

**RESPONSE OF GAZ MÉTRO LIMITED PARTNERSHIP (GAZ MÉTRO) TO THE
ROÉÉ'S REQUEST FOR INFORMATION NO.2**

Gaz Métro - Application regarding the generic matter relating to the allocation of costs and Gaz Métro's rate structure Phase 3 Subject B (Methodology for evaluating the profitability of system extension projects)

RÉGIE DE L'ÉNERGIE - MATTER R-3867-2013 PHASE 3 SUBJECT B

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.

1. References:

- i) R-3867-2013, B-0220, Gaz Métro-7, Document 2, p. 5, lines 12-13;
- ii) MDDELMCCCQ, "Québec adopte la cible de réduction de gaz à effet de serre la plus ambitieuse au Canada, 27 novembre 2015", Presse release, online, <http://www.mddelcc.gouv.qc.ca/infuseur/communiqué.asp?no=3353>;
- iii) Government of Canada, *Canada's Mid-Century Long-Term Low-Greenhouse Gas Development Strategy*, 2016, p. 104, online, https://unfccc.int/files/focus/long-term_strategies/application/pdf/canadas_mid-century_long-term_strategy.pdf;
- iv) Québec, *2030 Energy Policy* <https://politiqueenergetique.gouv.qc.ca/wp-content/uploads/Energy-Policy-2030.pdf> and Assemblée nationale du Québec, *Bill No. 106: An Act to implement the 2030 Energy Policy and to amend various legislative provisions*, 2016, Chapter II, section 3.

Preamble:

(i) "Finally, in order to be able to complete the profitability analysis and the evaluation of the rate impact over a 40-year term, both for the current and proposed methodologies."

(ii) The Government of Québec announces its intention to reduce greenhouse gas emissions to 37.5% below 1990 levels by 2030.

(iii) The table on page 104 illustrates the results of a modeling exercise undertaken by Environment and Climate Change Canada (ECCC), in which an objective of 80% reduction below 2005 levels by 2050 is achieved by reducing emissions in the energy, manufacturing, agricultural and waste sectors. The table presents the results of a modeling exercise undertaken in the study, in which an objective of 88% reduction below 2015 levels by 2050 is achieved by reducing emissions in all sectors of the economy, with the exception of agriculture, which was not included in the modeling exercise. It should be noted that emissions from residential and commercial buildings must be reduced by 99% between 2015 and 2050, and that emissions from most industry sectors must be reduced by over 70%.

(iv) The *Act to implement the 2030 Energy Policy and to amend various legislative provisions* provides that section 5 of the *Act respecting the Régie de l'énergie* is amended by replacing the second sentence by the following sentence: "It shall promote the satisfaction of energy needs in a manner consistent with the Government's energy policy objectives and in

*Application relating to the marginal costs of long-term service delivery applied to
the profitability analysis, R-3867-2013*

keeping with the principles of sustainable development and individual and collective equity.”

Questions:

- 1.1. Please indicate if the Distributor makes 40-year sales forecasts for new extension projects.
- 1.1.1. If so, please indicate what is considered to be the acceptable percentage difference between actual sales and forecasted sales, in consumption volume (m³) and in number of customers.
- 1.1.2. If not, please indicate why the Distributor does not make 40-year sales forecasts.

Response:

Generally, new extension projects take into account 5-year sales forecasts, and the projected profitability of a project is essentially based on revenues resulting of these sales over a 40-year term. Sales tend to grow during the first years (maturation phenomenon) and stabilize afterwards throughout the remainder of the project.

No acceptability criterion based on the difference between projected sales and actual sales is used by Gaz Métro. However, Gaz Métro does monitor its projects *a posteriori* and compares, three years after a project is commissioned, all of the initially projected parameters (project costs, consumed volumes) with the project's actual data.

For more information, please see the response to question 12.7 of the request for information no. 2 of the ROEÉ's expert (Gaz Métro-9, Document 6).

- 1.2. Considering the resolutions of the Government of Québec and the Government of Canada, how do you allow for a possibly drastic reduction in the fossil fuel needs of residential and commercial customers?

Response:

Please see the response to question 7.1 of the FCEI's request for information no. 2 (Gaz Métro-9, Document 3).

- 1.3. Please indicate if the Distributor requires consumption guarantees when extending a system to its new CII or Sales Major Industries customers.

Response:

Generally, Gaz Métro requires minimum annual obligations (MAOs) for the contractual term.

- 1.3.1. Please indicate if this guarantee applies over a 40-year term for system extensions.

Response:

No.

- 1.3.2. If not, please specify what guarantee Gaz Métro requires in the case of system extensions for its new CII or Sales Major Industries customers.

Response:

The MAO applies throughout the customer's contractual term, which is usually 5 years or 10 years.

**Application relating to the marginal costs of long-term service delivery applied to
the profitability analysis, R-3867-2013**

1.3.3. Please indicate the grounds underlying the Distributor's requests for guarantees in the context of system extensions.

Response:

For system extensions, Gaz Métro may agree to a MAO with a customer to ensure the system extension's profitability.

