

**REQUEST FOR INFORMATION NO. 10 FROM THE RÉGIE DE L'ÉNERGIE (THE RÉGIE)
CONCERNING THE APPLICATION RESPECTING COST ALLOCATION AND RATE STRUCTURE**

Marginal costs that may be affected when customers move

- 1. References:**
- (i) Exhibit [B-0230](#), p. 3;
 - (ii) Exhibit [C-ROEE-0082](#), p. 25;
 - (iii) Exhibit [C-OC-0023](#), p 6 to 7;
 - (iv) Exhibit [C-OC-0023](#), Exhibit WM-2, p. 1 and 2.

Preamble:

(i) *"The issue of opening a billing file in years subsequent to the first year appears to be in dispute as well. It seems that the dispute is based on an argument about what happens when a new occupant of a premise causes a customer connection after year one. In the analysis it is assumed that year one applies to the customer not the premise. Where that is the case there should be no dispute over the zero value for first year costs in subsequent years."* [emphasis added]

(ii) *"[...] Every time a new customer moves into the building or unit, Gaz Métro will incur the cost of opening a billing file, setting up a new contract, and conducting a credit check (for non-residential customers). Gaz Métro should develop estimates of the rate of customer turnover by class of market, so that can include multiple events in the profitability analyses."* [emphasis added]

(iii) *"When a line extension is involved (instead of an attempt to charge money to each customer who moves), suddenly the marginal cost becomes only \$9.66 for the new applicant and nothing for any future customers. We will add the \$9.66 multiplied by 10% of customer as an ongoing long-run marginal cost for both residential and CII customers."*

(iv) Table of costs proposed by OC, for the residential sector and CII.

Requests:

- 1.1 Please explain Gaz Métro's position (Reference (i)) in relation to the "cost of opening a billing file", the "cost of setting up a new contract" and the "cost of conducting a credit check" for customers other than residential customers, that are incurred when the same customer moves (References (i) and (ii)).
- 1.2 Please comment on the OC expert's estimate of the cost of opening a billing file for relocations of the same residential or CII customer as of the second year (References (iii) and (iv)).

**Marginal costs for processing CRP grant applications and for the inspection
and maintenance of meters**

- 2. References:**
- (i) Exhibit [B-0144](#), Schedule 1 of Schedule A, p. 1 to 3;
 - (ii) Exhibit [B-0209](#), Schedule 1, p. 1;
 - (iii) Exhibit [B-0145](#), p. 9 to 11.

Preamble:

- (i) Tables of long-term marginal costs proposed by Gaz Métro for all markets.
- (ii) Explanatory table of certain weighted costs by market.
- (iii) Tables of long-term marginal costs proposed by Gaz Métro and by Black & Veatch.

Requests:

- 2.1 The Régie notes that unlike other costs allocated to all customers, such as the costs of bad debts, the minimum thresholds for marginal costs associated with processing a CRP application for the first and subsequent years in the residential and CII markets, is zero (reference (i)). Please explain this treatment.
- 2.2 Please explain why costs for processing a CRP application vary between zero and \$23.83 for the residential market and from zero to \$32.90 for the CII market, for both the first and subsequent years (Tables 1 and 2 of reference (i)), given that their weightings (reference (ii)), are, respectively, 85% and 62%. Also, please explain why Gaz Métro did not apply the cost indicated in reference (ii), namely \$20.26 for the residential market and \$20.40 for the CII market (reference (ii)), for both the first year and subsequent years.
- 2.3 Please confirm that no CRP grant application was accepted for line extension projects for the MIS sector. If this is not so, please explain why that cost was considered to be zero in the Distributor 's analysis (Table 3 of reference (i)).
- 2.4 The Régie notes that inspection costs for the "*spin test for turbine (less than 12 in)*" vary between zero and \$79.20 for the CII and residential markets. However, in the MIS market, those costs vary inversely, namely from \$79.20 to zero (Table 3 of reference (iii)). Please explain and, if necessary, correct.

2.5 The Régie notes that for the residential and CII markets, the following costs related to inspection of meters:

- "*Turbine*"
- "*spin test for turbine (less than 12 in)*"
- "*telemetry*»
- "*corrective instruments*"

vary between zero and a capped cost, for both the first year and for subsequent years (reference (i)). However, this is not the case for the MIS market, the minimum and maximum values being the same. Please explain this difference in treatment.

2.6 The Régie notes that for the MIS market (Table 3 of reference (i)), the inspection costs for the "*spin test for turbine (12 in and more)*" and the "*Cost of a cellular line -telemetry*", vary between zero and a capped cost, which is not the case for other cost headings associated with meters. Please explain this difference in treatment.

2.7 Please specify if Gaz Métro has residential and CII customers that use meters that are 12 or more inches in length and, if so, the telemetry.

2.8 The Régie notes that for the residential and CII markets, Gaz Métro presented in reference (ii) weightings of 0.07% and 0.42% for costs associated with "Telemetry Inspection", representing costs of \$0.09 and \$0.50, respectively, for the first and subsequent years. However, the Régie notes that for those markets (reference (i)), a range of costs varying between zero and a maximum cost of \$118.79 was defined for the first and subsequent years.

