

**MODIFIED METHODOLOGY  
FOR EVALUATING THE PROFITABILITY  
OF DEVELOPMENT PROJECTS  
("NEW METHOD")**

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## **INTRODUCTION**

### **BACKGROUND**

On March 24 and 27, 2017, Gaz Métro Limited Partnership ("Gaz Métro") received requests for information ("RFI") from the Régie de l'énergie (the "Régie") and the intervenors. In its letter B-0237 dated April 4, 2017, Gaz Métro proposed a new procedural approach to the Régie that would optimize an analysis of the various issues the participants raised in the questions they asked in the context of the RFIs. Among other things, Gaz Métro indicated in this letter that it was able to identify the issues revealed by an examination of the parameters used in the development project profitability evaluation tool<sup>1</sup> (revenue requirement tool).<sup>2</sup> In that same letter, Gaz Métro asked for more time to respond to the RFIs and to file amended evidence along with an expert report. In its letter A-0107, the Régie accepted Gaz Métro's request for time.

### **EXPERT FINDINGS AND RECOMMENDATIONS**

Gaz Métro retained the services of Mr. Russel Feingold from the firm Black & Veatch. The Black & Veatch report is filed as part of Exhibit Gaz Métro-7, Document 5. Note that Gaz Métro endorses all of the recommendations set forth in the Black & Veatch report.

In its report, Black & Veatch presents a number of findings on the so-called "current"<sup>3</sup> method for evaluating the profitability of development projects (the "Current Method"), including the acceptable minimum threshold (the "AMT Method"),<sup>4</sup> notably that they are very much in line with other similar utilities.<sup>5</sup>

Black & Veatch further recommends in its report to:<sup>6</sup>

1. continue using a 40-year project evaluation period, which is the most common evaluation period among similar utilities;
2. include only direct incremental costs (service lines, connections, meters, etc.) when analyzing the individual profitability of a development project. This would promote a rate drop through the economies of scale inherent to each project that generates revenues in excess of the incremental costs;

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<sup>1</sup> Includes all of the development plan sales

<sup>2</sup> For a more detailed explanation of the origins of the profitability evaluation tool's name, see the response to question 2.1 of the Régie's request for information no. 9 (B-0253), Gaz Métro-9, Document 1).

<sup>3</sup> Method in force before Gaz Métro began to apply the AMT Method in the fall of 2015.

<sup>4</sup> See exhibits B-0178, Gaz Métro-7, Document 1 and B-220, Gaz Métro-7, Document 2.

<sup>5</sup> See section 4 of the Black & Veatch report, Exhibit Gaz Métro-7, Document 5.

<sup>6</sup> See section 5 of the Black & Veatch report, Exhibit Gaz Métro-7, Document 5.

3. include the indirect development costs (general corporate and contractor expenses), which are the same for all new customers, as well as the reinforcement costs with respect to the development plan's overall profitability;
4. use the profitability index ("PI") approach used by Fortis BC, Union Gas Limited and Enbridge Gas Distribution instead of the AMT Method, and this so as to bring the project acceptance threshold in line with the approach currently used by similar gas utilities in Canada.

Gaz Métro therefore emphasizes that the methodology for evaluating the profitability and acceptance criteria of development projects proposed by Black & Veatch is based on a number of elements that are similar to those of the AMT Method that Gaz Métro presented in Exhibits B-0178, Gaz Métro-7, Document 1 and B-0220, Gaz Métro-7, Document 2. However, the modified methodology for evaluating the profitability and acceptance criteria of projects presented in this document (the "New Method")<sup>7</sup> has more in common with the method used by other Canadian gas distributors, and is supported by the economic and management accounting principles that underly the investment decisions.

Gaz Métro separated its evidence into two main sections. The first deals with the profitability evaluation, while the second concerns the development project acceptance criteria.

