RESPONSE OF GAZ MÉTRO LIMITED PARTNERSHIP (GAZ MÉTRO)
TO THE REQUEST FOR INFORMATION NO. 2 OF THE
CANADIAN FEDERATION OF INDEPENDENT BUSINESS - QUÉBEC DIVISION (CFIB)
PRESENTED TO GAZ MÉTRO LIMITED PARTNERSHIP (GAZ MÉTRO)

APPLICATION REGARDING THE GENERIC MATTER RELATING TO THE ALLOCATION OF COSTS AND GAZ MÉTRO'S RATE STRUCTURE
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.

Profitability Evaluatiuon Process

Question 1

References

(i) R-3867-2013 Phase 3, B-0178, GM-7 doc 1, p. 5

(ii) R-3998-2017, A-0006, p. 18 to 20

(iii) R-3867-2013 Phase 3, B-0220, GM-7 doc 2, p. 4

(iv) R-3867-2013 Phase 3, B-0220, GM-7 doc 2, section 1.2

(v) R-3992-2017, B- 0077, Gaz Métro-14, Document 5

Preamble

(i)

[TRANSLATION]

"In the context of extension projects, Gaz Métro submits to the Régie that it is sometimes difficult to evaluate a project's potential profitability based on information available during the file's analysis phase. The dearth of available information limits the economic assessment of the extension project to those elements that are known, such as the customers identified and willing to commit themselves, as well as the volumes they will generate over a short-term horizon. Those elements known at the time of the analysis sometimes limit Gaz Métro's ability to accept a project if it does not achieve the PCC at that time, and this despite a potential for densification that exceeds the elements known in the short term. Not taking the global densification potential of an extension project into consideration can obstruct, perhaps even prevent, the completion of a project that would have benefited customers.

3 METHODOLOGY PRESENTED

Gaz Métro presents an approach to the Régie for assessing extension projects that will eventually maximize the beneficial impacts for customers. Indeed, as set forth in section 2, Gaz Métro explains that the extensions sometimes contain only limited, short-term quantitative information, thus hampering the eventual evaluation of profitability and, by that very fact, placing the entire file at risk of not being carried out.

Gaz Métro therefore presents a profitability criterion that is, *a priori*, lower than the PCC, known as the acceptable minimum threshold. This acceptable minimum threshold establishes the minimum profitability required for extension projects where the elements known at the time of their evaluation, such as the number of customers and volumes associated with the projects, fall short of the PCC but whose anticipated densification would push these projects to an overall level of profitability greater than or equal to the PCC."

(ii)

[TRANSLATION]

"Q. [24] Okay. It's been refined. So can you explain to me what the methodology was before it was refined, for instance? (9:15 a.m.)

R. Yes, absolutely. So the general methodology is to look at the extension project, therefore the number of customers in the extension project, the estimated volumes for each of those customers, the future consumption volumes. By taking these two first elements into account, we calculate the potential distribution revenue of the extension, to which we then add the capital expenditures required for the extension to achieve an internal rate of return for the extension project. When the internal rate of return exceeds the prospective capital cost, well that's when we go ahead with the extension, and when the project has an IRR below the prospective capital cost, we look at other elements of the file, i.e. the unknown future potential for which we don't have a customer who's ready to sign a contract immediately, and so we assess that potential in a number of ways: by visiting the lots which would be served by the new

extension, by finding out who the owners of those lots are, whether these customers are thinking of eventually converting to natural gas, whether there are vacant lots which could eventually see the construction of buildings with access to natural gas, whether there are already customers who are considering projects to extend or expand? So we'll assess the future potential volume for which it's too early to sign a contract immediately and then be included directly in the revenue required. So in the past, when we were confident that those potential volumes were solid, we would add them to the required revenue for subsequent years, and so for years 2, 3, 4 or 5, depending on our analysis of this potential, we would add the volumes and the required revenue, often at that time, and it would go over the PCC and the authorization process would then make its way before the Senior Executives, Sales at Gaz Métro. So I'd say that that is the methodology that was applied before we proposed another one in the Exhibit mentioned in paragraph 5 of my affidavit."

(iii)

[TRANSLATION]

"Essentially, the current methodology used to determine the inputs is similar to the one Gaz Métro presented in its evidence, with the exception of the estimated number of customers anticipated over the medium and long term."

(iv)

[TRANSLATION]

"The methodology presented by Gaz Métro in its evidence, as well as in sections 2.2 to 2.5 of this document, is based on a far more systematic approach to assessing the potential for densification. Moreover, in order to maximize the positive impacts that potentially profitable extension projects can have on customers, Gaz Métro has implemented a governance process that frames each step leading to the completion of its extension projects, from the assessment of overall growth potential to the densification of extension projects.

In summary, instead of attributing medium- and long-term customers to a required revenue based on less defined and uniform criteria, Gaz Métro has implemented a systematic and rigorous process allowing it to qualitatively assess the potential for future densification. 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.

Moreover, as for estimating capital costs, there is no difference between the current and projected methods. Connection and service line expenses are estimated based on determined technical solutions and the specificity of customers. There is also no methodological difference as regards evaluating the financial assistance granted under the Rebate Consumption Program (RCP)."

Questions

1.1 The CFIB understands from reference (ii) that the assessment of a project's profitability is first carried out on the basis of known customers willing to sign a contract (the "first analysis"). If the results of this analysis fall short of the profitability criterion (prospective capital cost), a

second profitability analysis including a future potential for medium- and long-term customers who are not immediately willing to commit themselves is carried out (the "second analysis"). Please confirm the CFIB's understanding. If not, please explain why.

Response:

Gaz Métro wishes to bring some clarification to the CFIB's understanding. For projects based on the "current method,"[1] Gaz Métro performs a single profitability analysis. Indeed, in the profitability calculation, Gaz Métro considers both known customers that are willing to commit themselves and potential customers (those not ready to sign in year 1) that manifest a certain degree of interest. In the analysis, known customers willing to commit themselves will be taken into account as of year 1 of the revenue required, whereas potential customers will be added in later years. Profitability is therefore calculated by including potential customers.

