

RESPONSE OF GAZ MÉTRO LIMITED PARTNERSHIP (GAZ MÉTRO) TO THE
REQUEST FOR INFORMATION No. 1
OF UNION DES CONSOMMATEURS (UC)
TO GAZ MÉTRO

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 Governance Process

References

- (i) Gaz Métro-7, Document 1, page 9
- (ii) R-3642-2007 Gaz Métro-1, Document 1, page 11.
- (iii) R-3642-2007 Gaz Métro-1, Document 1, page 7.
- (iv) Annual Report as at September 30, 2012, R-3831-2012, Gaz Métro-17, Document 1, page 3

Preamble

- (i) 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.
- (ii) The project will require \$2,114,430 in total investments, taking into account service lines and connections. The developer will contribute to the project by providing \$1,600,000, payable according to the terms set out in the contract (Gaz Métro-1, document 4).
- (iii) Gaz Métro is very confident that it will obtain the anticipated level of withdrawal. Furthermore, the developer undertakes to make a contribution to Gaz Métro, thereby ensuring profitability over a period of 6.46 years.
- (iv) The Distributor presents the follow-up to the Versant Soleil project

Profitability

Item	Originally	Projected
Current value of effect on rates	\$(868,417)	\$124,225
Internal rate of return	13.79%	1.13%
Break-even rate	6.46 years	None

- 1.1 Please indicate if the internal governance process proposed by the Distributor would have had an impact on the assessment of the developer's contribution to the Versant Soleil project.

1.1.1 If so, please specify what this impact would have been.

Response:

The governance process presented in January 2017 would have had no impact on the Versant

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

Soleil project. Historically, Gaz Métro presents extension projects exceeding \$1.5 million with a profitability equal to or greater than the prospective capital cost. For the Versant Soleil project, Gaz Métro demanded a contribution from the customer/project sponsor in order to meet the profitability objective.

- 1.2 If not, is the Distributor considering implementing measures or procedures to ensure the profitability of such projects?

Response:

For a number of years, Gaz Métro has been conducting *a posteriori* analyses (for matters filed with the Régie and overall monitoring of the development plan). The findings of these analyses allow for the necessary corrections and improvements to be brought to future projects.

2 Exceptions

Reference

- (i) Gaz Métro-7, Document 1, page 8

Preamble

- (i) In addition to the rules for applying the acceptable minimum threshold, Gaz Métro has identified two exceptions where a profitability level that does not meet the acceptable minimum threshold would be accepted for an extension project. There are two specific contexts that afford a window of opportunity that should be taken advantage of: the development of an industrial park and the repaving of a road. These two types of infrastructure work can be carried out in tandem with extension project work, such that both can progress while disturbing and interfering as little as possible with the infrastructure already in place. This coordination can also yield cost savings that will benefit all customers. Indeed, a number of elements (such as saving activities and the removal and replacement of asphalt) allow Gaz Métro to generate savings by taking advantage of this optimal window of opportunity.

- 2.1 Please specify what the Distributor means by a “profitability level that does not meet the acceptable minimum threshold”.

Response:

Gaz Métro points out that in these particular cases, the 2% minimum threshold does not apply. A project with a profitability level below the minimum threshold could be accepted, provided there is an expectation that the PCC will be achieved or exceeded in the future.

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

- 2.2 Please indicate if the cost savings mentioned in the preamble are taken into account in the calculation of a “profitability level that does not meet the acceptable minimum threshold”.

Response:

Yes, cost savings are included in the evaluation of *a priori* profitability. The estimate always takes into account the conditions of completion.

- 2.3 In the case of the specified exceptions, could the Distributor accept unprofitable projects?

Response:

Gaz Métro only accepts extension projects that can ultimately allow for the PCC to be achieved. Please see also the response to question 12.2 of the Régie’s request for information No. 9 (Exhibit Gaz Métro-9, Document 1).

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

3 Acceptable Minimum Threshold

References

- (i) Gaz Métro-7, Document 1, page 7
- (ii) Gaz Métro-7, Document 1, page 8

Preamble

- (i) Gaz Métro notes that for the 2009, 2010 and 2011 development plans, a majority of the projects had six, five and four years of actual data available at the time the *a posteriori* analysis was produced. As a result, no projection was made and the *a posteriori* findings consisted entirely of actual data for customers, volumes, revenues and investments.

The following table presents the results of the *a posteriori* profitability analysis. More specifically, the table shows the IRR increase between the *a priori* IRR and the *a posteriori* IRR for all extension projects valued below \$1.5 million and for which a contribution was demanded.

**Table 1
Analysis Results**

Fiscal year of the Development Plan	IRR Increase (<i>a priori</i> IRR vs <i>a posteriori</i> IRR)
2009 Plan	5.08%
2010 Plan	5.52% ¹
2011 Plan	2.85%
Average	4.48%²

¹ Excluding a mining extension project, the profitability of which increased the overall IRR by 11.37%.

² Excluding a mining extension project from the 2010 Plan, the profitability of which increased the IRR by 6.43%.

Based on the findings in Table 1, Gaz Métro notes that the profitability of the extension projects analysed increased by an average of 4.48%.

- (ii) Based on the findings of the *a posteriori* profitability analysis, Gaz Métro established the acceptable minimum threshold at 2% of the IRR for extension projects associated with an investment level of less than \$1.5 million.