#### **1. WHAT ARE THE INPUTS AND HOW ARE THEY CONSIDERED IN THE PROFITABILITY EVALUATION?**

A number of inputs are used when evaluating a project's profitability. Based on the economic principles underlying the investment decisions,<sup>8</sup> Black & Veatch made a number of recommendations in its report regarding what inputs to consider when evaluating the profitability of development projects.

Black & Veatch states, among other things, that the calculation of a project's profitability must take the relevant costs into consideration, namely the incremental costs generated by the project in question. The inclusion of irrelevant costs, in other words costs that remain fixed no matter what

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<sup>7</sup> It should be noted that projects involving investments exceeding \$1.5 million will continue to be presented to the Régie on a case-by-case basis in accordance with section 73, clause (1) of the first paragraph of the *Act respecting the Régie de l'énergie*.

<sup>8</sup> See section 2 of the Black & Veatch report in Exhibit Gaz Métro-7, Document 5.

decision is made in respect of the project, could prevent the completion of projects that would have a positive marginal income and reduce rates for all customers.

Relying on the recommendations of Black & Veatch, Gaz Métro presents Table 1, which compares the inputs used to evaluate the profitability in the Current Method,<sup>9</sup> the AMT Method<sup>10</sup> and the New Method.

**Table 1 – Inputs used for each of the profitability evaluation methods**

Inputs	Current Method	AMT Method	New Method
<b>Evaluation Period</b>	40 years		
<b>Revenues</b>	The revenues of customers ready to sign a contract and potential customers are considered in the profitability calculation.	Only those revenues contractually agreed to are taken into consideration in the profitability calculation.	
<b>Costs of service lines, connections and meters</b>	The direct costs of the service lines, connections and meters are included and depreciated based on the appropriate book depreciation. Taxes as well as the financial return on the undepreciated balance of the assets are also taken into consideration.		

Inputs	Current Method	AMT Method	New Method
<b>Financial Assistance</b>	Financial assistance (RCP and CASEP) is included in the profitability analysis.		
<b>UMQ Fees</b>	Two percent of the direct costs of service lines and connections is included in the profitability calculation.		
<b>Marginal costs of long-term service deliveries</b>	These operating costs are considered in the profitability evaluation on a project-by-project basis. The marginal costs of the long-term service deliveries applied to the profitability analysis were addressed in Phase 3A of this matter.		

<sup>9</sup> Method that was applied before Gaz Métro began using the AMT Method in the fall of 2015.

<sup>10</sup> Method presented in January 2017 in Exhibit B-0178, Gaz Métro-7, Document 1.

Inputs	Current Method	AMT Method	New Method
<b>Provincial public utilities tax</b>	These costs are considered in the profitability evaluation on a project-by-project basis.		
<b>Annual royalties payable to the Régie</b>	These costs are considered in the profitability evaluation on a project-by-project basis.		
<b>Annual royalties payable to the Régie du bâtiment</b>	These costs are considered in the profitability evaluation on a project-by-project basis.		
<b>General corporate expenses</b>	These costs are considered in the profitability evaluation on a project-by-project basis.		These costs are considered in the overall profitability of the development plan.
<b>General contractor expenses</b>	These costs are considered in the profitability evaluation on a project-by-project basis.		These costs are considered in the overall profitability of the development plan.
<b>Contribution</b>	A contribution may be demanded if the IRR < PCC.	For projects with no potential for profitability over time, a contribution may be demanded if the IRR < PCC.  For projects with potential for profitability over time, a contribution may be demanded if the IRR < AMT.	For projects with no potential for profitability over time, a contribution may be demanded if the PI < 1.  For projects with potential for profitability over time, a contribution may be demanded if the PI < 0,8.
<b>Distribution system reinforcement</b>	These costs are considered in the overall profitability of the development plan.		

**1.1 WHAT IS THE EVALUATION PERIOD FOR PROJECTS?**

From the outset, Gaz Métro states that it did not change the project evaluation period in the New Method.

