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BY ERF AND COURIER

August 23, 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 reference: 312-00669
Régie file: R-3867-2013**

Mr. Méthé,

Gaz Métro is hereby following up on the contestations filed by OC (C-OC-0040) on August 18, 2017, regarding some of Gaz Métro's responses to the request for information no. 2 (B-0293) (hereinafter "**DDR2**").

First, Gaz Métro believes it is important to bring the purpose of Phases 3A and 3B in this matter back into context. The purpose pursued by Gaz Métro in Phase 3A was to update the marginal costs of service delivery (hereinafter "**OPEX**"), including the corrective and preventive maintenance of new investments (such as meters, connections and service lines) used to service new customers and to reinforce the system. The OPEX determined in Phase 3A are used as an input when analyzing the development projects' profitability. Phase 3B bears on the methodology used to evaluate the profitability of and acceptance criteria for development projects. This methodology is used to process the inclusion, determination and processing of other inputs that are part of the profitability analysis, such as investments (hereinafter "**CAPEX**"), anticipated volumes, contributions, and so forth.

Questions 1.5, 1.5.1 and 1.5.2

Questions 1.5., 1.5.1 and 1.5.2 of OC's expert seek to obtain information on the establishment of OPEX costs pertaining to the reinforcement.

To support its contestation of the responses provided by Gaz Métro and to justify the relevance of questions 1.5, 1.5.1 and 1.5.2 of its DDR2 in Phase 3B, OC is using the fact that Gaz Métro has not responded the questions 1.1., 4.1 and 6.1 of its request for information no. 1 in Phase 3A (C-OC-0016) ("**DDR1 Phase 3A**"). Gaz Métro feels it necessary to reiterate that the reason it did not respond to these questions in Phase 3A is explained by the fact that they bear only on CAPEX that are to be dealt with in Phase 3B, and not on the establishment of the OPEX dealt with in the context of Phase 3A.

More specifically, in its response to questions 1.1, 4.1 and 6.1, Gaz Métro mentioned that the CAPEX are inputs used in the profitability analysis that will be dealt with in Phase 3B, but that the establishment of the OPEX relating thereto were dealt with in Phase 3A:

“As mentioned in the response to question 1.1, the determination of capital-related costs in a construction project is outside the scope of this study. This proposal aims only at determining the portion of the costs relating to operation expenses in a construction project. The overall analysis of a project's profitability, including capital-related costs, will however be addressed in Phase 3B of this case, which will cover the methodology for evaluating the profitability of system extension projects (B-0178, Gaz Métro-7, Document 1).

Therefore, the sub-questions 4.1 to 4.12, which aim at determining capital-relating costs, go beyond the scope of this study in Phase 3A.”¹

[emphasis added]

Contrary to what OC contends, Gaz Métro has not “transferred” the determination of the OPEX resulting from the CAPEX from Phase 3A to Phase 3B in its responses to questions 1.1, 4.1 and 6.1 of DDR1 Phase 3A. Moreover, Gaz Métro emphasizes that in its request for information no. 1 in Phase 3B (C-OC-0025), the intervenor asked questions similar to questions 1.1, 4.1 to 4.12 and 6.1 to 6.8 of the DDR1 Phase 3A, and that Gaz Métro answered those questions (see more specifically the responses to questions 2.1 to 2.6 of Exhibit B-0258, Gaz Métro-9, Document 4).

Moreover, the intervenor claims that the OPEX costs resulting from the CAPEX of reinforcing the distribution service lines could not be discussed in 3A, as this phase did not cover the determination of this type of investment.

“Now, in Phase 3B, GM is refusing to answer our IRs about the operations and maintenance costs associated with the reinforcement of mains by saying these were dealt with in Phase 3A. The O&M costs of main reinforcements cannot possibly have been dealt with in Phase 3A if the existence, quantification and capital costs of main reinforcements were deemed not to be part of Phase 3A.”²

¹ B-0211, Gaz Métro-8, Document 5, Response to question 4.1.

