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BY ERF AND COURIER

August 17, 2017

Mr. Pierre Méthé
Acting Secretary
RÉGIE DE L'ÉNERGIE
Stock Exchange Tower
800 Place Victoria - Suite 2.55
Montréal, QC H4Z 1A2

Re: Application regarding the generic matter relating to the allocation of costs and Gaz Métro's rate structure — Phase 3B
Our file: 312-00669
Régie case no.: R-3867-2013

Mr. Méthé,

Gaz Métro is hereby following up on the contestations filed by the ROEE (C-ROEE-0101) on August 15 regarding some of Gaz Métro's responses to the request for information no. 2 (B-0264) (hereinafter "**DDR2**").

General commentary — Responses 1.1 to 1.8

First off, although the ROEE states it is only contesting response 1.2 out of the responses 1.1 to 1.8 of DDR2, Gaz Métro believes it necessary to respond to the comments presented, which are more of the nature of a contestation than mere comments in that the ROEE indicates in its letter [TRANSLATION] "*that these are relevant and useful questions that the Régie must demand be responded to by Gaz Métro*". Gaz Métro can only suppose that such a "commentary" on the part of ROEE stems from the fact that it felt it appropriate to state, generically at the beginning of these responses, that it was not issuing an opinion on the

relevance of the references cited by the ROEE in the preamble, as these had been stricken from the evidence filed in Phase 3A. The ROEE seems to be claiming that Gaz Métro did not respond to questions 1.1 to 1.8, a claim with which Gaz Métro disagrees. Notwithstanding this statement, Gaz Métro did in fact answer the questions to the best of its ability based on its understanding and the information available. Gaz Métro would still like to add the following to ensure a better understanding of the responses provided.

Responses 1.1 and 1.8

Gaz Métro considers that it responded to these questions regarding whether the additional capacity costs were taken into consideration in the profitability analysis by indicating that it was taking the system reinforcement into account in the profitability analysis of the sales plan and by referring ROEE to the response to question 8.4 of the Régie's request for information no. 9 (Gaz Métro-9, Document 1, B-0253).

This being said, Gaz Métro would like to take this opportunity to add that it responded to other questions associated with the processing of system reinforcement costs in the profitability analysis in the responses to the requests for information filed last August 10. To that effect, Gaz Métro invites the ROEE to consult the following responses:

- B-0281, Gaz Métro-9, response to question 3.1
- B-0286, Gaz Métro-11, response to question 3.1
- B-0293, Gaz Métro-12, Document 12, response to questions 1.1 and 9.1
- B-0295, Gaz Métro-14, Document 14, response to questions 3.2, 7.2, 8.1, 12.3 and 12.4

Response to 1.2:

The question asked by the ROEE's expert is the following:

[ORIGINAL ENGLISH]

Please provide the amount of additional demand included in the computations and results shown on pages 3 (of the 2016.10.04 section), and pages 6, 7, and 9 of the 2014 10.08 section.

Gaz Métro understood from that question that Mr. Chernick was trying to obtain data regarding the additional demand, which Gaz Métro interprets as corresponding to new sales. This is why Gaz Métro refers to pages 8 to 10 of Exhibit B-0066, Gaz Métro-13, Document 2 in the 2013 Annual Report (R-3871-2013), some of the input of which includes the volume of new sales and number of customers. For example, here is some information that can be found in this exhibit regarding the volume of new sales and number of customers per market:

- Column (2) – Residential: 11.3 million m³ and 5,022 customers at year 5
- Column (5) – Commercial: 47.1 million m³ and 2,198 customers at year 5
- Column (11) – Sales Major Industries: 30.6 million m³ and 2,198 customers at year 5

By providing the data's source and nature, Gaz Métro believes having submitted the information request, based on its understanding of the question. Gaz Métro argues that the contestation of the responses provided should not represent an opportunity for being compelled to provide any information other than what was requested owing to the lack of clarity of the question asked. Gaz Métro emphasize, moreover, that the ROEE contestation does not explain why it believes Gaz Métro failed to answer the question asked.

Responses 1.3 to 1.7

The purpose of questions 1.3 to 1.6 is to obtain a list of the system reinforcement projects completed or under construction since January 1, 1995, and those currently being contemplated and the costs associated therewith. The table in response 1.6 provides the requested information by presenting all of the system reinforcement investments, whether for transmission, supply or distribution, and this since 2004, which is the year for which the information was available (question 1.3) as well as a forecast of these investments (question 1.5). The table also provides the actual or projected costs (question 1.4).

As regards question 1.7, Gaz Métro has provided a complete map of the systems installed since 1995.

In light of the foregoing, Gaz Métro is convinced it has responded to the questions asked.

Response 2.3

In addition to the response already provided, Gaz Métro will be able to provide the type of meter reading per rate, and should be able to file that information by August 23, 2017.