Under the method presented in January 2017 in Exhibit B-0178, Gaz Métro-7, Document 1, for all extension projects Gaz Métro conducts a global research of all potential customers at the stage of assessing future densification potential. Gaz Métro performs one profitability analysis, in which it includes only data for known customers who are willing to commit themselves. When the results of the profitability analysis exceed the PCC, Gaz Métro accepts the project. Where profitability is below the PCC but exceeds the acceptable minimum threshold (AMT), Gaz Métro carries out a sensitivity analysis that allows it to quickly assess how many additional customers will be needed to achieve a profitability equal to the PCC. Gaz Métro then compares the number of customers included in the potential for densification to the number of additional customers needed to achieve a profitability equal to the PCC.

1.2 In reference (i), Gaz Métro explains that not taking densification potential into consideration can prevent the completion of a project that would have benefited customers. However, the method currently applied by Gaz Métro seems to take into account the projects' densification potential. Why is it not mentioned in reference (i) that the densification potential is already taken into account by Gaz Métro?

Response:

Gaz Métro must specify that the potential for densification relating to the current methodology[2] is generally limited to known potential customers (existing buildings for which an interest has been manifested, vacant lots for which there is a known developer with well-defined projects, etc.), and not to the overall densification potential available in the sector served by the system extension, unlike the method presented in January 2017 in Exhibit B-0178, Gaz Métro-7, Document 1.

1.3 Considering that such densification potential is already taken into account, please explain the relevance of introducing the concept of acceptable minimum threshold.

[1] Method applied before Gaz Métro began to apply the AMT methodology in the fall of 2015.
[2] Method applied before Gaz Métro began to apply the AMT methodology in the fall of 2015

Response:

Under the method presented in January 2017 in Exhibit B-0178, Gaz Métro-7, Document 1, the AMT is used to calculate the project's profitability on the basis of contractually committed customers, and this data is included in the annual overall profitability. Densification will make it possible, in coming years, to achieve profitability at the PCC of the initial project. Gaz Métro points out that the densification potential is only partially applied in the "current methodology"[3] That way, variances in the *a posteriori* assessment are reduced, as the results from future customers are not included in the *a priori* profitability.

1.4 The CFIB understands from reference (iii) that the proposed changes to the profitability analysis aim only to determine the future potential of new customers. Please confirm.

Response:

Gaz Métro confirms this.

As indicated in the introductory commentary, it should be noted that Gaz Métro has filed a new approach to profitability assessment, which is presented in Exhibit Gaz Métro-7, Document 4.

1.5 Please confirm that, when a second profitability analysis was required, the projects presented in reference (v) were analyzed using the approach excluding the proposed changes to Gaz Métro's assessment of the potential for future customers in this file.

Response:

Gaz Métro indicates that it does not perform a second analysis, as explained in the response to question 1.1.

1.6 When a project is deemed profitable after the first analysis, does Gaz Métro still perform a second profitability analysis? If not, how are projects found to be profitable in the first analysis incorporated into the *a posteriori* follow-up on development plans presented in the annual report?

Response:

Gaz Métro refers the CFIB to the response to question 1.1 as regards the explanation of project analyses. The *a posteriori* follow-up on development plans presented in the annual report, for its part, includes all of the projects authorized by Gaz Métro.

1.7 Of the residential projects there were completed in 2015, please indicate how many of them:

1.7.1 reached the profitability threshold in the first analysis;

1.7.2 reached the profitability threshold in the second analysis;

[3] Idem.

1.7.3 did not reach the profitability threshold.

Response:

Gaz Métro indicates that it does not perform a second analysis, as explained in the response to question 1.1. However, Gaz Métro understands, from questions 1.1 to 1.6, that there seems to be some confusion when it comes to understanding the "current method"[4] and the method presented in January 2017 in Exhibit B-0178, Gaz Métro-7, Document 1. Gaz Métro specifies that it is the methodology presented in Exhibit B-0178, Gaz Métro-7, Document 1, that stipulates that where profitability is below the PCC but above the AMT, a subsequent sensitivity analysis is performed to quickly assess how many additional customers will be needed to achieve a profitability equal to the PCC. Gaz Métro then compares the number of customers included in the potential for densification to the number of additional customers needed to achieve a profitability equal to the PCC.

In addition, Gaz Métro also points out that the methodology presented in Exhibit B-0178, Gaz Métro-7, Document 1, has been in force since the fall of 2015. It is therefore since then that Gaz Métro has been applying the method providing that certain projects, for which the assessed profitability falls between the AMT and the PCC, can be authorized if the subsequent sensitivity analysis shows that the future expectation is likely to make it possible to achieve the PCC over time.

In this context, Gaz Métro answers question 1.7 of the intervenor for all of the projects authorized in fiscal 2016 using the methodology presented in Exhibit B-0178, Gaz Métro-7, Document 1.

Projects approved in 2016 according to their profitability

	Projects between the AMT and the PCC	Projects exceeding the PCC	Total
Residential	9	83	92
CII	61	109	170
Sales Major Industries	0	2	2
Total	**70**	**194**	**264**

1.8 For projects that achieved the profitability threshold in the second analysis, please indicate the average variance between the IRR in the first analysis and the IRR in the second analysis.

Response:

Gaz Métro cannot answer this question, as it does not perform two profitability analyses, as indicated in question 1.1.

[4] Method applied before Gaz Métro began to apply the AMT methodology in the fall of 2015.

1.9 For the three projects displaying the largest variance between the IRR in the first analysis and the IRR in the second analysis, please submit the complete file as sent for authorization to the Senior Executive, Sales.

Response:

Gaz Métro cannot answer this question, as it does not perform two profitability analyses, as indicated in question 1.1.

1.10 Please present the average IRR for projects that did not achieve the profitability threshold and explain why Gaz Métro chose to go ahead with such projects.

Response:

The average IRR of extension projects accepted in 2016 under the methodology presented in Exhibit B-0178, Gaz Métro-7, Document 1, for which profitability falls between the AMT and the PCC, is 3.55% for the residential market and 2.66% for the CII market. Gaz Métro has not authorized AMT extension projects for the Sales Major Industries market. These projects were accepted as they offered a potential for future densification sufficient to achieve or exceed the PCC over time.

