:

> ***Economic theory holds that efficient prices equal short-run marginal cost not long-run marginal costs. The use of long-run marginal cost to evaluate line extension creates a timing mismatch***

> ***between costs for ratemaking (the first year carrying costs that will be in revenue requirements) and the levelized costs over the life of the assets used in calculating long-run marginal costs.*** *This timing mismatch raises revenue requirements in the short-run but over time reduces the revenue requirement for economic connections of new customers. (emphasis added)*

Please explain why Gaz Métro now accepts this recommendation of Black & Veatch to use short-term instead of long-term marginal costs.

Response:

Gaz Métro has retained the services of Dr. Overcast, recognized as an expert witness "[TRANSLATION] in the regulation of utilities and rate making" by the Régie in its decision D-2017-009. Gaz Métro has no other reason not to follow the recommendations of this expert, with whose recommendations it is moreover fully in agreement.

(b) In its decision-making process that led to the filing of this proposal before the Régie, the recommendations formulated by Black & Veatch, including the one above, critically examined? Could Gaz Métro have rejected Black & Veatch's recommendation, perhaps even not have filed its report?

Response:

Please refer to response to question 5(a).

(c) Is Gaz Métro not mistaken in its all too enthusiastic dismissal of its own previous evaluation (attached to B-0144, Gaz Métro-6, Doc. 1), which was methodologically different from that of Black & Veatch regarding the use of short-term marginal costs?

Response:

Please refer to response to question 5(a).

(d) Does Gaz Métro not believe that, to assess the profitability of market development projects and additions to the system, it is the long-term marginal costs (throughout the estimated term of the maintenance of the new customer or the new load) that must be taken into account, contrary to the approach adopted by Black & Veatch ?

Response:

Please refer to response to question 5(a).

(e) Black & Veatch notes that some short-term marginal costs of adding a customer or load are zero or low until such time as the "next step" is taken, after which the marginal costs will increase suddenly (for example, once a threshold is reached when additional resources will need to be retained in a given department). But Black & Veatch proposes retaining this short-term marginal cost in its analysis. Does Gaz Métro not believe that in Phase 3 of this matter, the exercise should instead be to identify, for each market development project or addition to the system, where this market is specifically located (and what the marginal costs are in below "market" situations, and what the marginal costs are once this "market" is exceeded)?

Response:

No, Gaz Métro is not of this opinion, seeing as it is impossible to determine when and if this "market" will be reached.

REQUEST FOR INFORMATION S.É.-AQLPA-2-6

References: GAZ MÉTRO, R-3867-2013, Phase 3, Exhibit B-0145, Gaz Métro-6, Document 2, page 8:

RESIDENTIAL MARKET

Table 2 presents a comparison of the marginal cost proposal as filed by Gaz Metro and a line by line comparison of modifications recommended by Black & Veatch. The changes we recommend are as follows:

• Cost of Reading a Meter - As noted In section 2, meter reading falls Into the category of costs that only increase marginally in a stepwise manner. No single customer addition is likely to increase the costs of meter reading. As such we recommend removing this cost.

' Cost of Processing a Standard Customer Call - Not all customers make calls to the utility so we recommend changing the minimum range to zero.

' Bad Debt And Collection And Recovery Costs - As noted In section 2 - Bad debt and collections expense should not be anticipated for a new customer and the marginal cost should be zero.

• Preventative and Corrective Maintenance on Service Lines - Gaz Metro has proposed a method in which the total cost of preventative and corrective maintenance be based on the total cost of the activity (based on total hours times the standard cost rate) divided by the number of services. In reality, there is a limited amount of maintenance required for services. While Gaz Metro does have preventive programs (service line inspection, leak detection) that are made on a multiyear basis, there are not ongoing annual costs for an individual service. Further, there is no reason to expect maintenance costs in the first year of placement. Therefore, we recommend using zero for the first year costs and zero for the minimum in years 2+.

For the marginal operating costs of mains and meters, the Gaz Metro proposal acknowledges that a single point estimate of cost per customer is not appropriate and it is much more customer specific. Its use of an estimated cost per meter of mains provides a superior method of evaluating the profitability of a prospective customer. Similarly with meters, Gaz Metro appropriately show the minimum cost to be zero, as not all customers will require maintenance once placed in service.

Question(s):

(a) What is Gaz Métro's position regarding **each** of these differences indicated above as opposed to the recommendations of its expert? Without limiting this request for information, we note, among other things, that some of these differences are counter-intuitive ─ for example, the amount of bad debts should instead increase with the number of customers, as well as maintenance needs.

Response:

Please refer to response to question 5(a).

REQUEST FOR INFORMATION S.É.-AQLPA-2-7

References: GAZ MÉTRO, R-3867-2013, Phase 3, Exhibit B-0145, Gaz Métro-6, Document 2, page 8:

> *CII MARKET*
>
> *For the commercial, institutional and industrial (CII) market, we recommend generally the same modifications as the residential market. In addition to the same changes we recommend for residential, we also recommend eliminating the customer retention cost for major accounts. Much like meter reading, the addition of one customer is unlikely to increase the costs of staff responsible for customer retention activities.*
>
> *MAJOR INDUSTRIES MARKET*
>
> *For the major industries market, we recommend no additional changes from the other two markets.*
>
> *The adjustments recommended for major industries are to meter reading, customer retention costs, and maintenance of service lines.*

Question(s):

(a) What is Gaz Métro's position regarding the recommendation of its expert not to take into consideration, for CII and Major Industries markets, the costs associated with maintaining a customer? The cost that Gaz Métro associates with this item is $1,200.

Response:

Please refer to response to question 5(a).