In its report, Black & Veatch recommends continuing to use the 40-year evaluation period, which is the most common evaluation period among similar utilities. The weighted average useful life of assets, moreover, is entirely coherent with a 40-year project evaluation period.<sup>11</sup> Gaz Métro is

<sup>11</sup> See the response to question 7.1 of the CFIB’s request for information no. 2 (B-0253, Gaz Métro-9, Document 3).

moreover confident that a vast majority of natural gas connections will remain in use for more than 40 years. The competitive position natural gas currently enjoys as opposed to electricity and fuel oil (which is an important factor when choosing an energy source), combined with the assumed evolution of this competitive position on all markets in the upcoming years, all point to natural gas gaining the advantage.

Finally, neither climate change nor the government's commitment to reducing greenhouse gases ("GHGs") cast any doubt on the 40-year horizon that is customarily used for economic analyses. It is important to note that natural gas can contribute to sustainable development. To reach the provincial and federal GHG emission reduction targets and develop sustainable energy solutions, both government levels have implemented measures that point to considerable use of natural gas.<sup>12</sup>

#### **1.2 HOW ARE PROJECTED REVENUES INTEGRATED INTO THE PROFITABILITY ANALYSIS?**

Contrary to what is the case with the Current Method, Gaz Métro only considers the revenues of customers having made contractual commitments when analyzing a project's profitability using the AMT Method or the New Method. This way, the project's profitability analysis is more systematic, as it excludes potential customers.

Furthermore, volumes are estimated based on the required consumption needs determined jointly by the customer and Gaz Métro, while the distribution rate unit prices for each customer is based on their specific forecasted consumption.<sup>13</sup>

Finally, unlike the similar gas utilities surveyed in the Black & Veatch report, Gaz Métro also anticipates, in the overall profitability of the development plant, that a proportion of the projects will be cancelled, that some meters will never be activated, and that other meters will not record continuous consumption over 40 years.<sup>14</sup>

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<sup>12</sup> *Idem.*

<sup>13</sup> See the response to question 2.7 of the Régie's request for information no. 9 (B-0253, Gaz Métro-9, Document 1).

<sup>14</sup> For more information, see exhibits B-0146, Gaz Métro-3, Document 2, and B-0217, Gaz Métro-3, Document 6 in R-3970-2016, and in paragraph 74 of decision D-2016-191.

### 1.3 WHAT COSTS ARE CONSIDERED IN THE PROFITABILITY EVALUATION?

In its report, Black & Veatch breaks down the costs into three categories: direct incremental costs, indirect development costs and incremental costs of reinforcing the distribution network.<sup>15</sup>

#### **Direct Incremental Costs**

Black & Veatch recommends that Gaz Métro include the direct incremental costs in the profitability evaluation of each individual project. These costs must be directly attributed to each new customer, seeing as they are specifically incurred by Gaz Métro in order to serve it (service lines, connection, meter, etc.) and must be considered in the profitability evaluation on a project-by-project basis.

#### **Indirect Development Costs**

Indirect development costs are those costs that cannot be directly attributed to a new customer, but are common to all new projects due to the fact that they support the activities of connecting new customers to Gaz Métro. For Gaz Métro, indirect development costs are the general corporate and contractor expenses. According to Black & Veatch, given that these costs remain relatively stable for a certain group of projects authorized annually, are incurred on an annual basis, and are not directly impacted by the number of new customers or new projects, they must be considered in the overall profitability of the development plan.

If these indirect costs are assigned on a project-by-project basis, some projects taken individually might not meet the profitability acceptance criteria. This situation would prevent Gaz Métro from enjoying economies of scale, and all customers from enjoying the resulting rate reductions. The example presented in section 4.5 of the Black & Veatch report clearly illustrates this point.<sup>16</sup>

#### **Incremental Costs of Reinforcing the Distribution Network**

Reinforcement investments increase the network's capacity and flexibility. These investments should be assumed by the customers that create the need. A reinforcement may, however, be required to serve new customers, potential future customers or existing customers wanting to

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<sup>15</sup> See section 5.3.3 of the Black & Veatch report, Exhibit Gaz Métro-7, Document 5.

