

**RESPONSE OF GAZ MÉTRO LIMITED PARTNERSHIP (GAZ MÉTRO)**  
**TO THE REQUEST FOR INFORMATION NO. 3B-1**  
**PRESENTED TO GAZ MÉTRO**  
**BY**  
**STRATÉGIES ÉNERGÉTIQUES (S.É.)**

**A. *LINKS BETWEEN QUÉBEC'S ENERGY POLICY, OPINION OF THE RÉGIE IN R-3972-2016 AND R-3867-2013 PHASE 3 (SUBJECT B)***

***REQUEST FOR INFORMATION S.É.-3B-1-1***

**Reference:** QUÉBEC GOVERNMENT, 2030. *Energy Policy. Energy in Québec: A source of growth*, Québec April 7, 2016,  
<http://mern.gouv.qc.ca/wp-content/uploads/2016/04/Politique-energetique-2030.pdf>  
(source pages: <http://mern.gouv.qc.ca/2016-04-07-politique-energetique/> and  
<http://politiqueenergetique.gouv.qc.ca/>)

**Request(s):**

- a) Please indicate how you integrate the government's objective of favouring the growth of the renewable natural gas industry (biomethane) into your proposal in this matter. Would it be appropriate to provide for a particular flexibility or specific terms and conditions when an extension project allows renewable natural gas to be added to Gaz Métro's system. Please explain and justify your choices.

**Response:**

Contrary to an extension project connecting a customer interested in consuming natural gas, the profitability of connection projects serving injection purposes does not depend on the distribution rate in force. Indeed, each injection project will have its own personalized receipt rate in order to ensure that the generated costs are paid directly by the connected customers.

In order to favour the renewable natural gas (RNG) industry's growth, Gaz Métro filed an application regarding RNG purchase and sale measures (R-4008-2017) last July 7. This application would allow Gaz Métro to purchase RGN at a higher price than the approved purchased price, which results solely from the avoided costs. In its application, Gaz Métro also seeks authorization for a voluntary purchase program that would allow customers that want to

consume RNG to have access thereto. This would improve the profitability of biomethanization projects and minimize the impact on customers.

Gaz Métro is of the opinion that these measures favour the growth of the RNG industry in Québec, and there is no need to revise the model for connections serving injection purposes.

- b) Please state how you integrate the government's goal of favouring increased energy efficiency into your proposal in this matter. Please explain and justify your choices.

**Response:**

Please refer to the 2018 rate case to consult the initiatives proposed by Gaz Métro to favour energy efficiency (R-3987-2016, B-0132, Gaz Métro-13, Document 1 and B-0239, Gaz Métro-13, Document 3).

**REQUEST FOR INFORMATION S.É.-3B-1-2**

**Reference: RÉGIE DE L'ÉNERGIE**, R-3972-2016, Exhibit A-0038, Opinion A-2017-01, page 115, Potential Solution No. 20:

***Potential Solution 20:** Given the low number of natural gas consumers in Québec, in order to avoid undue rate hikes, consider public assistance in cases where the gas system extension is not profitable based on reasonable rates. [footnote omitted].*

**Request(s):**

- a) Please indicate how you integrate the Régie's potential solution no. 20 above into your proposal in this matter. Please explain and justify your choices.

**Response:**

Public assistance is treated like a contribution in the profitability analysis and helps achieve the targeted profitability criterion. Gaz Métro reiterates that the contribution reduces the total amount invested in the project.

- b) Moreover, please elaborate on the possibility of imposing different rates on the customers of these gas system extensions (that are therefore not geographically uniform with the rest of the system's rates) in order to compensate for the cost of these extensions and avoid having those costs borne by the bulk of customers.

**Response:**

Gaz Métro is not excluding the possibility of implementing rate adjustments, such as rate riders for new unprofitable projects or a development rate to help enhance the profitability of certain projects. This could be dealt with in the context of, say, Phase 4 of this matter.

Currently, pursuant to the *Conditions of Service and Tariff*, contributions are the means for controlling rate increases for existing customers, and may be made by customers, municipalities or governments.