3.1 Please indicate if the same acceptable minimum threshold would apply to all markets.

Response:

In the method presented in January 2017 in Exhibit B-0178, Gaz Métro-7, Document 1, Gaz Métro confirms that the same acceptable minimum threshold applies to all markets.

3.2 Please indicate if the Distributor plans to periodically update the AMT on an annual basis as the *a posteriori* IRRs become available for development plans after 2011 or as the projects of the 2009-2010-2011 development plans advance in age.

Response:

Please see the response to question 9.1 of the Régie's request for information No. 9 (Gaz Métro-9, Document 1).

3.3 Please break down the analysis results by market in Table 1.

Response:

The results presented in Table 1 stem solely from projects in the commercial market.

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

On page 6 of section 4 of Exhibit B-0178, Gaz Métro-7, Document 1, Gaz Métro mentioned the following:

[TRANSLATION]

"[...] To produce the a posteriori profitability analysis, Gaz Métro targeted development plans of the commercial market for fiscal years 2009, 2010 and 2011..."

3.4 What are the sample sizes used for the years considered (2009 to 2011)?

Response:

Fiscal year of the development plan	Number of extension projects
2009 Plan	11
2010 Plan	12
2011 Plan (note 1)	11
Total	34

Note 1: Please note that the above table includes a development project of over \$1.5 million for the 2011 development plan. If this project is excluded, the overall IRR variation drops from 4.48% to 4.34%.

3.5 Please indicate a confidence interval, a margin of error, a variance or any other measure of dispersion regarding the average IRR increase of 4.48%.

Response:

For the 34 projects in the sample, there is no measure of dispersion or margin of error since there are no customer projections. It is important to note that these are only current customers, actual construction costs and invoiced revenues.

3.6 In the opinion of Gaz Métro, why is the IRR increase for 2009 (5.08%) lower than that of 2010 (5.52%), when normally the IRR increase should be higher for the earliest reference year, as more densification projects should have taken place?

Response:

Gaz Métro agrees with the following general principle: the earlier the reference year, the higher the increase in its IRR, since more densification projects should have taken place. It is possible however that the sales of the earliest reference year, while possibly greater in number, might generate an additional profitability that is lower than that for sales in the most recent reference year. For example, all other things being equal, this would be the case if sales for the earliest reference year were for new customers requiring relatively high connection costs, compared with densification sales in the most recent reference year consisting of load additions that require much lower connection costs.

3.7 In the opinion of Gaz Métro, is it possible that one of the samples considered included a customer contribution that could have produced a composition effect on the data used to calculate the IRR increase?

Response:

To perform its sampling, Gaz Métro selected projects with customer contributions; without such contributions, these projects would not have been profitable at the time they were accepted.

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

Therefore, the projects selected in the analysis are similar to the expansion projects targeted by the methodology presented in January 2017 in Exhibit B-0178, Gaz Métro-7, Document 1.

Customer contributions were excluded from the calculation of the *a priori* and *a posteriori* IRR. Therefore, customer contributions have no impact on calculating the IRR increase.

- 3.8 Please indicate the number of abandoned projects in the examined samples (2009 to 2011) and how it was factored into the IRR increase.

Response:

Of the 34 projects contemplated by the *a posteriori* analysis (see the table presented in response to question 3.2), none were cancelled or abandoned.

- 3.9 Please redo the Table 1 calculations and present the results that would have been obtained had the same projected revenues been used as for an *a priori* analysis instead of the actual *a posteriori* revenues.

Response:

Gaz Métro understands from the question that the revenues indicated in the original rate schedule are being requested. In response to question 9.3c of the Régie's request for information No. 9 (Gaz Métro-9, Document 1, revised), Gaz Métro has calculated the variation between the *a posteriori* IRR and the *a priori* IRR for all projects valued below \$1.5 million, for which a contribution was demanded *a priori* using both original rates and actual rates. It should be noted that the results obtained include the mining project excluded in Table 1, cited in preamble (i).

- 3.10 Please provide the IRR increase for the 2005, 2006, 2007 and 2008 reference years using the same methodology as the one used by Gaz Métro in Table 1. Please break the results down by market.

Response:

The data required to link densification sales to their original extension project were not available on Gaz Métro's systems before 2009. It is therefore impossible for Gaz Métro to answer this question.

4 AMT and Customer Contributions

Reference

- (i) Gaz Métro-7, Document 2, page 12

Preamble

- (i) The changes will generate a reduction in customer contributions. Gaz Métro does not require customers to make contributions for AMT extension projects, seeing as the potential for the future densification of authorized extension projects should allow for the achievement of the PCC.

- 4.1 Please indicate if the decrease in customer contributions would apply to all markets.

Response:

Yes.

- 4.2 Instead of eliminating customer contributions, has the Distributor considered requiring that they be spread out over time and then reduced, if need be, to reflect customer densification?

Response:

While this process has been considered, it would make the administrative monitoring of extension projects very complicated and impede the signing of projects for customers who are not ready to make financial commitments.

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

- 4.3 Are customer contributions included in the calculations for IRR increases that are presented in Table 1, page 7 of GM-7, Document 1? If so, please redo the calculations presented while taking into account the decrease in customer contributions that would result if the 2% AMT were applied.

Response:

No, customer contributions are not included in the calculations.