Response 3.1

Gaz Métro is of the opinion that this question, which seeks to obtain documents that were used to prepare tables 6, 7 and 8 as well as Schedule A to the Black & Veatch report dated September 22, 2016, filed in the context of Phase 3A (B-0145, Gaz Métro-6, Document 2), is irrelevant and even less useful for evaluating Gaz Métro's request in the context of Phase 3B for the following reasons.

Bear in mind, first, that in the context of Phase 3A, the Régie indicated the following in the agenda transmitted in preparation for the preliminary meeting held October 24, 2016 (A-0057):

“[TRANSLATION] However, the Régie notes that a considerable portion of the report prepared by Dr. Overcast exceeds the framework of this request [Exhibit B-0145, page 12 et seq.]. It therefore asks the Distributor to clarify its request and explain the link between this portion of the report prepared by the expert Overcast and the method used to determine the marginal cost of the long-term service deliveries.”

In response to this request formulated by the Régie, Gaz Métro specified at the hearing that only pages 1 to 11 of the said report should be contemplated by the Régie’s analysis in connection with Gaz Métro’s request regarding the fixing of the marginal costs for long-term service delivery (Phase 3A), such that pages 12 et seq. (including tables 6, 7 and 8 as well as Schedule A) were therefore excluded (A-0058, NS, Vol. 1, October 24, 2016, pp. 8 et seq.).

As the ROÉÉ mentioned in its contestation letter (C-ROÉÉ-0101), in paragraph 61 of its decision D-2017-023 handed down on March 3, 2017, the Régie mentioned that the information requested in Phase 3A by Mr. Chernick relating to pages 12 et seq. of the Black & Veatch report dated September 22, 2016, was relevant and necessary, but it invited Mr. Chernick to submit the question in the context of the examination of topic B in Phase 3, where applicable. This was done in question 3.1 of DDR2.

While it is true that the topic covered on pages 12 et seq. of the Black & Veatch report dated September 22, 2016 is contemplated by this Phase 3B, question 3.1. is irrelevant and even less useful for evaluating Gaz Métro’s request. Indeed, in the correspondence dated April 4, 2017 (B-0237), Gaz Métro proposed a new procedural approach in order to be assisted by an expert for the purposes of efficiently and equitably handling the matter in Phase 3B. Moreover, Gaz Métro emphasized in that same correspondence that Dr. Overcast could not be the expert, since he was retiring.

Consequently, on May 23, 2017, Gaz Métro asked the Régie to recognize Mr. Russell Feingold as the expert witness for Phase 3B. The expert evidence was adduced on June 28, 2017 as Exhibit B-0278 Gaz Métro 7, Document 5. It is this expert evidence that is relevant to the evaluation of Gaz Métro’s request for Phase 3B. Section 3 of this evidence covers, among other things (including Schedule A) the parameters set for the practices of other gas distributors. This evidence was contemplated by a number of questions that were filed last August 10. In question 13.4 of Mr. Chernick’s request for information no. 3 (B-0295, Gaz Métro 9, Document 14), Black & Veatch provided a full bibliography of the sources used to set these parameters.

From this perspective, although question 3.1 of DDR2 falls within the scope of this matter, the usefulness of the question is unfounded, seeing as a new expert was mandated for Phase 3B, expert evidence was filed by that expert and this question refers to evidence that is not part of Gaz Métro’s request in this case.

Responses 4.1 and 5.2

Gaz Métro considers that the information requested by ROEE's expert, namely to provide all of the profitability analyses conducted from 2009 to 2016, is disproportionate in terms of the work load; more specifically, this information, which is highly voluminous, would be of no help in rendering a judgment and enlightening the Régie on the reasonability of Gaz Métro's request in this matter.

Assuming an average of approximately 180 projects per year, Gaz Métro estimates the number of projects that took place in the 2009-2016 period at somewhere between 1,200 to 1,500. This would make providing the information requested a highly demanding exercise in terms of time and resources. Indeed, providing this information in the format requested, namely in an Excel file with formulas (“[ORIGINAL ENGLISH] [...] *working copy of the software with all the profitability analyses conducted [...]*”¹), would require a considerable amount of time to collect, convert, process and organize. The past individual profitability analyses are not readily available in the requested format. What is more, Gaz Métro repeats that it does not have profitability analyses for projects that are not carried out.

Gaz Métro states yet again that its request bears on the methodology used to evaluate the profitability of development projects and the acceptance criteria for development projects. The information requested in questions 4.1 and 5.2 are far more of the nature of an accountability reporting process, an exercise that Gaz Métro submits itself to each year in the context of the requests to examine the annual report. Gaz Métro provides relevant information on the profitability of sales during this annual *a priori* and *a posteriori* exercise. Gaz Métro believes that this matter is not the proper venue for such a retroactive accountability reporting on past sales plans. The exercise that the ROEE's expert should perform is to comment on and explain to the Régie the evaluation method that is proposed by Gaz Métro, without being required to judge the prudence of the investments it has made in the past. Providing all or a sample of the individual profitability analyses for the past eight years is neither relevant nor useful to the purposes of such an exercise.