1.11 Please answer questions 1.2 to 1.6 for the CII projects.

Response:

Gaz Métro thinks there is a numbering mistake in the intervenor's questions and believes that the intervenor was instead asking Gaz Métro to answer questions 1.7 to 1.10 for the CII projects. Please refer to the responses to questions 1.7 to 1.10.

1.12 Please answer questions 1.2 to 1.6 for the Industrial projects.

Response:

Gaz Métro does not make a distinction between industrial projects and other types of projects. Please refer to the responses to questions 1.2 to 1.6.

Gaz Métro thinks there is a numbering mistake in the intervenor's questions and believes that the intervenor was instead asking Gaz Métro to answer questions 1.7 to 1.10 for the Sales Major Industries projects. Please refer to the responses to questions 1.7 to 1.10.

1.13 Please indicate if, to date, projects have been analyzed using the method proposed in this file and if so, how many.

Response:

Gaz Métro started applying the method presented in the fall of 2015, and all extension projects analyzed since then have been assessed in accordance with this method. Please refer to the responses to questions 1.7 to 1.10.

1.14 If unable to respond to question 1.8, please provide the complete file for three projects that did not reach the profitability threshold in the first analysis in each of the three markets.

Response:

Please refer to Schedule Q-1.14.

Question 2

References

(i) R-3867-2013 Phase 3, B-0178, GM-7 doc 1, section 7

(ii) R-3867-2013 Phase 3, B-0220, GM-7 doc 2, section 1.1

(iii) R-3867-2013 Phase 3, B-0220, GM-7 doc 2, section 1.2

Preamble

(i)

[TRANSLATION]

"This section summarizes this internal governance process. Note that the process described applies to all extension projects, which therefore specifically includes projects whose evaluated *a priori* profitability, namely based on known elements, falls somewhere between the acceptable minimum threshold and the PCC, as well as repaving and industrial park extension projects.

The first phase of the process consists of evaluating the extension project's future densification potential. Depending on the type of extension project (conversion, new development, industrial park, repaving), a number of actions are taken in order to gather information that will allow Gaz Métro to make an informed decision regarding the project's anticipated profitability:

A visit of the site;

o Meeting with the project's identified main customer(s) to evaluate the possibility of immediate conversions or future extensions, and

o Census of the other potential customers using an alternative energy source;

Summary evaluation of the economic conditions that prevail in the region and the development potential:

o Discussions with various players in regional development, including municipalities and local development centers (LDC),

o Consultation of the developer's location diagram and the land use and development plan for the territory,

o More specifically in the case of industrial park projects, an analysis of the area of land available, the type of businesses sought, the existing promotional support and potential leverage effect associated with the availability of natural gas, and

o Consultation of economic statistics.

Afterwards, phase two of the process consists in conducting sensitivity analyses in order to evaluate how many customers in addition to those identified *a priori* will be needed to achieve a profitability rate equal to the PCC.

Phase three of the process is to reconcile the evaluation of the potential for future densification and the sensitivity analyses conducted in the second phase. Where it is more likely than not that the extension project will eventually achieve the PCC, a formal investment request is filled out and sent by the development advisor to the senior development advisor. The file will include, more specifically, a summary of the analyses conducted, the revenue required for the project and the latter's profitability.

The fourth phase relates to the projects' authorization process. Once the investment request file is received by the senior development advisor, he or she will review the file to make sure that the profitability has been rigorously estimated based on the technical solutions retained, and that the relevant information allowing to gauge future expectations is present. The file is then sent for authorization to the Senior Executive, Sales.

Once an extension project – including those with anticipated profitability – is authorized, the fifth phase begins (known as the operationalization of the densification phase). All information gathered in phase one regarding future potential development is therefore sent to the sales force responsible for the system's densification. For Gaz Métro, the densification of extension projects is a priority that optimizes the system. What is more, an action plan specific to extension projects with profitability potential has been developed jointly by the sales and marketing branches so as to favour a more efficient densification of extension projects. A follow-up is then carried out to measure the performance of the defined actions."

(ii)

[TRANSLATION]

"Essentially, the current methodology used to determine the inputs is similar to the one Gaz Métro presented in its evidence, with the exception of the estimated number of customers anticipated over the medium and long term. Based on the current and proposed methods, customers included in year 1 of the required revenues are those that have already signed a distribution contract. For these customers, volumes are estimated based on the required consumption needs determined jointly by the customer and Gaz Métro. When estimating the potential customers for subsequent years, the current method relies on the development advisor's knowledge of the project's potential for future development. Consequently, various actions are generally taken by the development advisor in order to gather information that is relevant to the evaluation of potential, notably:

o Visits of the sites and meetings with potential customers to evaluate the possibility of conversions or future extensions;
o Discussions with various players in regional development;
o Consultation of the developer's location diagram and the land use and development plan for the territory.

Consequently, the customers that manifest an interest in connecting to the system, once the service line is built, are included in the second or third year of the required revenues. Moreover, based on other information gathered by the development advisor, notably as regards the availability and size of lots, customers may be added to subsequent years of required revenue."

(iii)

[TRANSLATION]

"In summary, instead of attributing medium- and long-term customers to a required revenue based on less defined and uniform criteria, Gaz Métro has implemented a systematic and rigorous process allowing it to qualitatively assess the potential for future densification. 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."

Reference (i) presents the proposed process for evaluating the assessment of the potential for densification (the "proposed method").

Reference (ii) presents the process used to evaluate the assessment of the potential for densification before the proposed method was implemented (the "current method").

Questions

2.1 Having examined references (i) and ii), the CFIB notes that for both the current method and the proposed method, the process provides for:

- Visits of the sites and meetings with potential customers

- Discussions with various players in regional development
- Consultation of the developer's location diagram and the land use and development plan for the territory
- Analysis of the availability and size of lots

Both processes seem very similar in the end.

2.1.1 Please explain the differences between the current method and the proposed method in the residential market and provide concrete examples.

Response:

For the residential, CII and industrial markets, as regards the information provided in question 2.1, there is only a slight difference between the "current method[5] and the method presented in January 2017 in Exhibit B-0178, Gaz Métro-7, Document 1. The only difference resides in the fact that the method presented proposes a step-by-step, standardized approach for all development advisors.

2.1.2 Please explain the differences between the current method and the proposed method in the CII market and provide concrete examples.

Response:

Please refer to the response to question 2.1.1.

