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BY EDR/ERF [Electronic Data Room/Electronic Regulatory Filing] AND BY MESSENGER

April 4, 2017

Mr. Pierre Méthé
Acting Secretary
RÉGIE DE L'ÉNERGIE
Tour de la Bourse
800 Place Victoria - Suite 2.55
Montréal QC H4Z 1A2

Re: Request in relation to Phase 3B of Gaz Métro's generic cost allocation and rate structure case
Our Ref: 312-00669
Case No: R-3867-2013

Sir,

On March 24 and March 27, 2017, Gaz Métro received requests for information ("RFI") from the Régie and several intervenors in connection with Phase 3B of the above-mentioned case. For the following reasons, Gaz Métro proposes a new procedural approach to the Régie for optimal analysis of the various issues raised by the questions asked by the participants in the RFI.

Gaz Métro notes that initially it was of the view that the matters that several intervenors wished to discuss were beyond the scope of the evidence filed in the case. Gaz Métro's position was formulated in a letter filed December 1, 2016 (B-0157) further to receipt and consideration of the applications to intervene in Phase 3 of the case. It then reiterated its position in a letter filed December 19, 2016 (B-0158, "Correspondence"), namely several days after the Régie rendered Decision D-2016-186 in which it determined the procedural framework for the case. In the Correspondence, Gaz Métro noted, inter alia, that it had not conducted an analyses of the parameters used to assess the profitability of investment projects that certain intervenors wished to discuss. A number of excerpts from that Correspondence are reproduced below:

[translation:]

"(...)

Thus, Gaz Métro wishes to emphasize that its January 6, 2017 request for recognition of expert status for a witness is applicable solely to subject A.

Thus, the evidence on which Gaz Métro is currently working and which will be filed January 19, 2017 in relation to topic B, supplements the evidence filed in Case No. R-3979-2016 (B-0144) specifically responds to the Régie's order in Decision D-2016-090, namely that Gaz Métro [translation:] "enhance [...] its evidence by presenting its system extension projections over a five- and ten-year timeframe and by providing a report summarizing the current approaches in other provinces regarding the eligibility criteria for line extension projects". However, OC, the ROEÉ and UC have stated they wish to examine the data considered for the purpose of establishing earning requirements (such as reduction of the useful life of assets). In its correspondence of December 1, 2016 (B-0157), Gaz Métro contended that such data was beyond the scope of the evidence tendered in File R-3972-2016 and in the follow-up required by the Régie in Decision D-2016-090. In Decision D-2016-186 (para 54), the Régie held that [translation]: "the issues identified by the intervenors are relevant and relate to the subject under consideration". Gaz Métro takes note of that ruling, but wishes to make the following comments for the purpose of establishing the forthcoming procedural timetable for Phase 3-B.

As stated previously, Gaz Métro's evidence does not review the data considered for the purpose of establishing earning requirements. Therefore, to date Gaz Métro has not conducted an analysis that would allow it to determine whether or not such data should be reviewed and, if in the affirmative, what the focus of such a review should be. Thus, given that the question was initiated by the intervenors, they should be regarded as "applicants". Only when Gaz Métro has reviewed the evidence of the intervenors will it be able to assess the need to produce evidence pertaining to the matters raised by the intervenors.

Consequently, to avoid any delay in proceeding with Phase 3, Gaz Métro submits that the procedural timetable to be established for dealing with topic B should include a stage allowing it to file, before the coming June hearings, written evidence on the matters to be dealt with by the intervenors in their written evidence. Also, the procedural timetable should provide a step for recognition of the status of expert witness specific to topic B, after the filing of the written evidence of the intervenors."

[emphasis added]

In the Correspondence, Gaz Métro specifically noted that the services of the witness respecting whom it intended to apply for recognition of expert witness status have been retained for discussions concerning the subject matter of Phase 3A. Thus, on January 6, 2017, in accordance with the procedural timetable fixed in Decision D-2016-186, Gaz Métro filed an application for recognition of expert witness status (B-0163), stating, as per its intention stated in the Correspondence (B-0158), that its application was solely for the purpose of dealing with topic A.