Furthermore, Gaz Métro is convinced that it has provided, in the evidence already on record, the information Mr. Chernick needs in order to produce his report and enlighten the Régie. Once again, Gaz Métro believes it is necessary to focus on some of the information that it has already provided in this matter so as to allow the Régie and the experts to pronounce themselves on Gaz Métro's request.

As regards the profitability evaluation, Gaz Métro has provided a table summarizing the inputs used and how they were processed, based on the various profitability evaluation methods, namely the Current Method, AMT Method and New Method, in addition to having provided explanations for each input.² Following the requests for information, Gaz Métro also provided responses and

¹ B-0264 Gaz Métro-9, Document-6, Question 4.1.

² B-0277 Gaz Métro 7, Document 4, section 1, pages 5 to 13.

Excel files that help give a concrete idea of how the various inputs are applied under the various methods, notably in the following exhibits:

- B-0258, Gaz Métro-9, Document 4, response to question 7.1
- B-0282, Gaz Métro-9, response to question 2.2
- B-0286, Gaz Métro-9, Document 11, responses to questions 2.8 and 2.19.

Gaz Métro considers that the ROEE's expert is able to judge the processing of various inputs and produce his report on that aspect of Gaz Métro's request.

As for the acceptance criteria of the development projects, one important aspect is the acceptance of extension projects with future densification potential presenting an *a priori* profitability lower than the PCC (namely a Profitability Index ("PI") of between 0,8 and 1 based on the New Method) but overall allowing for a profitability over time exceeding the PCC ($IP > 1$). Gaz Métro has adduced into evidence Exhibit B-1078, Gaz Métro 7, Document 1, an analysis of the *a posteriori* profitability of the extension projects. In association therewith, the Régie has requested additional analyses in order to appreciate and issue a judgment on that element of Gaz Métro's evidence. After several weeks of work, Gaz Métro produced highly exhaustive *a priori* and *a posteriori* analyses to respond to questions 9.3 and 9.7 of the revised Exhibit B-0298, Gaz Métro-9, Document 1, filed on August 10, 2017. Gaz Métro has moreover provided, in response to question 6.1 of Exhibit B-0258, Gaz Métro-9, Document 4, a schedule presenting information on projects from 2012 to 2016, such as projected investment costs upon a project's approval, namely capital assets as well as financial assistance net of the anticipated customer contributions and the projected number of customers and income. Gaz Métro also responded to other requests for information in association with this element, such as:

- revised B-0298, Gaz Métro-9, Document 1, responses to questions 1.7, 9.2 and 10.1;
- revised B-0302, Gaz Métro-9, Document 3, responses to questions 4.1, 4.5 and 4.7;
- B-0258, Gaz Métro-9, Document 4, responses to questions 10.1 and 11.2;
- B-0264, Gaz Métro-9, Document 6, responses to questions 12.1 to 12.10;
- B-0281, Gaz Métro-9, Document 9, responses to questions 12.1, 14.1, 14.2 and 14.3
- B-0286, Gaz Métro-9, Document 11, response to question 6.1; and
- B-0297, Gaz Métro-9, Document 16, response to question 5.

Once again, Gaz Métro believes that ROEE's expert is able to judge this element of Gaz Métro's request and file his report.

Gaz Métro repeats that the purpose of a request for information is to obtain specifications on some elements of the evidence filed (D-2000-214, p. 6). In this case, the ROEE's expert is not trying to obtain specifications on certain elements of the evidence in order to help him prepare his report; rather, he is on a fishing

expedition. Gaz Métro points out that the filing guide provides, among other things, that:

“[TRANSLATION]

Requests for information and the responses thereto seek to ensure that a matter is efficiently handled. Compliance with the following standards should help avoid all debate on the subject:

- *The information requested must be directly related to the evidence or documentation filed, and must not exceed the framework set by the Régie;*
- *The information requested must be necessary to clarify certain vague or ambiguous aspects of the evidence or documentation; and*

(...)”

[emphasis added]

Gaz Métro submits that the request for information does not meet the requirements of the filing guide. Gaz Métro finally notes that the ROEÉ is not arguing on the reasons justifying the relevance of these questions in its contestation (C-ROEÉ-0101).

In light of the above, Gaz Métro invites the Régie to dismiss the ROEÉ’s contestation as regards the responses provided to questions 1.1 to 1.8, 2.3, 3.1, 4.1 and 5.2 of DDR2.

Sincerely,

(s) *Marie Lemay Lachance*

Marie Lemay Lachance