1.4. Please confirm or refute, and comment on, the understanding of the ROEE. Let us assume the current methodology determines that a system extension project with primarily three (3) Sales Major Industries customers and a few residential customers is profitable. The system extension project is therefore financed by all of Gaz Métro's customers. However, if in year 25, for environmental or other reasons related to the *2030 Energy Policy* or its implementing statute, the three Sales Major Industries customers changed their power source or left the country, would all of Gaz Métro's current customers spend the next 15 years financing a system extension that supplies a handful of residential customers?

Response:

This hypothetical situation appears highly unlikely, as projects that include Sales Major Industries customers are usually assessed on an individual basis. Furthermore, Gaz Métro wishes to specify that extension projects including Sales Major Industries customers are usually highly profitable. This way, all customers benefit from rate reductions, often as soon as in the project's first year. Rate reductions, although smaller than those initially predicted, would still occur were the Sales Major Industries customers to cease consuming natural gas after 25 years.

1.5. Does the current or proposed methodology for calculating the profitability of a system extension include risk factors that reflect the possibility that CII or Sales Major Industries customers may significantly change their power source in light of the *2030 Energy Policy* and its implementing statute?

1.5.1. If so, what are these factors?

Response:

Please refer to the response to question 1.5.2.

1.5.2. If not, why?

Response:

Strictly speaking, Gaz Métro does not use a risk factor related to the *2030 Energy Policy*, but it does take into account volume projections or customer development perspectives in its evaluation, with consideration given to context in order to assess what could interfere with achieving the PCC. Please also see the response to question 7.1 of the FCEI's request for information no. 2 (Gaz Métro-9, Document 3).

2. References:

- i) R-3642-2007, Gaz Métro-1, Document 1, p. 3 to 5;
- ii) R-3642-2007, Gaz Métro-1, Document 1, p. 7, lines 1 to 7;
- iii) R-3642-2007, Gaz Métro-1, Document 1, p. 13, lines 1 to 9;
- iv) R-3642-2007, D-2007-98, p. 7 and 8;

*Application relating to the marginal costs of long-term service delivery applied to
the profitability analysis, R-3867-2013*

- v) R-3831-2012, Gaz Métro-17, Document 1, p. 2 and 3;

Preamble:

(i) Reference 1 presents the Versant Soleil extension project on Mont-Tremblant; essentially, the project was supposed to allow for the supply of natural gas to a “vast recreational tourism complex” for Station Mont-Tremblant s.e.c., a “subsidiary” business of Intrawest Corporation.

(ii) Reference 2 shows that the Versant Soleil project’s potential market was assessed for a connection to 35 buildings generating a volume of 1,443,103 m³ upon maturation.

(iii) Reference 3 shows that the Versant Soleil project was to have an internal rate of return of 13.79% and a 40-year rate reduction of \$868,417 due to a \$1,600,000 contribution from the developer.

(iv) Reference 4 presents the Régie’s decision to approve the project despite its observation that [TRANSLATION] “no guarantee with respect to delivery or minimal sales of natural gas is provided for in the Agreement, which puts the project’s profitability at risk”.

(v) Reference 5 shows that, ultimately, sales for the Versant Soleil extension proved to be disappointing, and in 2012 the Distributor had planned to connect three (3) buildings for a total volume of 46,103 m³ in gas sales. In addition, the internal rate of return was 1.13%, while having the actual effect of pushing up the projected customer rates by \$124,225.

Questions:

- 2.1. Please confirm the ROEE’s understanding that the effect of pushing up the projected customer rates by \$124,225 in reference (v) is calculated over a 40-year term and not on an annual basis.

Response:

The Versant Soleil project dates back to 2007 and did not generate the profitability sought upon completion. Based on the required revenue indicated in the 2012 Annual Report, the 40-year rate increase is indeed in the amount of \$124,225.

- 2.2. Please indicate if the actual effect of pushing up rates for customers of the Versant Soleil project is still \$124,225.

Response:

Gaz Métro is unable to answer this question since the last follow-up on this project was filed as part of the 2012 Annual Report.

- 2.2.1. If not, please indicate the projected increase in customer rates and explain the reasons behind the discrepancy between these amounts.

Response:

Please refer to the response provided for question 2.2.

- 2.3. Please indicate if the methodology used to calculate the profitability of a system extension has been modified since 2007, years for which calculations were made for the Versant Soleil system extension.

Response:

No major changes were made to the methodology used to calculate the profitability of

*Application relating to the marginal costs of long-term service delivery applied to
the profitability analysis, R-3867-2013*

system extensions since 2007. Some improvements were made, such as the distinction between general contractor costs for service lines and connections, the costs for meters on a separate line, and the addition of municipal compensation where applicable.

- 2.4. Please indicate if the Versant Soleil project would have been considered profitable if the profitability term had been 30 or 35 years using the proposed methodology.

Response:

The only way for this project to become profitable using the aforementioned terms would have been to increase the customer's contribution in order to achieve the required rate of return.