REQUEST FOR INFORMATION NO. 2 FROM THE RÉGIE DE L'ÉNERGIE (THE "RÉGIE") TO OC WITH RESPECT TO THE MATTER BEARING ON THE ALLOCATION OF COSTS AND RATE STRUCTURE

Marginal Costs relating to Inspection and Maintenance

1. References: (i) Exhibit C-OC-0023, p. 4
(ii) Exhibit C-OC-0023, Exhibit WM-2, p. 1 to 3.

(i) *"While some [costs] (meter reading, bill presentation and payment processing, call center costs) are ongoing, some of the physical inspection and maintenance costs start to occur later in a project's life (year 2 or even beyond)."*

(ii) Tables 1 to 3, long-run marginal costs proposed by OC.

Question:

1.1 Please explain why you suggest that the costs relating to the inspection and maintenance of lines and connections occur later in the project's life, namely in Year 2 and subsequent years (reference (i)).

Answer:

1.1 **In the first year of a connection project, the equipment has just been installed and therefore will not need inspection or maintenance.**

Questions:

1.2 The Régie notes that, in reference (ii), long-run marginal costs of service delivery per market are divided into two categories: total costs without maintenance, and total costs taking into account preventive and corrective maintenance for 10 meters, 30 meters and 100 meters of mains, respectively, when the relevant market is Residential, CII or Major Industries.

1.2.1 Please explain how and why the costs were divided into the "with maintenance" and "without maintenance" categories;

1.2.2 Please explain why all costs relating to "Preventive and corrective maintenance – Service line" and "Meters inspection and maintenance costs" (lines 13 to 14 and 20 to 25) are zero for the first year, for all markets.

1.2.3 Please specify whether the lengths used by OC refer to mains or services lines.

1.2.4 Please explain how were defined the lengths of 10, 30 and 100 meters to which maintenance costs are applied.

<u>Answers:</u>

1.2.1 **The costs without maintenance of mains were presented in Mr. Marcus' Tables in reference (ii) in the same format as the costs provided by Dr. Overcast and Gaz Metro in order to be comparable to the Overcast and Gaz Metro numbers. The costs with maintenance of mains were presented in reference (ii) to include a representative or reference amount of marginal cost of main maintenance per customer in each of the different classes (with lengths of 10 meters, 30 meters, and 100 meters per customer). A profitability analysis would use the actual lengths of main if available.**

1.2.2 **In the first year of a connection project, the equipment has just been installed and therefore will not need inspection or maintenance.**

1.2.3 **Gaz Metro used the term "branchements," which both Mr. Marcus and Dr. Overcast translated as "service lines." Gaz Metro's term "conduite" applies to lines that serve more than a single customer. Both Mr. Marcus and Dr. Overcast used the English term "mains" to refer to these lines. The length of main installed per customer is dependent on the specific connection project. A new network project could have a considerable amount of main installed per customer. A densification project on a network that had been previously installed could have only a service line without any additional mains.**

1.2.4 **See response to question 1.2.1.**

Nil Marginal Costs

2. Reference: Exhibit C-OC-0023, Exhibit WM-2, p 1 to 3.

Preamble:

Tables 1 to 3, long-run marginal costs proposed by OC.

Question:

2.1 Please explain why the following costs should not apply the first year:

2.1.1 "Cost of Mailing a bill", for all markets.

2.1.2 "Cost of reading a meter", for all markets.

2.1.3 "Annual cost for cashing a payment", for all markets.

2.1.4 "Cost of processing a standard call", for Residential and CII markets.

2.1.5 "Cost of Bad Debts" and "Collection and recovery costs", for Residential and CII markets.

2.1.6 "Customer retention costs – Major accounts", for the CII market, and "Customer retention costs – Major industries", for the Major Industries market.

Answer:

2.1 **Mr. Marcus prepared his chart somewhat differently than Mr. Overcast, as Mr. Marcus included one-time costs on the left side of the column and ongoing costs on the right side of the column. The items 2.1.1 through 2.1.6 are not one-time costs and therefore not in the first column, but Mr. Marcus agrees that all of items 2.1.1 through 2.1.6 would be applicable in year 1.**

Question:

2.2 Please explain why the "Cost of bad debts" are nil for Year 2 and subsequent years, for Residential and CII markets.

Answer:

2.2 **As noted in the Response to 1.1 of the Demande de renseignements n° 1 de la Régie à OC, Mr. Marcus believes that bad debt costs are not marginal costs of current customers, but costs of customers who left the system without**

paying their full cost (OC Expert Report, p. 8). They are thus revenue-related (and not long-run marginal costs applicable for years 2 and beyond). While Mr. Marcus left those costs out of the calculation, as not strictly being marginal costs of operation related to customers, he could envisage including them in a profitability analysis in a similar way to his inclusion of "Collection and Recovery Costs."