**REQUEST FOR INFORMATION S.É.-3B-1-3**

**Reference:** RÉGIE DE L'ÉNERGIE, R-3972-2016, Exhibit A-0038,  
Opinion A-2017-01.

**Request(s):**

- a) More generally, please list the various other aspects of the Régie's opinion A-2017-01 that would affect this Phase 3, Subject B in this matter by specifying, for each case, how these aspects were or were not integrated into your proposal in this case, justifying your choices in each case.

**Response:**

In potential solution no. 20 of opinion A-2017-01, the Régie recommends considering public assistance for unprofitable system extensions. As this recommendation would affect extension projects that do not meet the profitability criteria defined by Gaz Métro, a link may be made with the request in this case is possible.

However, the new proposed methodology is based on the calculation of a profitability index that is presented in Exhibit B-0277, Gaz Métro-7, Document 4, which only applies to projects valued at under \$1.5 million. If such projects were to benefit from government financial assistance, they would be subject to the same profitability criteria as the other projects.

As indicated in the response to request 1.1 of the IGUA's request for information No. 3 (Gaz Métro-9, Document 10), Gaz Métro is of the opinion that the proposed methodology could also be applied to projects with investments exceeding \$1.5 million. Seeing as the files of projects valued at over \$1.5 million are handled on a case-by-case basis and presented to the Régie, in accordance with section 73(1) of the *Act respecting the Régie de l'énergie*, the Régie might eventually determine whether the new methodology can be applied to projects valued at over \$1.5 million.

**B. MODIFIED METHODOLOGY FOR EVALUATING THE PROFITABILITY OF DEVELOPMENT PROJECTS (THE “NEW METHOD”), EXHIBIT B-0277**

**REQUEST FOR INFORMATION S.É.-3B-1-4**

**References:**

- i) **GAZ METRO**, R-3867-2013, Phase 3, Subject B, Exhibit B-0271, Gaz Métro-9, Document 7, response no. 3.1 to SÉ-AQLPA:

**REQUEST FOR INFORMATION S.É.-AQLPA-3-5**

**Reference:** **GAZ MÉTRO**, R-3867-2013, Phase 3 B, Exhibit B-0178, Gaz Métro-7, Document 1, page 3, lines 15 and 16:

*Gaz Métro therefore has a methodology for evaluating the profitability of system extension projects (the “methodology”).*

**Preamble:**

The Régie currently has the necessary flexibility to authorize, pursuant to section 73 (or to recognize as prudently acquired, under section 49) unprofitable investment projects. Therefore, for instance:

- In R-3937-2015, in its decision D-2015-200, [http://publicsde.regie-energie.qc.ca/projets/328/DocPrj/R-3937-2015-A-0006-Dec-Dec-2015\\_12\\_10.pdf](http://publicsde.regie-energie.qc.ca/projets/328/DocPrj/R-3937-2015-A-0006-Dec-Dec-2015_12_10.pdf), the Régie authorized a system extension project in the Bellechasse region for which the break-even rate was evaluated at 9.42 years.
- In R-3958-2015, in its decision D-2016-041, [http://publicsde.regie-energie.qc.ca/projets/352/DocPrj/R-3958-2015-A-0006-Dec-Dec-2016\\_03\\_18.pdf](http://publicsde.regie-energie.qc.ca/projets/352/DocPrj/R-3958-2015-A-0006-Dec-Dec-2016_03_18.pdf), the Régie authorized a system extension project in the Asbestos region for which the break-even rate was evaluated at 6.29 years. The Régie even noted therein that:

*[46] SÉ-AQLPA does not oppose the Project, but notes that it offers marginal profitability. However, a **future expansion of the industrial park’s clientele**, if achieved, could improve profitability and all of the environmental advantages. [...]*

*[48] Furthermore, Gaz Métro takes note of the SÉ-AQLPA’s support of the Project. However, it must reiterate that the **attainment of a break-even rate in five years is not a***

**critereon enacted by the Régie by which Gaz Métro is bound, but rather a measurement used, among several others, to assess the Project. As proof, in recent years the Régie accepted applications relating to the investment projects for which the break-even rate was more than five years.**