2.1.3 Please explain the differences between the current method and the proposed method in the Industrial market and provide concrete examples.

Response:

Please refer to the response to question 2.1.

2.2 With respect to the industrial market, please describe the assessment of the existing promotional support, how it is measured and how it translates into additional customer and volume forecasts. Please explain the difference between the current method and the proposed method where this aspect is concerned.

Response:

Promotional support means the activity and development support offered by the municipality or the entity responsible for the territory. The existence of promotional support for the industrial park serves as an indication of the municipality's commitment to attracting

[5] Method applied before Gaz Métro began to apply the AMT methodology in the fall of 2015.

businesses. When meeting with municipalities, our discussions allow us to detect whether any lot purchase negotiations are underway with potential customers. There is no difference between the "current method" and the one presented in January 2017 in Exhibit B-0178, Gaz Métro-7, Document 1, as regards that factor, other than the fact that the method presented[6] proposes a step-by-step, standardized approach for all development advisors.

2.3 With respect to the industrial sector, please explain the potential for a leverage effect linked to the availability of natural gas, how it is measured and how this translates into additional customer and volume forecasts. Please explain the difference between the current method and the proposed method where this aspect is concerned.

Response:

The presence of natural gas is a key factor of attraction in the industrial sector. Its low cost is sought after by industries. Therefore, an industrial park with access to natural gas will attract businesses faster than another industrial park without access. When planning industrial parks, municipalities ask Gaz Métro to deploy its natural gas system, and that is when Gaz Métro seeks to determine, when meeting with municipal officials, whether potential businesses already manifested an interest and could be enticed by the availability of natural gas.

There is no difference between the "current method"[7] and the one presented in January 2017 in Exhibit B-0178, Gaz Métro-7, Document 1, as regards that factor, other than the fact that the method presented[8] proposes a step-by-step, standardized approach for all development advisors.

2.4 Please explain, for each sector (residential, CII, industrial), what the consultation of economic statistics entails and describe how this aspect translates into additional customer and volume forecasts. Please explain the difference between the current method and the proposed method where this aspect is concerned.

Response:

For the various sectors, the consultation of economic statistics refers to the summary assessment of the economic conditions prevailing in the region and the potential for development. Data such as regional GDP, household growth, economic vitality indices can all support the decision to invest in a project. This assessment is part of the first step of the governance process, which consists in evaluating the potential for future densification of the extension project.

The "current method,"[9] when compared to the proposed method,[10] only made limited use of economic data.

[6] Method presented in January 2017 in Exhibit B-0178, Gaz Métro-7, Document 1.
[7] Method applied before Gaz Métro began to apply the AMT methodology in the fall of 2015.
[8] Method presented in January 2017 in Exhibit B-0178, Gaz Métro-7, Document 1.
[9] Method applied before Gaz Métro began to apply the AMT methodology in the fall of 2015.
[10] Method presented in January 2017 in Exhibit B-0178, Gaz Métro-7, Document 1.

2.5 With respect to reference (iii), please explain how the proposed process will be more systematic and rigorous than the current process.

Response:

As indicated in reference (ii), when estimating potential customers for subsequent years, the "current method"[11] relies on the development advisor's knowledge of the project's potential for future development. Consequently, various actions are generally taken by the development advisor in order to gather information that is relevant to the evaluation of potential. The method presented in January 2017 in Exhibit B-0178, Gaz Métro-7, Document 1, standardizes and formalizes (through the governance process) those steps that all development advisors must take in each project in order to determine the potential for future densification.

In addition, under the "current method", Gaz Métro considers in its calculation of profitability both known customers willing to commit themselves and potential customers (those not ready to sign in year 1) that manifest a certain degree of interest. In the analysis, known customers willing to commit themselves will be taken into account as of year 1 of the revenue required, whereas potential customers will be added in later years. Profitability is therefore calculated by including potential customers. As indicated in the response to question 1.2, Gaz Métro insists on specifying that the potential for densification relating to the "current methodology" is generally limited to known potential customers (existing buildings for which an interest has been manifested, vacant lots for which there is a known developer with well-defined projects, etc.), and not to the overall potential for densification available in the sector served by the system extension, unlike the proposed method.[12]

In summary, the proposed method[13] is part of Gaz Métro's continuing improvement initiatives. Gaz Métro has defined, through a governance process, all of the steps to be taken by development advisors to qualify future expectations, among other aspects. While these steps were generally followed under the "current method," this process was not officially systemized and the possibility remained that densification potential might be assessed slightly differently depending on the project or the development advisor. For instance, in the vast majority of cases, the potential for densification was limited to known potential customers, while in other cases, additional efforts were deployed to assess the overall potential and included data such as vacant lots. The proposed method[14] therefore clarifies the assessment process for densification.

Finally, while potential customers were included in the profitability assessment under the "current method" – in other words they were included in the overall profitability presented in the annual report – the assessment of profitability under the proposed method[15] only takes into account known customers ready to sign. Thus, according to that method, the assessment of densification, combined with the sensitivity analysis (phase 3 of the governance process), serve to determine whether it is likely or not that a project which shows *a priori* profitability exceeding the AMT with known customers that are ready to commit themselves will over time achieve the PCC with the potential for densification.

[11] Method applied before Gaz Métro began to apply the AMT methodology in the fall of 2015.
[12] Method presented in January 2017 in Exhibit B-0178, Gaz Métro-7, Document 1.
[13] Idem.
[14] Idem.
[15] Idem.

2.6 In reference (iii), Gaz Métro uses the term "qualitatively" when referring to the potential for future densification.

2.6.1 Please confirm that the current method includes the calculation of an IRR at the stage of the second profitability analysis. If not, please explain why.

Response:

As mentioned in the response to question 1.1, Gaz Métro indicates that it does not perform two profitability analyses. Under the "current method," [16] medium-term customers were included in the profitability estimation tool, which made it possible to calculate the IRR.

2.6.2 Please confirm that the proposed method also includes the calculation of an IRR at the stage of the second profitability analysis. If not, please explain why. If so, please explain the use of the term "qualitatively."