<sup>16</sup> See section 4.5, pages 31 and 32, of the Black & Veatch report, Exhibit Gaz Métro-7, Document 5.



increase the volume of their current consumption. Black & Veatch recommends that reinforcement costs be taken into account in the overall profitability of the development plan.<sup>17</sup>

#### **1.4 WHAT DIRECT INCREMENTAL COSTS ARE CONSIDERED?**

The following sections specify the direct incremental costs to consider when evaluating a project's profitability. As mentioned earlier, Black & Veatch recommends that these direct costs be directly assigned to each new customer, seeing as they are specifically incurred by Gaz Métro to serve the customer and are considered in the profitability evaluation on a project-by-project basis.

##### **1.4.1 Service Lines, Connections and Meters**

Gaz Métro specifies that it makes no change to the inclusion of these inputs in the New Method. In the case of the Current Method, the AMT Method and the New Method, the direct costs of service lines, connections and meters are included in the profitability evaluation. As explained in the response to question 2.4 of the Régie's request for information no. 9 (B-0253, Gaz Métro-9, Document 1), Gaz Métro uses depreciation periods that are based on a "pool" of assets. This way, the depreciation periods are not the same as the useful life of assets. As specified in 1.1, the weighted average useful life of assets is entirely coherent with a 40-year project evaluation period.

As a result, the profitability evaluation model does not provide for any reinvestment of assets whose depreciation period is less than 40 years. The study of amortization rates (R-3879-2014, B-0466, Gaz Métro-107, Document 11) takes into account, among other things, the fact that it is a "pool" of assets: for each category of property, some of the assets were acquired a number of years ago (already in use) and new assets are added each year. It is the average useful life of all of these assets (old and new) that is calculated to establish the depreciation period of each category.

It is also important to note that among the similar gas utilities surveyed by Black & Veatch, not one included any reinvestment when establishing a project's capital costs.<sup>18</sup>

Lastly, taxes as well as the financial return on the undepreciated balance of the assets will also be considered in the profitability evaluation.

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<sup>17</sup> See section 4.5 of the Black & Veatch report, Exhibit Gaz Métro-7, Document 5.

<sup>18</sup> See section 3.5.5 of the Black & Veatch report, Exhibit Gaz Métro-7, Document 5.

#### **1.4.2 Financial Assistance**

Gaz Métro maintains that there is no difference between the Current Method, the AMT Method and the New Method as regards the manner in which financial assistance is dealt with in the profitability evaluation.

Gaz Métro considers financial assistance granted under the Rebate Consumption Program (“RCP”) and the Assistance Account for the Substitution of Pollutant Energy Sources (“CASEP”) when evaluating a project’s profitability.<sup>19</sup>

Financial assistance granted under the RCP, for its part, is generally considered in the costs of a project’s first year and is amortized on a straight-line basis over ten (10) years. On the other hand, CASEP is used to complement financial assistance that is granted to a customer or as an amount that will reduce the external contribution required in order to connect a customer currently using a more polluting energy source. The CASEP amounts are therefore also considered in the profitability evaluation of projects.

#### **1.4.3 Fees of the Union des municipalités du Québec**

Gaz Métro maintains that there is no difference between the Current Method, the AMT Method and the New Method as regards processing of the fees charged by the Union des municipalités du Québec (“UMQ”).

Gaz Métro reiterates that it includes an amount representing 2% of the basic service line and connection costs in the profitability analysis if the work is being carried out on the territory of one of the municipalities that has signed the accord between Gaz Métro and UMQ.<sup>20</sup> Specific fees may also be included for projects carried out in other municipalities.

#### **1.4.4 Marginal Costs of Long-Term Deliveries**

Gaz Métro maintains that there is no difference between the Current Method, the AMT Method and the New Method as regards including these operating costs in the profitability evaluation.

Besides, the marginal costs of the long-term service deliveries that are to be considered in the profitability analysis were addressed in Phase 3A of this matter.

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<sup>19</sup> See the response to question 2.6 of the Régie’s request for information no. 9 (B-0253, Gaz Métro-9, Document 1).