2.8.1 Please explain why, in reference (i), Gaz Métro did not use an average cost of \$0.09 for the residential sector and \$0.50 in the CII sector, for the first and subsequent years.

2.8.2 Please repeat the exercise in sub-question 2.8.1, for "*turbine*", "*spin tests for turbine (less than 12 in)*", and "*corrective instruments*" costs to explain why the cost ranges defined in reference (i) were selected rather than the weighted costs in reference (ii), for the first and subsequent years.

2.9 In light of your answers to the foregoing sub-questions, please revise and resubmit the costs related to processing CRP applications and to the inspection and maintenance of meters, for all markets. Please submit the costs specifically in the form of a weighted average, according to type of customer (residential, CII and MIS), both for the first year and for subsequent years (without minimums and maximums).

Marginal costs of processing a standard customer call and the costs of customer retention

- 3. References:** (i) Exhibit [B-0144](#), Schedule 1 of Schedule A, p. 1 to 3;
(ii) Exhibit [C-ROEÉ-89-0082](#), p. 12.

Preamble:

- (i) Tables of long-term marginal costs proposed by Gaz Métro for all markets.
- (ii) "**Customer calls:** *Gaz Métro assumes that the average residential customer puts the same burdens on customer service as the average CII customer. This seems unlikely, especially for the large CII customers and interruptible customers, who are likely to have more interactions and more complex interactions with Gaz Métro, regarding choices of rates, load-factor computation, subscribed volume, and other rate complications.*"

Requests:

- 3.1 Please specify if the following costs: "*Cost of processing a standard customer call*", "*Cost of bad debts*" and "*Collection and recovery costs*" for the MIS market (Table 3 of reference (i)) are included in the amount of \$1,197.16 for "*Customer retention costs - Major industries*" for years 1, 2 and other years. Please also specify if other activities and costs are included in that figure.
- 3.2 Please explain why the cost of processing calls for residential and CII customers is the same, namely \$12.84 (Tables 1 and 2 of reference (i) and reference (ii)).

Marginal costs related to Preventative and Corrective Maintenance on Service Lines

- 4. References:** (i) Exhibit [B-0144](#), Schedule 1 of Schedule A, p. 1 to 3.
(ii) Exhibit [B-0144](#), Schedule 1 of Schedule A, p. 1 to 3 (footnote);
(iii) Exhibit [B-0145](#), p. 9 to 11.

Preamble:

- (i) Tables of marginal costs for long-term service delivery proposed by Gaz Métro for all markets.

(ii) *"This Table does not take into account additional preventative maintenance costs (\$0.22/metre) and corrective maintenance costs (\$0.34/metre) applicable to projects that, based on earning requirements, will require additional metres of line. Moreover, the maximum does not take into accounts preventative maintenance costs (\$12.88) and corrective maintenance costs (\$17.99) per additional service required in the project."*

(iii) Tables of marginal costs of long-term service delivery proposed by Black & Veatch for all markets.

Requests:

4.1 Please specify if the diameter, materials for the lines and the equipment required for measuring, cleaning etc., can differ according to the gas flow required and according to type of customer (residential, CII and MIS) and hence affect service and line maintenance costs.

If yes, please state why the marginal costs associated with Preventative and Corrective Maintenance on Service Lines, do not differ from one category of customers to another (reference (i)).

4.2 Please explain why the marginal costs related to Preventative and Corrective Maintenance on Service Lines, for the first year for all markets, is other than zero. Please indicate as of which year such costs may occur.

4.3 Please specify if the description in reference (iii) of preventative and corrective maintenance on "mains", is actually a reference to the additional costs per metre of "service" line required for certain customers (reference (ii)). If this is not the case, please explain.

Marginal costs related to bad debts

- 5. References:**
- (i) Matter No. R-3992-2016, Exhibit [B-0088](#), p. 1 and 5;
 - (ii) Exhibit [B-0236](#), response to question 1.2, p. 2.

Preamble:

[Translation:]

(i) *"In September 2016, Gaz Métro was informed by the receiver responsible for liquidating the assets of Québec Lithium inc., QLIMétaux inc., RB Energy inc. and Sirocco Mining inc., that the assets had been sold and that no sum would be paid to unsecured creditors, the list of which included Gaz Métro.*

[...]

As regards the financial contribution billed to, but not by, Québec Lithium, Gaz Métro can confirm that in light of the information received from the receiver on September 30, 2016, it will be unable to recover its claim in whole or in part. As explained in its 2015 Annual Report (R-3951-2015, B-0045, Gaz Métro-19, Document 1, pages 5 and 6), Gaz Métro wrote off Québec Lithium's \$2.8 million debt. The balance of that receivable was recorded against the provision for bad debts."

(ii) *"1.2 Please comment on whether "Distribution Gas Supply expenses" should be included in marginal costs for long-term service delivery as suggested by expert Chernick in reference (ii).*

Response:

Dr. Overcast is of the following view: "These are fixed costs that do not vary with the quantity of gas used by the system or the number of customers. As fixed costs they make no contribution to marginal costs by definition and should be zero." [emphasis added]

Request:

5.1 Please explain if costs associated with bad debts, such as those noted in reference (i) correspond to fixed costs for Gaz Métro (reference (ii)). If this is not the case, please explain if costs related to bad debts vary according to the number of customers or the quantity of gas used in the system.