

**RESPONSE OF GAZ MÉTRO LIMITED PARTNERSHIP (GAZ MÉTRO)
TO THE REQUEST FOR INFORMATION NO. 3 PRESENTED TO GAZ MÉTRO BY
STRATÉGIES ÉNERGÉTIQUES (S.É.)
ASSOCIATION QUÉBÉCOISE DE LUTTE CONTRE LA POLLUTION ATMOSPHÉRIQUE
(AQLPA)**

Introductory Commentary

Gaz Métro notes that, concurrently with the filing of the responses to this request for information, Gaz Métro is also filing Exhibit Gaz Métro-7, Document 4, which describes a new approach to the evaluation of profitability. The content of this new exhibit provides additional information to be taken into consideration by the intervenor in its analysis of Gaz Métro's responses.

**METHODOLOGY FOR EVALUATING THE PROFITABILITY
OF SYSTEM EXTENSION PROJECTS**

REQUEST FOR INFORMATION OF S.É.-AQLPA-3-1

Reference: GAZ MÉTRO, R-3867-2013, Phase 3 B, Exhibit B-0178, Gaz Métro-7, Document 1, page 3, lines 15 and 16:

Gaz Métro therefore has a methodology for evaluating the profitability of system extension projects (the "methodology").

Preamble:

The Régie currently has the necessary flexibility to authorize, under section 73 (or to recognize as prudently acquired, under section 49) unprofitable investment projects. Therefore, for instance:

- ❑ In R-3937-2015, in its decision D-2015-200, http://publicsde.regieenergie.qc.ca/projets/328/DocPrj/R-3937-2015-A-0006-Dec-Dec-2015_12_10.pdf, the Régie authorized a system extension project in the Bellechasse region, for which the break-even rate was evaluated at 9.42 years.

- ❑ In R-3958-2015, in its decision D-2016-041, http://publicsde.regieenergie.qc.ca/projets/352/DocPrj/R-3958-2015-A-0006-Dec-Dec-2016_03_18.pdf, the Régie authorized a system extension project in the Asbestos region for which the break-even rate was evaluated at 6.29 years. The Régie even noted therein that:

[TRANSLATION]

*[46] SÉ-AQLPA does not oppose the Project, but notes that it offers marginal profitability. However, a **future expansion of the industrial park's clientele**, if achieved, could improve profitability and all of the environmental advantages. [...]*

[48] Furthermore, Gaz Métro takes note of the SÉ-AQLPA's support of the

*Project. However, it must reiterate that **the attainment of a break-even rate in five years is not a criterion enacted by the Régie by which Gaz Métro is bound, but rather a measurement used, among several others, to assess the Project. As proof, in recent years the Régie accepted applications relating to investment projects for which the break-even rate was more than five years.***

To the same effect, in R-3998-2017, Gaz Métro rightly stated the following in **GAZ MÉTRO**, R-3898-2017, Exhibit B-0023, Arguments, paras. 46 d,e,f:

[TRANSLATION]

d) **achieving the PCC is not a sine qua non condition to the authorization of an investment; [...]**

e) **the Régie has the power to authorize a project that does not meet this criterion, and it has used that power in the past; [...]**

f) *the determination of what is prudently acquired and useful within the meaning of Section 49 (1°) of the Act respecting the Régie de l'énergie **requires an examination of all relevant circumstances** according to the applicable rules of law defined by both the Régie and the Supreme Court of Canada; [...]*

and at paragraphs 76 and 70 of those same arguments:

[TRANSLATION]

76. *In its implementation of this “profitability criterion”, the Régie has, in the course of the various applications for the approval of investments of more than \$1.5 million, **evaluated, with a certain flexibility, the various particular circumstances** of each project submitted for approval;*

Decision 2004-197.

Decision 2013-160.

79. *Thus, while the PCC criterion does represent an objective to attain, the Régie did not hesitate to **specify that it was neither unique nor inescapable, and that the Régie retains its authority to determine the merits of a project;***

See, among others, Decision D97-25, p. 16; D-2013-160, paras. 57 to 62; Decision D-2004-197, p. 11, 21.