<sup>20</sup> See the response to question 7.2 of the OC’s request for information no. 1 (B-0258, Gaz Métro-9, Document 4).

#### **1.4.5 Provincial Public Utilities Tax, and Annual Royalties Payable to the Régie de l'énergie and the régie du bâtiment**

Gaz Métro maintains that there is no difference between the Current Method, the AMT Method and the New Method.

The operating costs relating to the provincial public utilities tax<sup>21</sup> and the annual royalties payable to the Régie de l'énergie<sup>22</sup> and the Régie du bâtiment<sup>23</sup> are included in the profitability analysis and processed on a project-by-project basis.<sup>24</sup>

#### **1.5 WHAT INDIRECT DEVELOPMENT COSTS ARE CONSIDERED?**

Black & Veatch recommends that the general corporate and contractor expenses be processed as indirect development costs. These indirect development costs are common to all new projects, seeing as they support the activities of connecting Gaz Métro's new customers. What is more, these costs remain relatively stable for a certain group of projects authorized annually, are incurred on an annual basis, and are not directly impacted by the number of new customers or new projects. For these reasons, Black & Veatch recommends that these indirect development costs be considered in the overall profitability of the development plan.<sup>25</sup>

Consequently, one of the major changes brought by the New Method as compared to the Current Method and the AMT Method regards the general corporate and contractor expenses. Gaz Métro endorses Black & Veatch's recommendation, and under the New Method it considers the general expenses in the overall profitability of the development plan instead of on a project-by-project basis.

#### **1.6 HOW ARE THE CUSTOMER CONTRIBUTIONS CONSIDERED?**

Gaz Métro states that the New Method is different from the AMT Method in terms of customer contributions.<sup>26</sup>

In the New Method, Gaz Métro may demand a contribution under two circumstances.

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<sup>21</sup> Corresponds to a margin of 1.5 %/year of the net fixed assets (excluding commercial programs).

<sup>22</sup> Correspond to \$0.60455/10<sup>3</sup>m<sup>3</sup> delivered.

<sup>23</sup> Correspond to \$0.45600/10<sup>3</sup>m<sup>3</sup> delivered.

<sup>24</sup> See the response to question 7.2 of the OC's request for information no. 1 (B-0258, Gaz Métro 9, Document 4).

<sup>25</sup> See section 5.3.3 of the Black & Veatch report, Exhibit Gaz Métro-7, Document 5.

<sup>26</sup> See the responses to questions 1.10, 1.11, 17.1, 17.4 and 17.5 of the Régie's request for information no. 9 (B-0253, Gaz Métro-9, Document 1).

1. If the *a priori* profitability of a potentially profitable development project fails to achieve a PI of 0.8. In such a situation, Gaz Métro may demand a contribution so as to achieve a PI of 0.8. Such development projects must have a potential for future densification allowing for a PI of 1.
2. If the *a priori profitability* of a development project does not reach a PI of 1 and the potential for future densification does not lead to believe that a PI of 1 can be reached, Gaz Métro may demand a contribution, as the extension program is deemed unprofitable. The amount of the contribution makes up for the difference between the *a priori* profitability and a PI of 1.

#### **1.7 HOW ARE THE DISTRIBUTION NETWORK REINFORCEMENT COSTS CONSIDERED?**

Gaz Métro maintains that there is no difference between the Current Method, the AMT Method and the New Method as regards the way in which the distribution network reinforcements are processed. As mentioned earlier, Black & Veatch recommends that the reinforcement costs be considered in the overall profitability of the development plan.