On February 1, 2017, the Régie rendered its procedural decision D-2017-009 in which it discussed, inter alia, the content of the Correspondence. In that decision, the Régie reiterated that Decision D-2016-186 held that the issues identified by the intervenors were relevant and related to the matter to be dealt with. The Régie disagreed inter alia with Gaz Métro's argument that the intervenors should be regarded as "applicants" for the purpose of considering the methodological parameters for examining the profitability of line extension projects. The Régie stated that "to make an accurate assessment of that methodology, [it] required full proof of all its features and underlying assumptions" (para 57) and, accordingly, it ordered that further evidence be filed by February 16, 2017 and it specified the content thereof in the following terms:

[Translation:]

"[60] The further evidence must provide a detailed explanation of the methodology used to evaluate the profitability of line extension projects currently in effect, as well as the impact of the changes proposed by the Distributor respecting each of the parameters and assumptions of that methodology. It must also include the Excel file containing the evaluation model, as well as the calculation formulas.

[61] In addition, the Régie considers section 8.1 of the Distributor's evidence pertaining to projections for line extension over a five- to ten-year horizon, filed pursuant to Decision D-2016-090, as not comprehensive enough. **It therefore orders the Distributor to complete that section by elaborating further on the following:**

- **the nature of the proposed projects, the customers (categories, volumes and earnings) for whom they are intended, the expected rates of return;**
- **the future densification potential associated with the proposed projects, with supporting assumptions;**
- **the methodology for evaluating the future densification potential of each of the proposed projects;**
- **assessment of the risk specific to each project regarding its realization and densification potential;**
- **the criteria for prioritizing projects and for recommending their implementation;**
- **the impact of the Distributor's proposed modifications on the contribution of customers associated with the proposed projects.**

[62] Lastly, in its additional evidence the Distributor must also provide a summary of its 2009 to 2016 annual development plans for projects under \$1.5 million for the residential, business and industrial markets. It must indicate the initially anticipated volumes and earnings, as well as the additional densification volumes and earnings."

[Emphasis in the Decision]

From February 1 to February 16, 2017, Gaz Métro responded to the Régie's order, bearing in mind the requirements set forth in paragraphs 60 to 62 of Decision D-2017-009.

In its Decision D-2017-009, the Régie ordered the intervenors to file their participation budgets for Phase 3B, to indicate the matters in which they wished to intervene, the conclusions sought and the manner in which they intended to assert their position, all by February 16, 2017. The particulars provided by the intervenors were generally aligned with their applications for intervention filed in November 2016 for Phase 3 of the case, and therefore Gaz Métro did not consider it necessary to reiterate its position set forth in correspondence filed December 1, 2016 (B-0157) and December 19, 2016 to the effect that certain matters raised were beyond the scope of its application as they involved reviewing factors considered in establishing earning requirements. This was particularly the case given that Gaz Métro relied on the content of the additional evidence (B-0220), drafted over a short period of two weeks, required by the Régie in Decision D-2017-009 in order to identify the scope and percentage that consideration of its application would take in Phase 3B. Moreover, at that time, the particulars provided by the intervenors were still too general for Gaz Métro to consider it necessary to engage the services of an expert. Certain intervenors stated, for example, that they wanted to present a brief overview of methods used by other Canadian distributors to assess the profitability of extension projects, or to analyze in greater depth the data and assumptions used in the cost/benefit analyses as well as the comprehensiveness of the costs and benefits considered in such analyses.

In its Decision D-2017-026 rendered on March 7, 2017, the Régie stated that it considered the issues identified by the intervenors as relevant and related to a consideration of matter B and noted that those issues were in addition to those underlying its Decision D-2016-186.

On March 24 and 27, 2017, Gaz Métro received requests for information from the Régie and from the intervenors concerning the evidence filed in connection with Phase 3B. Gaz Métro notes that many of the questions asked via these requests for information are not founded on the evidence filed, notwithstanding that it is in compliance with the Régie's requirements in paragraphs 60 to 62 of Decision D-2017-009. Several questions, some of which are from expert witnesses, discuss assumptions and alternative approaches that were not analyzed by Gaz Métro.