To the same effect, in R-3998-2017, Gaz Métro rightly stated the following in **GAZ MÉTRO**, R-3898-2017, Exhibit B-0023, Arguments, paras. 46 d, e and f:

d) **achieving the PCC is not a sine qua non condition to the authorization of an investment;**

e) **the Régie has the power to authorize a project that does not meet this criterion, and it has used that power in the past; [...]**

f) *the determination of what is prudently acquired and useful within the meaning of Section 49 (1°) of the Act respecting the Régie de l'énergie **requires an examination of all relevant circumstances** according to the applicable rules of law defined by both the Régie and the Supreme Court of Canada;*

and at paragraphs 76 and 70 of those same arguments:

76. *In its implementation of this “profitability criterion”, the Régie has, in the course of the various applications for the approval of investments of more than \$1.5 million, **evaluated, with a certain flexibility, the various particular circumstances** of each project submitted for approval;*

- Decision D-2004-197.*
- Decision D-2013-160.*

79. *Thus, while the PCC criterion does represent an objective to attain, the Régie did not hesitate to **specify that it was neither unique nor inescapable, and that the Régie retains its authority to determine the merits of a project;***

- See, among others, Decision-97-25, p. 16; D-2013-160, paras. 57 to 62; Decision D-2004-197, pp. 11, 21.*

**Request(s) [N.T.D.: What were the requests of SÉ-AQLPA in Exhibit B-0271, Gaz Métro-9, Document 7]:**

- a) If your proposed methodology for evaluating the profitability of extension projects is approved for this case, what will remain of the Régie's current flexibility to authorize (or to recognize as prudently acquired) unprofitable projects? Are you not

compromising this flexibility?

**Response:**

*It is mainly to be coherent with the position taken in R-3998-2017 that Gaz Métro is not asking the Régie to “approve” the methodology for evaluating the profitability of system extension projects, but rather to “take note” of it. Gaz Métro believes that the current wording of its application does not compromise the flexibility referred to by the intervenor. In that respect, Gaz Métro refers to its response to request 1.1 in the IGUA’s request for information no. 2 in Exhibit Gaz Métro-9, Document 2.*

- b) In the last paragraph of your re-amended application B-0176 dated January 20, 2017, you ask the Régie to “TAKE NOTE of the methodology for the assessment of the profitability of network extension projects”. What are you seeking from the Régie in that respect, (i) for the Régie to take note that you are using this methodology, without deciding whether it is good or bad, (ii) for the Régie to rule that it is a good methodology, (iii) for Gaz Métro to be bound by that methodology in future, or (iv) for the Régie to be bound by that methodology in future? Please elaborate.

**Response:**

Please refer to the response to question 1.1 of IGUA’s request for information no. 2, Exhibit Gaz Métro-9, Document 2.

- ii) **GAZ METRO**, R-3867-2013, Phase 3, Subject B, Exhibit B-0256, Gaz Métro-9, Document 2, response 1.1 to IGUA

*Gaz Métro confirms that, as appears from its application (B-0176), it asks the Régie to “take note of” the methodology for evaluating the profitability of system extension projects. Gaz Métro believes that the opportunity to apply, or refrain from applying, such a methodology is a business decision to be addressed internally by its managers, in the course of carrying out its business. Therefore, Gaz Métro respectfully submits that the Régie’s approval with respect to the methodology is not required. This position is moreover consistent with the one presented by Gaz Métro in R-3998-2017. Consequently, as indicated in the introductory note of Exhibit B-0178, Gaz Métro-7, Document 1, the review of the application in this matter is a response to the monitoring required by the Régie in decisions D-2016-090 and*

*D-2016-169. Besides, the term “take note of” is frequently used by Gaz Métro in the conclusions of its applications when it follows through with the monitoring required by the Régie.*

*Moreover, as noted in the response to request 1.13 of the Régie’s request for information no. 9 (Gaz Métro-9, Document 1), the latter may, in the context of reviewing rate applications, rule on the utility and prudent nature of the investments that will have been carried out by Gaz Métro in applying this methodology.*

**Request(s):**

- a) We reiterate our concerns expressed in reference (i) to questions (a) and (b). To the extent that Gaz Métro is only asking the Régie to “take note” of its new methodology, would it not be simpler to ask the Régie to make no decision so as to avoid any misinterpretation that would have the effect of weakening its flexibility, the conservation of which you are advocating for?

**Response:**

Please refer to the responses to the previous requests.