Response:

As indicated in the response to question 1.1, Gaz Métro points out that it does not use two profitability analyses. Only known customers that have signed a contract are included in the IRR calculation. Incidentally, potential customers are excluded. Where the profitability is below the PCC, Gaz Métro will consider the data on potential customers by conducting a sensitivity analysis, quickly assess how many additional customers will be needed to achieve a profitability equal to the PCC.

2.7 With respect to reference (iii), indicate if the assessment of the profitability threshold in the second profitability analysis of the proposed method will be deterministic or probabilistic. In the latter case, please elaborate on the methodology prescribed for this assessment and provide a numerical example.

Response:

Gaz Métro reiterates that the approach presented does not entail a second profitability analysis, but rather a sensitivity analysis. Gaz Métro uses neither a deterministic nor probabilistic method, strictly speaking, in its sensitivity analysis; rather, it applies an approach that makes it possible to quickly assess how many additional customers will be needed to achieve a profitability equivalent to the PCC.

2.8 Please indicate whether Gaz Métro has to this day applied the methodology presented in reference (i) to actual projects. If so, please submit the file as sent to the Senior Executive, Sales for the three projects presenting the greatest discrepancy between the IRR in the first analysis and the IRR in the second analysis.

[16] Method applied before Gaz Métro began to apply the AMT methodology in the fall of 2015.

Response:

As indicated in the response to question 1.13, Gaz Métro started using the method presented in the fall of 2015. Gaz Métro cannot submit the requested projects as it does not perform two analyses, as mentioned in the response to question 1.1. However, Gaz Métro refers the CFIB to the response to question 1.14.

2.9 Please indicate whether, under the current method, the assessment of the achievement of the profitability threshold in the second profitability analysis is deterministic or probabilistic.

Response:

Gaz Métro refers the CFIB to the response to question 1.1, and specifies that there is no second profitability analysis under the "current method."[17]

2.10 Please explain the means currently in place to ensure the densification of extension projects.

Response:

In cases where buildings already exist, Gaz Métro ensures project densification by taking marketing actions such as digital solicitation, mailings (letters) and sending its sales force to visit customers.

In cases where there are vacant lots, Gaz Métro uses its sales force to ensure project densification. To do this, Gaz Métro stays in contact with partners such as economic development agents, developers and municipal urban planners. Our teams also carry out site visits.

2.11 Please explain how the action plan described in reference (i) differs from current practice.

Response:

The action plan consists of systematically providing lists to the sales force and soliciting potential customers along the system extension route. Potential customers are solicited through digital and traditional marketing actions (letters + on-site solicitation), along with a thorough follow-up mechanism. Therefore, unlike the "current method,"[18] which consists of less targered on-the-ground action and does no include internal follow-up or communication actions specific to the extension projects, the approach presented in January 2017 in Exhibit B-0178, Gaz Métro-7, Document 1, aims at being more systematic and rigorous.

2.12 With respect to reference (i), please describe how the governance process would be applied in the case of a repaving and provide an example.

[17] Method applied before Gaz Métro began to apply the AMT methodology in the fall of 2015.
[18] Idem.

Response:

As indicated in the first paragraph of reference (i), the governance process described applies in the case of a repaving. As for the example, Gaz Métro refers the CFIB to the responses to questions 12.2 and 12.3 of the Régie's request for information no. 9 (Gaz Métro-9, Document 1).

2.13 Please confirm that Gaz Métro intends to calculate profitability in the first and second analyses for repaving projects.

Response:

Gaz Métro indicates that it does not perform a second analysis, as explained in the response to question 1.1.

2.14 Please confirm that Gaz Métro would only carry out repaving projects if they were found to be profitable in the first or second analysis.

Response:

Repaving projects that fall below the PCC are accepted under the criteria described in the response to question 12.2 of the Régie's request for information no. 9 (Gaz Métro-9, Document 1).

2.15 A 1-km stretch of road needs repaving and there's a customer at either end; please indicate whether this would be considered a single project or two distinct projects?

Response:

According to Gaz Métro, this situation would be considered a single project.

2.16 In the case of a repaving project where no customer has manifested an interest in converting to natural gas, please explain how Gaz Métro would evaluate the conversion potential?

Response:

Please refer to the response to question 12.2 of the Régie's request for information no. 9 (Gaz Métro-9, Document 1).

2.17 Gaz Métro indicates that projects displaying an *a priori* profitability (i.e. in first analysis) falling between the acceptable minimum threshold and the PCC will be subjected to the governance process. Should we then understand that projects for which the *a priori*

profitability falls below the acceptable minimum threshold will not make it to the second profitability analysis?

Response:

For extension projects with a densification potential whose *a priori* profitability is below the AMT, the customer will be asked to provide a contribution in order to achieve the AMT. The project will then be subjected to the governance process presented in January 2017 in Exhibit B-0178, Gaz Métro-7, Document 1. The project will only go forward if the customer agrees to provide the contribution and if the analyses performed under the governance process lead Gaz Métro to determine that the project should, in time, achieve the PCC.

2.18 According to the current method, is there an IRR or another criterion under which the second profitability analysis is not performed? If so, please describe this criterion or criteria and explain how they are applied.

Response:

Gaz Métro cannot answer this question because it does not perform two analyses, as mentioned in the response to question 1.1.

Question 3

References

(i) R-3867-2013 Phase 3, B-0178, GM-7 doc 1, p. 5

(ii) R-3867-2013 Phase 3, B-0178, GM-7 doc 1, section 7

(iii) R-3867-2013 Phase 3, B-0178, GM-7 doc 1, p. 15

Preamble

(i)

[TRANSLATION]

"Gaz Métro presents an approach to the Régie for assessing extension projects that will eventually maximize the beneficial impacts for customers. Indeed, as set forth in section 2, Gaz Métro explains that the extensions sometimes contain only limited, short-term quantitative information, thus hampering the eventual assessment of profitability and, by that very fact, placing the entire file at risk of not being carried out.

Gaz Métro therefore presents a profitability criterion that is, *a priori*, lower than the PCC, known as the acceptable minimum threshold. This acceptable minimum threshold establishes the minimum profitability required for extension projects where the elements known at the time of their evaluation, such as the number of customers and volumes associated with the projects, fall short of the PCC but whose anticipated densification would push these projects to an overall level of profitability greater than or equal to the PCC. Reference (i) presents the process for assessing the densification potential (the 'proposed method')."