Question(s):

- (a) If your proposed methodology for evaluating the profitability of extension projects is approved for this case, what will remain of the Régie’s current flexibility to authorize (or to recognize as prudently acquired) unprofitable projects? Are you not compromising this flexibility?

Response:

It is mainly to be coherent with the position taken in R-3998-2017 that Gaz Métro is not asking the Régie to “approve” the methodology for evaluating the profitability of system extension projects, but rather to “acknowledge” it. Gaz Métro believes that the current wording of its

application does not compromise the flexibility referred to by the intervenor. In that respect, Gaz Métro refers to its response to question 1.1 in the ACIG's request for information no. 2 in Exhibit Gaz Métro-9, Document 2.

- (b) In your re-amended application B-0176 dated January 20, 2017, in the last paragraph, you ask the Régie to "ACKNOWLEDGE the methodology for the assessment of the profitability of network extension projects". What are you seeking from the Régie in that respect, (i) for the Régie to acknowledge that you are using this methodology, without deciding whether it is good or bad, (ii) for the Régie to rule that it is a good methodology, (iii) for Gaz Métro to be bound by that methodology in future, or (iv) for the Régie to be bound by that methodology in future? Please elaborate.

Response:

Please refer to the response to question 1.1 of the ACIG's request for information no. 2, Exhibit Gaz Métro-9, Document 2.

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

References:

- (i) **GAZ MÉTRO**, R-3867-2013, Phase 3 B, Exhibit B-0178, Gaz Métro-7, Document 1, page 3, lines 15 and 16:

Gaz Métro therefore has a methodology for evaluating the profitability of system extension projects (the "methodology").

- (ii) *Regulation respecting the conditions and cases where authorization is required from the Régie de l'énergie*, ss. 1, 3, 5.

- (iii) **GAZ MÉTRO**, File R-3898-2017, Exhibit B-0023, Arguments, para. 37:

[TRANSLATION]

*it appears from the Regulation, the Guide and its precedents that the Régie has decided to **grant GMLP the discretion** to select Extension Projects to carry out (within an approved budget) on an aggregate, forward-looking basis in the course of a rate case;*

- (iv) **GAZ MÉTRO**, R-3898-2017, Exhibit B-0023, Arguments, para. 46c:

[TRANSLATION]

*the authorization of Extension Projects **does not impose any obligation to demonstrate to the Régie, individually for each Extension Project** included in that budget, that a specific profitability criterion has been achieved as a condition precedent to such projects being approved;*

Preamble:

In R-3898-2017, at references (iii) and (iv), Gaz Métro expanded on the fact, and rightly so, that pursuant to current law (reference (ii)), investment projects of less than \$1.5 million are aggregated for submission to the Régie (for authorization or recognition as prudently acquired), such that Gaz Métro has the discretion to include in that aggregation unprofitable projects, which are offset by profitable projects.

Question(s):

- (a) If your proposed methodology for evaluating the profitability of extension projects is approved for this case, what will remain of Gaz Métro's current flexibility to include, in aggregated projects valued at less than \$1.5 million (submitted for authorization or recognition as prudently acquired), unprofitable projects along with profitable projects? Are you not compromising your own flexibility?

Response:

Please refer to the response to question 3-1(a).

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

Reference: GAZ MÉTRO, R-3867-2013, Phase 3 B, Exhibit B-0178, Gaz Métro-7, Document 1, page 3, lines 15 and 16:

Gaz Métro therefore has a methodology for evaluating the profitability of system extension projects (the "methodology").

Question(s):

- (a) On another note, have you considered basing your methodology for evaluating the profitability of extension projects on a probabilistic approach? Please elaborate.

Response:

Gaz Métro has not considered a probabilistic approach, as each extension project is evaluated individually, based on specific variables, and will be approved under the PCC if it allows for the PCC to be achieved or exceeded.

REQUEST FOR INFORMATION S.É.-AQLPA-3-4

Reference: GAZ MÉTRO, R-3867-2013, Phase 3 B, Exhibit B-0178, Gaz Métro-7, Document 1, page 13, lines 15-17:

Creation of an extension fund

In decision G-147-16 rendered on September 16, 2016, Fortis BC obtained approval for a pilot project to create a \$1 million extension fund designed to level the playing field between new residential customers in lower density areas and those in urban ones.