² C-OC-0040

Gaz Métro disagrees with this claim. In fact, and as mentioned in the introduction, the determination of all OPEX was dealt with in Phase 3A. While Phase 3A did not deal with such CAPEX as investments in meters, connections and service lines, the determination of the OPEX arising from these CAPEX was contemplated by evidence adduced by Gaz Métro³ as well as the requests for information.⁴

On that note, Gaz Métro would like to specify that the OPEX associated with the preventive (\$0.22/m) and corrective (\$0.37/m) maintenance costs per additional meter of service line were documented and discussed in Phase 3A.⁵ These OPEX costs will also apply when Gaz Métro needs to add new distribution service lines (looping) to reinforce the system. Moreover, when the system reinforcement consists of replacing existing service lines by greater capacity service lines, Gaz Métro believes that this does not incur any OPEX.⁶ The Régie was apprised of the above in the context of Phase 3A, and is currently taking the matter under advisement, hence the irrelevance of dealing with reinforcement-related OPEX in the context of Phase 3B. As for projects consisting of reinforcing the system by adding a compressor,⁷ these are less frequent and are usually investment projects valued at over \$1.5 million. Such investments, as well as the marginal operating costs that may result therefrom (such as electricity costs), are dealt with on a case-by-case basis and submitted to the Régie for approval. For example, in the investment project contemplating the reinforcement of the Saguenay transmission system (R-3919-2015) presented to the Régie, Gaz Métro included original marginal operating cost investments of \$775,000 in its profitability analysis.⁸

In its contestation (C-OC-0040), OC pointed out that the requests for information 1.5, 1.5.1 and 1.5.2 presented by its expert did not seek to obtain information on the determination of OPEX relating to CAPEX investments to reinforce the system, but were seeking to obtain information on how these were dealt with in the profitability analysis:

“This series of IRs attempts to determine how operations and maintenance costs associated with the reinforcement of mains are included in the profitability of the development plan.”⁹

In that regard, Gaz Métro specifies that the OPEX for system reinforcements resulting from Phase 3A will be dealt with in the profitability analysis in the same way as the CAPEX. Consequently, both the OPEX (where applicable) and the CAPEX associated with reinforcement will be considered globally in the profitability of the development plan, and not on a project-by-project basis.

³ B-0145, Gaz Métro-6, Document 2, pages 4 and 5, as well as tables 2, 3 and 4, pages 9 to 11, lines 13, 14, 16, 17 and 18 to 25.

⁴ See, more specifically, B-0236, Gaz Métro 8, Document 10, Response to question 2.1, as well as B-0240 of Exhibit Gaz Métro-8, Document 11, Responses to questions 4.1 to 4.3.

⁵ B-0145, Gaz Métro - 6, Document 2 page 4 and 5, as well as tables 2, 3 and 4, pages 9 to 11, lines 16 and 17, as well as B-236, Gaz Métro 8, Document 10, Response to question 2.1 pages 8 and 10, and B-240 of Exhibit Gaz Métro-8, Document 11, Response to question 4.3.

⁶ See B-0196, Gaz Métro-8, Document 1, Response to question 2.1.

⁷ C-ROEÉ-0089, Response to question 2.1

⁸ R-3919-2015, B-0046, Gaz Métro-1, Document 3, Schedule 1, pages 1 to 7.

⁹ C-OC-0040.

Questions 6.1 and 6.2

Questions 6.1 and 6.2 presented by OC's expert seek to determine the OPEX associated with the costs incurred prior to the execution of a contract (pre-commitment) such as marketing costs.

Gaz Métro respectfully submits that the appropriate venue for dealing with questions 6.1 and 6.2 was Phase 3A, and not Phase 3B. Gaz Métro repeats that the determination of OPEX was broached in Phase 3A in the context of the study on the method used to determine the marginal costs of service delivery.

Besides, all parties were heard precisely on the issue of whether or not the costs incurred prior to the execution of a contract should be taken into consideration. For its part, Gaz Métro clearly explained its proposed method for determining the OPEX¹⁰ and completed its evidence by responding to the requests for information bearing more specifically on the exclusion of marketing costs.¹¹

The OC expert's contestation should not allow him to reiterate the position that he adopted in the context of Phase 3A regarding, more specifically, marketing costs incurred prior to the execution of a contract.

The evidence adduced in Phase 3A is not only complete, but was taken under advisement by the Régie, such that it is not appropriate to consider the OC's contestation for questions 6.1 and 6.2.

In light of the above, Gaz Métro invites the Régie to dismiss the OC's contestation regarding the responses provided to questions 1.5, 1.5.1, 1.5.2, 6.1 and 6.2 of the DDR2.

Finally, as announced in its response to ROEÉ's contestation filed on August 17, 2017 (B-0305), Gaz Métro is filing a revised version of Exhibit Gaz Métro-9, Document 6, along with a revised list of the exhibits.

Yours sincerely,

(s) *Marie Lemay Lachance*

Marie Lemay Lachance

Encl.

¹⁰ B-0144, Gaz Métro-6, Document 1, page 5 and B-0145, Gaz Métro-6, Document 2, pages 5 and 6.

¹¹ B-0236, Gaz Métro-8, Document 19, response to question 1.3.