Gaz Métro provides for a reinforcement budget in its development plan covering the costs associated with reinforcing the distribution network's capacity and making it possible to connect customers to the existing network. The distribution network reinforcement investments also aim to increase the distribution network's operational capacity and flexibility. It may be necessary to reinforce the distribution network in order to serve new customers, potential future customers or customers that want to increase their current consumption volume. Reinforcement costs are considered globally in the profitability evaluation of the development plan, not on a project-by-project basis.<sup>27</sup>

#### **2. WHAT ARE THE DEVELOPMENT PROJECTS' ACCEPTANCE CRITERIA?**

Gaz Métro presents to the Régie the development project acceptance criteria of the New Method that will maximize the positive impacts for customers. In its report, Black & Veatch recommends adopting the profitability index approach used by Fortis BC, Union Gas Limited and Enbridge Gas

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<sup>27</sup> See the responses to questions 8.3 and 8.4 in the Régie's request for information no. 9 (B-0253, Gaz Métro-9, Document 1).

Distribution.<sup>28</sup> So, instead of referring to an acceptable minimum threshold (“AMT”), Gaz Métro uses a PI in the New Method.

The PI corresponds to the ratio between the present value of the project’s net cash flows and the initial investment in the project.<sup>29</sup> Contrary to the AMT, the PI helps ensure the long-term stability of the profitability evaluation of Gaz Métro’s projects, independent of any fluctuation in the prospective capital costs (“PCC”).

## **2.1 WHAT IS THE ACCEPTANCE CRITERION FOR PROJECTS WITH NO DENSIFICATION POTENTIAL?**

For individual projects with no densification potential, the PI must be greater than or equal to 1, which corresponds to an internal rate of return (“IRR”) on the PCC of 5.28%.<sup>30</sup> If the project has no densification potential and the PI is less than 1, Gaz Métro may demand a contribution from the customer in order to achieve a PI of 1. Gaz Métro reiterates that it only considers the revenues of customers that have contractually agreed to achieve a PI criteria of 1 in the New Method.

## **2.2 WHAT IS THE ACCEPTANCE CRITERION FOR PROJECTS WITH DENSIFICATION POTENTIAL?**

For individual projects with densification potential, the PI must be greater than or equal to 0.8, which corresponds to an IRR of approximately 3.70%,<sup>31</sup> which is higher than the AMT criterion of 2%. It is important to note that the densification potential must nonetheless allow to achieve a PI of 1.

If the PI is lower than 0.8, even considering only the revenues of customers that have contractually committed themselves, Gaz Métro may demand a contribution from the customer in order to achieve a PI of 0.8.

As indicated in the Black & Veatch report,<sup>32</sup> Fortis BC, Union Gas Limited and Enbridge Gas Distribution include potential customers in their profitability evaluation of a project with a 5 or 10 year horizon. Consequently, potential revenues are considered to achieve a PI of 0.8. Gaz Métro specifies that it proposes an even more conservative approach than these three utilities, seeing

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<sup>28</sup> See section 5.3.1 of the Black & Veatch report, Exhibit Gaz Métro-7, Document 5.

<sup>29</sup> See the responses to questions 20.1 and 21.1 of the Régie’s request for information no. 9 (B-0253, Gaz Métro-9, Document 1).

<sup>30</sup> *Idem.*

<sup>31</sup> *Idem.*

<sup>32</sup> See section 3.5.3 of the Black & Veatch report, Exhibit Gaz Métro-7, Document 5.

as it considers only the revenues of customers that have contractually agreed to achieve a PI of 0.8 in the New Method.

### **2.3 CAN RCP ASSISTANCE BE GRANTED TO THE CUSTOMERS OF PROJECTS WITH DENSIFICATION POTENTIAL?**

Gaz Métro specifies that there is no difference between the AMT Method and the New Method for processing the RCP financial assistance granted to development projects with densification potential.<sup>33</sup>

Gaz Métro intends to offer RCP financial assistance to development projects with densification potential that have a profitability index between 0.8 and 1, and will include the cost of financial assistance in the profitability calculation.

### **2.4 HOW ARE EXCEPTIONS HANDLED UNDER THE NEW METHOD?**

One difference with the AMT Method is the handling of exceptions, namely industrial park development and road repaving projects. Under the New Method, Gaz Métro will set aside a budget of approximately \$1.5 million that may be accessed to achieve a PI of 0.8 for industrial park development and road repaving projects with future densification potential. This budget will draw from the overall profitability of the development plan.