**REQUEST FOR INFORMATION S.É.-3B-1-6**

**Reference: GAZ MÉTRO**, R-3867-2013, Phase 3, Subject B, Exhibit B-0277, Gaz Métro-7, Document 4, page 4, lines 3 and 10:

*2. include only direct incremental costs (service lines, connections, meters, etc.) when analyzing the individual profitability of a development project. This would promote a rate drop through the economies of scale inherent to each project that generates revenues in excess of the incremental costs;*

*3. include the indirect development costs (general corporate and contractor expenses), which are the same for all new customers, as well as the reinforcement costs with respect to the development plan’s overall profitability;*

**Request(s):**

- a) Please explain the apparent contradiction between the fact of including only the direct incremental costs of paragraph 2 and also including the indirect development costs of paragraph 3. Please amend your exhibit if necessary.

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**Response:**

Black & Veatch recommends that Gaz Métro include the direct incremental costs in the profitability evaluation of each individual project. These costs must be directly attributed to each new customer, seeing as they are specifically incurred by Gaz Métro in order to serve it (service lines, connection, meter, etc.) and must be considered in the profitability evaluation on a project-by-project basis.

Indirect development costs are those costs that cannot be directly attributed to a new customer, but are common to all new projects due to the fact that they support the activities of connecting new customers to Gaz Métro.

For Gaz Métro, indirect development costs are general corporate and contractor expenses. According to Black & Veatch, given that these costs are relatively stable for a certain group of projects authorized annually, are incurred on an annual basis and will not fluctuate as a direct result of the number of new customers or new projects, they must be considered in the overall profitability of the development plan.

If these indirect costs are attributed on a project-by-project basis, some projects taken individually might not meet the profitability acceptance criteria. This situation would prevent Gaz Métro from enjoying economies of scale, and all customers from enjoying the resulting rate reductions. The example presented in section 4.5 of the Black & Veatch report (B-0278, Gaz Métro-7, Document 5) clearly illustrates this point.

- b) What are the unconsidered costs excluded by paragraph 2 of the reference? Please list them.

**Response:**

The indirect costs in paragraph 3 of the reference for this request.

**REQUEST FOR INFORMATION S.É.-3B-1-7**

**Reference:** GAZ MÉTRO, R-3867-2013, Phase 3, Subject B, Exhibit B-0277, Gaz Métro-7, Document 4, page 14, lines 16 and 17 and page 15, lines 1 and 2:

*For individual projects with densification potential, the PI must be greater than or equal to 0.8, which corresponds to an IRR of approximately 3.70%, which is higher than the AMT criterion of 2%. It is important to note that the densification potential must nonetheless allow to achieve a PI of 1.*



**Request(s):**

- a) Please indicate what proportion of projects will no longer be accepted if an IRR of 2% rises to an IRR of 3.7%.

**Response:**

Gaz is unable to specifically indicate the proportion of projects that would no longer be accepted by applying the New Method, seeing as there is a multitude of elements influencing a project's acceptance, such as densification potential, customer contribution, etc.

Moreover, Gaz Métro expects that this impact will be negligible seeing as, contrary to the AMT Method, the New Method does not include the general corporate and contractor costs in the project profitability analysis, but the acceptance criterion for projects with potential has increased, such that the PI has risen from 0.6 (equivalent to an IRR of 2% in the AMT) to 0.8 (IRR of 3.70%) in the New Method. Please, refer to the response to question 12.1 of the Régie's request for information no. 11 (Gaz Métro-9, Document 9).

**REQUEST FOR INFORMATION S.É.-3B-1-8**

**Reference:** GAZ MÉTRO, R-3867-2013, Phase 3, Subject B, Exhibit B-0277, Gaz Métro 7, Document 4, page 17, lines 1 to 4:

*"Gaz Métro will improve the a posteriori profitability analysis that is filed with the annual report. More specifically, Gaz Métro will add the a posteriori profitability analysis six years later for development projects with a PI of between 0.8 and 1, and for industrial park and road repaving projects."*

**Request(s):**

- a) How did you arrive at a period of 6 years?

**Response:**

Please refer to the response to request 4.2 of the Régie's request for information no. 11 (Gaz Métro-9, Document 9).