Question(s):

- (a) Please compare Fortis BC's pilot project with Gaz Métro's *Compte d'aide à la substitution d'énergies plus polluantes* (assistance account for the substitution of pollutant energy sources or CASEP).

Response:

While the annual amount allocated is \$1 million in both cases, the purpose in each instance is quite different. Indeed, Fortis BC's pilot project aims at levelling the playing field between new residential customers in lower density areas and those in urban ones, while Gaz Métro's CASEP serves as an "external contribution" to make projects for the conversion of oil products, coal, wood, etc. to natural gas profitable for all customers. This way, eligibility as well as the terms and conditions for the application and allocation of financial assistance also differ between Fortis BC's pilot project and Gaz Métro's CASEP.

REQUEST FOR INFORMATION S.É.-AQLPA-3-5

Reference: GAZ MÉTRO, R-3867-2013, Phase 3 B, Exhibit B-0220, Gaz Métro-7, Document 2, page 5, lines 13-15:

The objective is to be able to rationally determine if the extension project will more likely than not achieve and, in time, exceed the PCC.

Question(s):

- (a) Please specify whether "likely" means more than 80% and "unlikely" less than 20%, or whether "likely" means more than 50% and "unlikely" less than 50%?

Response:

In the third phase of the governance process presented in January 2017 in Exhibit-0178, Gaz Métro-7, Document 1, Gaz Métro reconciles the evaluation of the potential for future densification and the sensitivity analyses conducted in the second phase. Gaz Métro applies a balance of probabilities approach, which means that the extension project is authorized where it is more likely than not that future densification will make it possible to achieve the PCC. Where the data show a reasonable possibility of future profitability, the extension project is authorized.

REQUEST FOR INFORMATION S.É.-AQLPA-3-6

References: GAZ MÉTRO, R-3867-2013, Phase 3 B, Exhibit B-0220, Gaz Métro-7, Document 2, page 7 (table 1, business market, notes 6 and 7) and page 8 (table 2, residential market, notes 9 and 10):

6 The profitability rate of a typical extension project is estimated at 2.87%. Densifying the extension project would result in the PCC being achieved or exceeded.

7 The profitability rate of the extension project is estimated at 9.86%.

9 The typical extension project profitability rate is estimated at 3.14%. Densifying the extension project would result in the PCC being achieved or exceeded.

10 The typical extension project profitability rate is estimated at 9.86%.

Question(s):

- (a) How do you explain that the profitability rate for the residential market extension project (3.14%) exceeds the profitability rate for the business market (2.87%), while in both cases the typical extension projects have a rate of 9.86%? Please correct your exhibit as required.

Response:

Gaz Métro indicates that note 10 of Exhibit-0220 should have read as follows: "The typical extension project profitability rate is estimated at 8.40%". Gaz Métro refiled the exhibit with the amendment.

REQUEST FOR INFORMATION S.É.-AQLPA-3-7

References:

- (i) **GAZ MÉTRO**, R-3867-2013, Phase 3 B, Exhibit B-0220, Gaz Métro-7, Document 2, page 12, lines 5 to 7:

*However, Gaz Métro **continues to require** customer contributions for extension projects deemed to be unprofitable. [Emphasis added by SÉ-AQLPA]*

- (ii) **GAZ MÉTRO**, R-3898-2017, Exhibit B-0223, Arguments, paras. 94-95:

[TRANSLATION]

94. Article 4.3.4 does not require the payment of a financial contribution but does provide that the distributor "may, on entering into the contract, agree with the customer on a financial contribution payable by the customer". The payment terms stipulated only apply "when a financial contribution is required", in SCGM's discretion; [Emphasis added by Gaz Métro]

Conditions of Service and Tariff, article 4.3.4

4.3.4 CUSTOMER'S FINANCIAL CONTRIBUTION

If the revenues generated from connection of the service address to the distribution system do not allow the distributor to earn a return on its investment,

based on the estimated cost of the work required, in accordance with the conditions approved by the Régie de l'énergie, the distributor may, on entering into the contract, agree with the customer on a financial contribution payable by the customer.