(iii)

[TRANSLATION]

"Obviously, extension projects include projects whose profitability exceeds the PCC, projects with a profitability somewhere between the acceptable minimum threshold and the PCC, as well as exceptional cases (industrial parks and road repaving activities). All of Gaz Métro's various markets are profitable and generate rate decreases for customers. The acceptance of extension projects with densification potential will decrease the profitability of markets in the short term, but will help generate significantly lower rates for customers over time, while giving more customers access to natural gas."

Questions

3.1 Please specify whether the achievement of an *a priori* profitability in excess of the acceptable minimum threshold is a sufficient condition for a project to go ahead.

Response:

No. Gaz Métro ensures that the project has potential for future densification that is sufficient to eventually achieve or exceed the PCC.

3.2 Please specify whether a second profitability analysis (i.e including the potential for densification) is performed for projects whose *a priori* profitability will exceed the acceptable minimum threshold (the "AMT projects").

Response:

Gaz Métro indicates that it does not perform a second analysis, as explained in the response to question 1.1.

3.3 If not, please justify the decision not to perform this second analysis.

Response:

Please refer to the response to question 1.1.

3.4 If so, please indicate what will be the determining criterion for accepting or rejecting projects: achieving an *a priori* profitability above the AMT, or achieving the PCC in the second profitability analysis?

Response:

Please refer to the response to question 1.1.

3.5 In what circumstances would a second profitability analysis be required if the AMT criterion is applied to the *a priori* analyses?

Response:

Gaz Métro indicates that it does not perform a second analysis, as explained in the response to question 1.1.

3.6 Please explain how the AMT works within the governance process described in reference (ii), and provide a substantiating example.

Response:

Note that the process applies to all extension projects, which therefore specifically includes projects whose evaluated *a priori* profitability, namely based on known elements, falls somewhere between the acceptable minimum threshold (AMT) and the PCC, as well as repaving and industrial park extension projects.

3.7 With respect to reference (iii), when Gaz Métro refers to projects for which profitability falls somewhere between the acceptable minimum threshold and PCC, does Gaz Métro refer to profitability in the first analysis or profitability in the second analysis?

Response:

Gaz Métro refers to the *a priori* profitability.

3.8 If Gaz Métro refers to profitability in the first analysis, how is the approval of such projects different from current practice?

Response:

The approval of extension projects that are expected to densify is determined according the AMT profitability criterion.

Minimum Profitability Threshold

Question 4

References

(i) R-3867-2013 Phase 3, B-0178, GM-7 doc 1, p. 6

(ii) R-3867-2013 Phase 3, B-0178, GM-7 doc 1, p. 7, Table 1

Preamble

(i)

[TRANSLATION]

"Gaz Métro conducted an *a posteriori* profitability analysis to establish the acceptable minimum threshold. To do this, Gaz Métro targeted development plans of the commercial market for fiscal years 2009, 2010 and 2011. More specifically, Gaz Métro selected all extension projects valued under $1.5 million for which a contribution was required *a priori* in order to achieve the anticipated profitability. These extension projects were selected seeing as, without a customer contribution, they never would have been profitable at the time they were accepted. Consequently, the projects selected in the analysis are similar to the extension projects contemplated in the evidence of this Application."

Questions

4.1 Please update Table 1 by integrating the 2012 Plan and indicating the number of projects considered for each year.

Response:

Fiscal year of the development plan	Number of projects	IRR increase (*a priori* IRR vs. *a posteriori* IRR)
2009 Plan	11	5.08%

2010 Plan	12	5.52%
2011 Plan (note 1)	11	2.85%
2012 Plan	21	1.77%
	Total: 55	**Average: 3.81%**

Note 1: Please note that the above table includes a development project in excess of $1.5 million for the 2011 development plan. If this project is excluded, the overall IRR variation drops from 3.81% to 3.70%.

4.2 When customers have had to pay contributions, were those contributions calculated based on the profitability in the first analysis or the profitability in the second analysis?

Response:

In connection with the response to question 1.1, the contributions paid were calculated based on the profitability analysis. Gaz Métro repeats that it does not perform a second analysis, as explained in the response to question 1.1.

4.3 Are the discrepancies presented in Table 1 calculated based on the profitability in the first analysis or the profitability in the second analysis?

Response:

The IRR increase presented in Table 1 is the difference between the *a priori* IRR and the *a posteriori* IRR of all extension projects used in the analysis for which a contribution was demanded. Gaz Métro repeats that it does not perform a second analysis, as explained in the response to question 1.1.

4.4 If such discrepancies are calculated as regards the profitability in the first analysis, please present, in the format of Table 1 (including 2012), the average discrepancy between the profitability in the first analysis and the profitability in the second analysis for each year.

Response:

Gaz Métro is not able to present a table showing the average discrepancy between the two profitability analyses, as it does not perform two profitability analyses. For more details, please refer to the response to question 1.1.

4.5 As regards Table 1, please break down the IRR increase into the following factors: rate increases, variations in connection costs for *a priori* anticipated customers, addition of *a priori* unanticipated customers, others?

Response:

Question 9.3 of the Régie's request for information no. 9, in Exhibit Gaz Métro-9, Document 1, is similar to question 4.5. As agreed in correspondence A-0120 of the Régie, Gaz Métro will answer the Régie's question 9.3 by August 10, 2017. Gaz Métro will then be in a position to provide a response to this question by August 10, 2017.

4.6 With respect to the projects selected for the analysis in Table 1, does Gaz Métro have any data (other than the fact that such projects do not meet the profitability criterion) leading it to believe that these projects are more representative of the AMT projects than all of the projects?

Response:

Gaz Métro does not have other data leading it to believe that the projects selected for the analysis in Table 1 are more respresentative of the AMT projects than all of the projects. However, Gaz Métro believes that the projects selected for the analysis in Table 1 are the most representative for the purposes of the analysis. They show that, for projects that may, *a priori*, seem unprofitable, there is indeed a perspective for growth.

4.7 Please recalculate Table 1 by including all extension projects under $1.5 million in the business market (i.e. regardless of the payment of a contribution) by including the year 2012.