It will be appreciated that since receiving the RFI, Gaz Métro has been unable to retain the services of an expert for topic B. Gaz Métro wishes to point out that even had it intended to retain Dr. Overcast's services as an expert to address subject B, it would not have been able to do so as Gaz Métro had learned that Dr. Overcast's is about to retire and his mandate in Phase 3A will be his last.

Gaz Métro does not dispute the usefulness or relevance of such questions. Gaz Métro has taken due note of the Régie's rulings in Decisions D-2016-186, D-2017-009 and D-2017-026 in that respect. However, considering the nature of the questions, and to facilitate an efficient and fair resolution of the case, Gaz Métro requires the assistance of an expert. Gaz Métro respectfully submits that it requires a reasonable period to identify, and retain the services of,

an expert and, then with the assistance of that expert, to analyze the various questions asked in the RFI. Unfortunately, the period allocated in the procedural timetable to respond to the RFI (April 18) does not allow Gaz Métro to engage in such an exercise. Gaz Métro submits that it should be granted an additional period of approximately 10 weeks so that, with the assistance of an expert, it can respond to the RFI.

Gaz Métro further submits that responding to requests for information is probably not the most effective or optimal way of completing the evidence in chief in the case. If, as it would appear from the questions in the RFI, the Phase 3B examination concerns a question as important as an exhaustive review of the cost/benefit calculation parameters, i.e., Gaz Métro's earning requirements tool, it would therefore be preferable if the procedural aspects of the case were adapted to this important task. In light of the questions asked in the RFI, Gaz Métro is now able to define the issues raised by examination of the parameters used to establish the earning requirements for new projects. Thus, rather than revising the procedural timetable to grant an additional period to Gaz Métro to respond to the RFI, it would be appropriate to allow it to file full evidence in due form. That evidence would thus be supported by an expert report. When Gaz Métro files its responses to the RFI, it would take the opportunity to file the new evidence, the whole within the aforementioned approximate 10-week period. The Régie and the intervenors could then formulate their additional RFI on that new evidence in the record.

Gaz Métro submits that the assistance of an expert would also allow it to explore other avenues with respect to project acceptance thresholds, including various alternative proposals raised by the Régie or the intervenors (e.g., portfolio approach, an "extension fund", a rate surcharge, an overall profitability index, etc.).

Gaz Métro is aware that its requests will affect the procedural timetable. However, it respectfully submits that such adjustments are necessary to ensure that the case is handled efficiently, effectively and fairly and in compliance with the rules of natural justice, which provide inter alia that it should be allowed the assistance of an expert.

Gaz Métro also notes that a possible revision of the procedural timetable for Phase 3B would not affect the general timeline for this case, which must, in Phase 4, lead to establishment of the distribution rate structure and, ultimately, as noted by the Régie in its Decision D-2013-063 (para 41) must allow for the adoption of a new incentive scheme for improved performance ("incentive scheme"). In that regard, Gaz Métro notes that if, by the end of summer 2017, there is a final decision on the allocation of costs (phase 1), it would file its discussion papers next autumn on revising the distribution service rate structure (Phase 4) as well as its proposal for an incentive scheme. Thus, the conduct of Phase 2, pertaining to supply, transport and balancing services, will not affect the conduct of Phase 4, or the handling of an application pertaining to the distribution incentive scheme. As regards Phase 3A, although the question concerning the marginal costs of long-term service delivery may constitute interesting input for the purpose of discussions to be held in Phase 4, the fact that a decision has not yet been rendered by the Régie is not an obstacle to commencing consideration of that last phase. Furthermore, given that Phase 3A hearings will be held in a few days, it is conceivable that a decision will be rendered before Phase 4 [proceedings] must be filed. As regards Phase 3B, Gaz Métro submits that the subject of its analysis is the costs/benefits assessments of projects and is therefore not essential to evaluate the

distribution service rate structure. Therefore, dealing with Phase 3B should not affect the filing of the Phase 4 application or the application concerning the incentive scheme.

Sincerely,

(s) Hugo Sigouin-Plasse

Hugo Sigouin-Plasse
HSP/mb