- C.** *Methodology for Evaluating the Profitability of System Extension Projects Additional Evidence, Follow-up on Decision D-2017-009 (Gaz Métro-7, Document 2), p. 7.*

**REQUEST FOR INFORMATION S.É.-3B-1-9**

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**Reference: GAZ MÉTRO**, R-3867-2013, Phase 3, Subject B, Exhibit B-0278, Gaz Métro 7, Document 5, page 4.

*Black & Veatch finds that the approach utilized by FortisBC, Union Gas Limited and Enbridge Gas Distribution is a reasonable and well-balanced approach. This method utilizes an individual project P.I. of 0.8 and a project portfolio P.I. of 1.1 as the appropriate profitability targets. Black & Veatch recommends that Gaz Métro adopt this type of approach.*

**Request(s):**

- a) The consultant's recommendation speaks of the type of approach and seems less precise than the fact of retaining a profitability index of 0.8 for individual projects and 1.1 for all projects. Have you considered retaining other profitability index levels?

**Response:**

No, Gaz Métro endorses all of the recommendations set forth in the Black & Veatch report, including that of using an approach based on the profitability index used by Fortis BC, Union Gas Limited and Enbridge Gas Distribution.

**REQUEST FOR INFORMATION S.É.-3B-1-10**

**Reference: GAZ MÉTRO**, R-3867-2013, Phase 3, Subject B, Exhibit B-0278, Gaz Métro 7, Document 5, page 14, Table 1.

UTILITY NAME	Location of operation	Number of customers	Area size (square miles)	Customer density (per square mile)
<b>Canadian Gas Utilities</b>				
ATCO Gas	AB	1,100,000		
Enbridge Gas Distribution	ON	2,158,000	10,988	196
Enbridge Gas New Brunswick	NB	12,000		
Fortis BC	BC	982,000	34,667	28
Union Gas Limited	ON	1,400,000	72,132	19
<b>U.S. Gas Utilities</b>				
Cascade Natural Gas	WA	273,365	8,197	33
Chesapeake Utilities	MD, DE, FL	59,546	9,744	6
Columbia Gas (NiSource)	PA, MA, VA, OH, KY, MD	1,161,457	60,174	19

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Interstate Power & Light	IA	234,819	36,577	6
Unitil Corporation	ME, NH, MA	76,113	3,295	23

**Request(s):**

- a) Why is the area not indicated in the third column of the table for ATCO Gas Alberta and Enbridge Gas New Brunswick? Please amend your exhibit as required.

**Response:**

Black & Veatch

Black & Veatch's data provider does not report information for service area size for either of these two gas utilities. The service area size for Enbridge Gas – New Brunswick was estimated by Black & Veatch using geographic data for each of the communities served with natural gas in the Province of New Brunswick. The service area size for ATCO Gas was estimated by Black & Veatch using geographic data for the Province of Alberta and a general map of the regions served with natural gas by ATCO Gas.

**D. ADDITIONAL QUESTIONS ASSOCIATED WITH PREVIOUS GAZ MÉTRO RESPONSES**

**REQUEST FOR INFORMATION S.É.-3B-1-11**

**Reference:** GAZ MÉTRO, R-3867-2013, Phase 3, Subject B, Exhibit -0253, Gaz Métro 9, Document 1, Responses to the Régie's request for information no. 9, page 16, table 1, column - Class 3, line-production timeframe: from 2 to 8 weeks.

**Request(s):**

- a) We expect that the minimum period for this class and this line would be greater than two weeks. Do you have any explanation to justify such a short timeframe?

**Response:**

Based on the size, complexity, experience and knowledge of the project, the production timeframe varies between two and eight weeks. For example, for a relatively simple project completed in a known sector, the production timeframe is approximately two weeks, while in the case of a larger project in a less well-known region, the production timeframe may take eight weeks or even more. The criterion of two to eight weeks is a general rule.

**REQUEST FOR INFORMATION S.É.-3B-1-12**

**Reference:** GAZ MÉTRO, R-3867-2013, Phase 3, Subject B, Exhibit B-0253, Gaz Métro 9, Document 1, Responses to the Régie's request for information no. 9, Schedule Q.9.2, page 1, column 2016 Plan, line residential sector – IIR variances (actual rates).

**Request(s):**

- a) Is it normal that the IRR variation for load additions of -6,1% has had no impact on the total residential IRR variance of 0.6%, which represents the same IRR variance for new residential customers?