Response:

Fiscal year of the development plan	Number of projects	IRR increase (*a priori* IRR vs. *a posteriori* IRR)
2009	58	4.66%
2010	57	4.95%
2011	120	0.46%
2012	160	3.15%
	Total: 395	**Average: 3.31%**

4.8 Please provide the acceptability criterion for industrial park developments.

Response:

The profitability of industrial park projects must, in time, achieve profitability at the PCC level.

4.9 Please provide the acceptability criterion for repaving projects.

Response:

The profitability of repaving projects must, in time, achieve profitability at the PCC level.

4.10 Please indicate whether the AMT could apply to residential projects. If so, how does Gaz Métro explain using an AMT that is calculated based on the historic data of business projects for residential projects?

Response:

Gaz Métro indicates that the AMT does apply to residential projects. The growth data calculated based on business projects supports Gaz Métro's proposal that projects tend to improve over time. A residential extension project (AMT) is only approved where the project shows a future anticipated profitability equal to or exceeding the PCC.

Question 5

References

(i) R-3867-2013 Phase 3, B-0178, GM-7 doc 1, p. 12, Table 2

Questions

5.1 Please confirm the CFIB's understanding that the proposed improvements to the governance process can be implemented regardless of whether or not the Régie approves the approach of the *a priori* minimum acceptable profitability threshold.

Response:

Gaz Métro confirms this.

5.2 Please explain how the AMT extensions would be analyzed should the Régie reject this approach.

Response:

This question is hypothetical and the response depends on multiple factors, such as the contents of the decision to be rendered in this case.

5.3 Must we necessarily conclude that the AMT extensions will not go ahead if Gaz Métro's proposal is rejected?

Response:

Please refer to the response to question 5.2.

Question 6

References

(i) R-3867-2013 Phase 3, B-0220, GM-7 doc 2, Schedule

Questions

6.1 With respect to reference (ii), please break down the columns titled "Extension Projects" by known customers (first profitability analysis) and customers corresponding to future potential at the start of the projects.

Response:

Gaz Métro cannot answer this question as it does not perform two profitability analyses.

Question 7

Preamble

It is generally accepted that heating systems have a 20-25-year lifespan; however, Gaz Métro's profitability analyses span 40 years.

Questions

7.1 According to Gaz Métro, is an economic lifespan of 40 years still appropriate considering the context of climate change and government commitment to reducing GHG emissions? Please explain.

Response:

Gaz Métro believes a 40-year economic lifespan is still adequate. Gaz Métro points out that the method for calculating the required revenue to analyze a project's profitability was presented in R-3173-89 and approved by Régie du gaz naturel in its decision D-90-60. The analysis method presented in the file, which provides for a 40-year lifespan, is still in use at Gaz Métro. This period should represent the average useful life of building connections and mains, which make up a project's main investments. As demonstrated in the response to question 2.4 of the Régie's request for information no. 9 (Gaz Métro-9, Document 1), the useful life of installed connections varies between 35 and 50 years, depending on the type of connection, whereas the mains' useful life is 45 years.

In addition, even if some customers decided, for whatever reason, to abandon natural gas in favour of another power source for their heating needs after a lifecyle of approximately 20 years, most of the connections to natural gas will remain in use for periods that go beyond 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 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 achieve 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. On the matter, Gaz Métro refers to the response to question 7.10 of ROEÉ Expert (Gaz Métro-9, Document 6).

7.2 According to Gaz Métro, what will be natural gas' competitive position compared to electric power for residential heating in 25 years?

Response:

While some long-term pricing assumptions for natural gas lead us to believe that this energy source should be a competitive one, it is currently difficult to draw conclusions as to the status of natural gas' competitive position versus electricity in 25 years, especially for a specific market.

1. RESIDENTIAL PROJECT

Investment Application for Project 10-006906-120

Municipality: SENNEVILLE
Region: Montréal
Length of main: 765 m

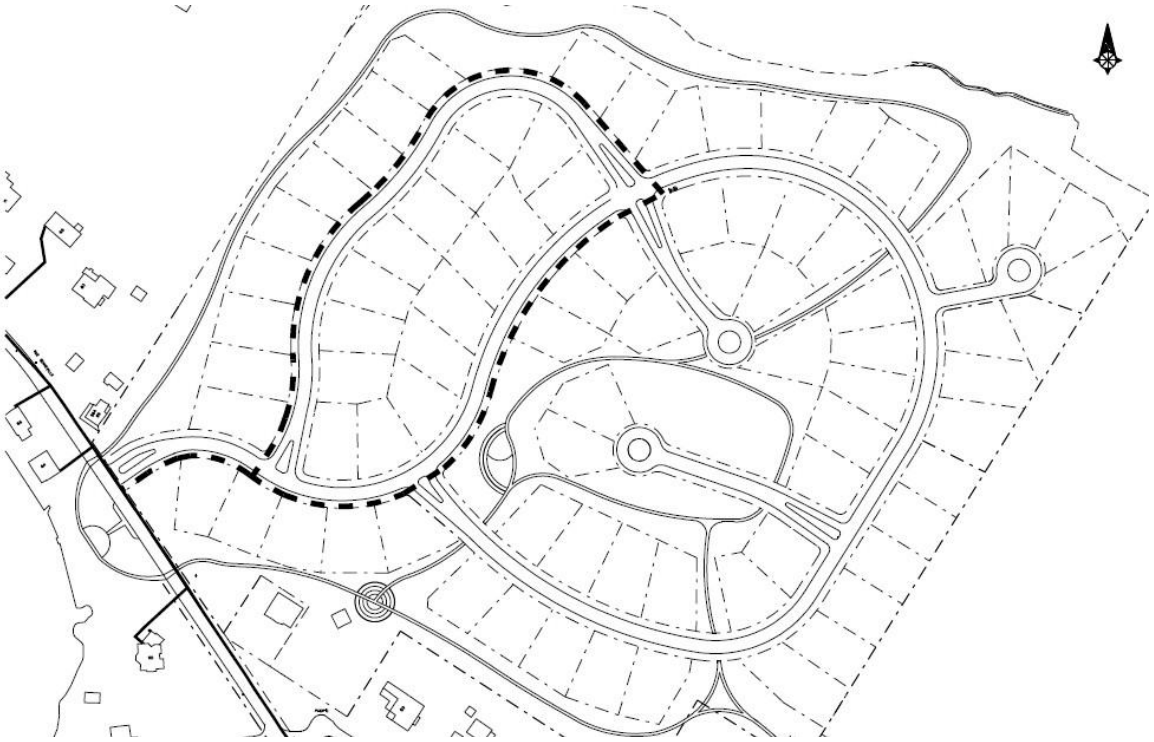
Customer and volume forecasts

First phase of luxury single-family homes in Senneville, in which 29 units are expected to be delivered. The project's profitability is 4.99%. The required penetration rate is 80%.