### **2.5 WHAT LEVEL OF PROFITABILITY MUST THE DEVELOPMENT PLAN ACHIEVE?**

The development must achieve a minimum profitability index greater than or equal to 1.1, which corresponds to an IRR of approximately 6.01 %.<sup>34</sup>

Consequently, the sum of the development project investments,<sup>35</sup> general corporate and contractor expenses, distribution reinforcement costs, and investments made in exceptional cases must, at the very least, allow to achieve a PI of 1.1.

This being the case, Gaz Métro intends to continue setting annual profitability goals above this minimum threshold so as to accentuate the downward pressure on distribution rates,<sup>36</sup> and this for the benefit of customers.

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<sup>33</sup> See the response to question 18.4 of the Régie's request for information no. 9 (B-0253, Gaz Métro-9, Document 1).

<sup>34</sup> See the responses to questions 20.1 and 21.1 of the Régie's request for information no. 9 (B-0253, Gaz Métro-9, Document 1).

<sup>35</sup> Includes all sales (on and off network) under the development plan.

<sup>36</sup> See the responses to questions 1.3, 1.4 and 1.12 of the Régie's request for information no. 9 (B-0253, Gaz Métro-9,

## **2.6 HAS AN ADJUSTMENT BEEN MADE TO THE GOVERNANCE PROCESS?**

Gaz Métro points out that the systematic governance process for each step leading to the realization of the development projects, from the evaluation of the overall growth potential to the densification of development projects, remains intact. This internal governance process was presented in Exhibit B-0178, Gaz Métro-7, Document 1, and specifications were provided in Exhibit B-0220, Gaz Métro-7, Document 2, as well as in the responses to the requests for information.<sup>37</sup>

## **2.7 WILL THERE BE A SPECIFIC FOLLOW-UP FOR PROJECTS WITH A PI BETWEEN 0.8 AND 1?**

Gaz Métro will improve the *a posteriori* profitability analysis that is filed with the annual report. More specifically, Gaz Métro will add the *a posteriori* profitability analysis six years later for development projects whose PI is between 0.8 and 1, and for industrial park and road repaving projects. Consequently, Gaz Métro will be able to densify all of these projects and make adjustments when necessary.

## **3. WHEN WILL THE NEW METHOD BE IMPLEMENTED?**

Gaz Métro intends to implement the changes provided for in the New Method as soon as it receives the Régie's decision and makes the necessary computer adjustments.

## **4. IN CONCLUSION, WHAT ARE THE MAIN ANTICIPATED CHANGES?**

After Black & Veatch made its recommendations, Gaz Métro presented a New Method that makes two main changes to the Current Method and the AMT Method.

The first change regards the use of an approach based on the PI used by Fortis BC, Union Gas Limited and Enbridge Gas Distribution, rather than the AMT Method, thus aligning the project acceptance threshold with the approach currently used by similar gas utilities in Canada.

The second change concerns the general corporate and contractor expenses that will now be considered in the overall profitability of the development plan, seeing as they are common to all new projects and that they support the activities of connecting new customers. Gaz Métro reiterates that these costs remain relatively stable for a certain group of projects authorized

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Document 1).

<sup>37</sup> See the responses to questions 6.3, 12.4, 13.1, 14.6, 14.9, 15.1, 16.1, 16.2, 18.1 and 18.3 of the Régie's request for information no. 9 (B-0253, Gaz Métro-9, Document 1).

annually, are incurred on an annual basis, and are not directly impacted by the number of new customers or new projects.

Briefly put, Gaz Métro has presented a New Method that is more aligned with the other Canadian gas distributors, in addition to being supported by the economic and management accounting principals that underlie investment decisions.

## **CONCLUSION**

**Gaz Métro requests that the Régie:**

- **take note of the modified methodology for evaluating the profitability and acceptance criteria for development projects (the “New Method”) described in this Exhibit.**