Any service connection charge under Article 4.3.2 shall be additional to this contribution. The distributor may also agree with the customer on a minimum annual obligation. [...]

95. Thus, the very wording of article 4.3.4 confirms the existence of a certain decision-making autonomy or independence when analyzing extension projects and assuming the related business risks;

c) **RÉGIE DE L'ÉNERGIE**, R-3998-23017, Decision D-2017-032, Parag. 101:

[TRANSLATION]

[101] Although it is true that the panel of first instance indicates that Gaz Métro "shall" seek a contribution, instead of "may", it is clear, from the text of the Decision taken as a whole, that it had no intention of amending the methodology currently employed by Gaz Métro.

Question(s):

(a) Does unprofitable mean below 2.87% for the business market and below 3.14% for the residential market?

Response:

No. Unprofitable means a future profitability below the PCC.

(b) In R-3998-2017, Gaz Métro expanded on the fact, and rightly so, that even in cases of unprofitability, it is not obligated to require a contribution from the customer. Rather, it "may" do so. Please elaborate on the inconsistency between your explanations in references (i) and (ii). Is Gaz Métro's position now that it is obligated, in cases of unprofitability (according to the new methodology), to require a contribution from the customer ?

Response:

No. Unless article 4.3.4 of the *Conditions of Service and Tariff* is amended, the discretion afforded by the use of the word "may" remains. Gaz Métro generally exercises this discretionary power by requiring a contribution from customers in order to achieve the PCC for extension projects when applying the current methodology.

In addition, with respect to the methodology presented in January 2017 in Exhibit-0178, Gaz Métro-7, Document 1, Gaz Métro requires a contribution in two situations. For more details, please refer to response 1.11 of the Régie's request for information no. 9 (Gaz Métro-9, Document 1).

REQUEST FOR INFORMATION S.É.-AQLPA-3-8

References: GAZ MÉTRO, R-3867-2013, Phase 3 B, Exhibits B-0178 and B-0220, Gaz Métro-7, Documents 1 and 2:

Question(s):

- (a) Contrary to Hydro-Québec Distribution, Gaz Métro is not obligated to apply uniform rates throughout a territory. Please elaborate on the possibility that the unprofitability of a system extension would be set-off by raising rates only for customers in the extension zone. Has this possibility ever been applied, or does Gaz Métro consider it as an option?

Response:

Please refer to the response to question 4.1 to the ACIG's request for information no. 2 (Gaz-Métro-9, Document 2).

- (b) How would the possibility described in (a) affect your proposed methodology presented in this matter? Please elaborate.

Response:

Please refer to the response to question 4.1 to the ACIG's request for information no. 2 (Gaz-Métro-9, Document 2).

REQUEST FOR INFORMATION S.É.-AQLPA-3-9

References: GAZ MÉTRO, R-3867-2013, Phase 3 B, Exhibit B-0220, Gaz Métro-7, Document 2, Schedule 1, page 1, LMO, business customers.

Question(s):

- (a) How do you explain that the number of customers on the system in the business market decreases from 1,945 to 1,884 between the first and the second year?

Response:

Sales numbers presented in the development plan include those requiring investments for new customers and additions for which consumption will be recurrent, but also sales relating to ad hoc temporary heating needs for construction. Temporary heating needs means heating for construction sites in wintertime and for the setting of concrete. As temporary heating is required at the beginning of projects, the number of new customers and volumes are generally higher in the first year than in the second year.

REQUEST FOR INFORMATION S.É.-AQLPA-3-10

References: GAZ MÉTRO, R-3867-2013, Phase 3 B, Exhibit B-0220, Gaz Métro-7, Document 2, Schedule 1, pages 1 to 8, total volume in 10³m³.

Question(s):

- (a) How do you explain that the volume presented in all development plans decreases between the first and the second year? Are the results not cumulative ?

Response:

Please refer to the response to question 3.9(a).