Once completed, this project will include 83 single-family homes.

Data included in the profitability assessment tool

Number of customers	29
Volume in thousands of m^3	78.3
Service line costs	135,470
Connection costs	95,033
General expenses (14.53%)	33,492
RCP	0
System connection contribution	0
CASEP - Capital expenditures	0
Customer contributions	(8,700)
Total investment	255,295
Rate contribution (10 years)	49,842
Rate contribution (40 years)	(6,983)
Internal Rate of Return (IRR)	4.99%



Sensitivity analysis

The addition of 54 units will bring profitability over the PCC.

2. INDUSTRIAL PARK

Investment Application for Project 10-007448-120

Municipality: SAINT-JEAN SUR RICHELIEU
Region: Montérégie
Length of main: 300 m

Project Information

This project entails the extension of Pierre-Caisse Street in an industrial zone in Saint-Jean-sur-Richelieu. Municipal utilities have already been installed, but the street has not yet been paved. The lots are already solicited by potential customers. Approximately 750,000 sq. ft. of land at a 25% occupancy rate translates into 187,500 sq. ft. Of that area, 70% is used to calculate the heating volume, namely 131,250 m³. This volume excludes future processes which customers may use.

Once completed, this project will include approximately 4 customers.

Customer and volume forecasts

Customer	m³ contract	% MAO	MAO m³	RCP $	Displaced energy
Industrial Park, Pierre-Caisse St.	0	0	00	0	New construction

Data included in the profitability assessment tool

Number of customers	0
Volume in thousands of m³	0
Service line costs	53,004
Connection costs	0
UMQ Fees (2.00%)	895
General expenses (14.53%)	7,832
RCP	0
System connection contribution	0
CASEP - Capital expenditures	0
Customer contributions	0
Total investment	61,731
Rate contribution (10 years)	41,079
Rate contribution (40 years)	77,385
Internal Rate of Return (IRR)	0.00%

Sensitivity analysis

The arrival of two of the four customers will bring profitability over the PCC.

3. CII PROJECT

Investment Application for Project 10-007168-120

Municipality: SHERBROOKE
Region: Estrie
Length of main: 400 m

Project Information

This 400-meter extension project on Laval Street in Bromptonville is located between the village and highway 55. The one customer included in this project brings a volume of 24,146 m³ and profitability is at 2.73%.

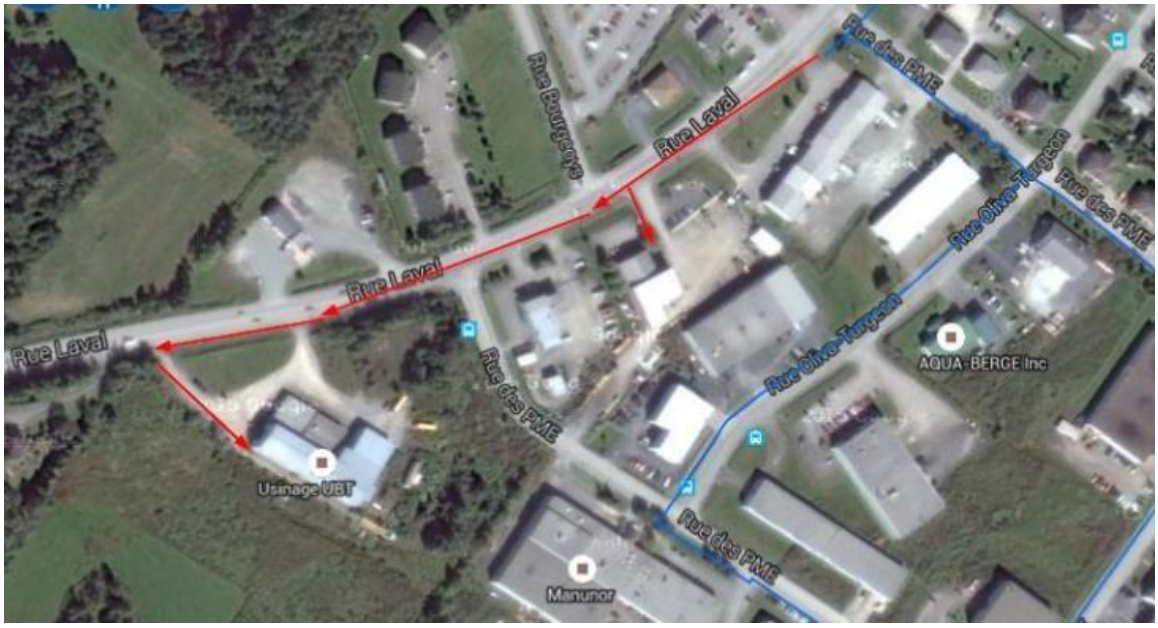
In time, two customers could potentially convert, with the conversion volume being 10,000 litres of fuel oil and 9,000 litres of propane. In addition, a residential and commercial real estate developer indicated that it would like to develop the sector facing the project.

Customer and volume forecasts

Customers	m³ contract	% MAO	MAO m³	RCP $	Displaced energy
Laval Street, Bromptonville	24,146	84	20,282	0	Conversion to propane

Data included in the profitability assessment tool

Number of customers	1
Volume in thousands of m³	20.3
Service line costs	50,664
Connection costs	9,375
UMQ Fees (2,00%)	1,099
General expenses (14,53%)	9,755
RCP	0
System connection contribution	0
CASEP - Capital expenditures	0
Customer contributions	0
Total investment	76,893
Rate contribution (10 years)	22,026
Rate contribution (40 years)	27,403
Internal Rate of Return (IRR)	2.73%



Sensitivity analysis

The addition of the two potential customers will bring the profitability over the PCC.