**Response:**

It is normal that despite the IRR variance for load additions, there is no impact on the total residential IRR variance. Indeed, the investments and volumes of load additions have been very small compared to those of new customers. Their impact on the overall IRR is therefore minimal.

**REQUEST FOR INFORMATION S.É.-3B-1-13**

**Reference:** GAZ MÉTRO, R-3867-2013, Phase 3, Subject B, Exhibit B-0256, Gaz Métro 9, Document 2, Responses to the IGUA's request for information no. 2, page 5, table in response to question 3.2:

Current value of the impact on rates (40 years) for projects valued at under or over \$1.5 million.

<b>Development Plan</b>	<b>A posteriori</b>
2009	(\$8,745,519)
2010	(\$10,728,375)
2011	(\$12,726,214)
Total	(\$32,200,108)

**Request(s):**

- a) Can you distinguish between the current value of the impact on rates (40 years) for projects valued at under and over \$1.5 million?

**Response:**

**Present value of impact on rates  
(40 years)**

Development Plan	Projects under \$1.5 M	Projects over \$1.5 M	Total
2009	(\$8,745,519)	0	(\$8,745,519)
2010	(\$10,728,375)	0	(\$10,728,375)
2011	(\$12,237,459)	(\$488,755)	(\$12,726,214)
<b>Total</b>	<b>(\$31,711,353)</b>	<b>(\$488,755)</b>	<b>(\$32,200,108)</b>

**REQUEST FOR INFORMATION S.É.-3B-1-14**

**Reference: GAZ MÉTRO**, R-3867-2013, Phase 3, Subject B, Exhibit -0257, Gaz Métro 9, Document 3, Responses to the FCEI's request for information no. 2, page 21 (Table in response 4.1) and page 23 (Table in response 4.7):

R.4.1 IRR increase (*a priori* IRR vs *a posteriori* IRR) (all projects that required a contribution)

Fiscal year of the Development Plan	Number of projects	IRR Increase ( <i>a priori</i> IRR vs <i>a posteriori</i> IRR)
2009 Plan	11	5.08%
2010 Plan	12	5.52%
2011 Plan (note 1)	11	2.85%
2012 Plan	21	1.77%
<b>Total:</b>	<b>55</b>	<b>3.81%</b>

R-4.7 IRR increase (*a priori* IRR vs *a posteriori* IRR) (projects under \$1.5 million but regardless of contribution)

Fiscal year of the Development Plan	Number of projects	IRR Increase ( <i>a priori</i> IRR vs <i>a posteriori</i> IRR)
2009 Plan	58	4.66%
2010 Plan	57	4.95%
2011 Plan (note 1)	120	0.46%
2012 Plan	160	3.15%
<b>Total</b>	<b>395</b>	<b>3.31%</b>

**Request(s):**

- a) Please confirm that the average indicated in these two tables does not take into consideration the number of projects carried out each year. Please elaborate and explain. Response:

**Response:**

The average calculated in these two tables is an average over four years, and not a weighted average based on the number of projects carried out per year.

**REQUEST FOR INFORMATION S.É.-3B-1-15**

**Reference: GAZ METRO**, R-3867-2013, Phase 3, Subject B, Exhibit B-0257, Gaz Métro 9, Document 3, responses to the FCEI's request for information no. 2, Schedule Q.1.14, pages 1 and 2:

Table R-1.14, pages 1 and 2

Example of a residential project

**1. RESIDENTIAL PROJECT**

Investment Application for Project 10-006906-120

Municipality: SENNEVILLE

Region: Montreal

Length of main: 765 m

Anticipated customers and volumes

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 1,000 m <sup>3</sup>	78.3	2700 m <sup>3</sup> per client
Main line costs	135,470	
Connection costs	95,033	
General expenses (14.53%)	33,492	
RCP	0	
System connection contribution	0	
CASEP - Capital assets	0	
Customer contributions	-8,700	
Total investments	255,295	
Rate contribution (10 years)	49,752	
Rate contribution (40 years)	-6983	
Internal Rate of Return (IRR)	4.99%	

Sensitivity analysis

The addition of 54 units would push the profitability over the PCC.

Original: 2017.08.10

**Request(s):**

- a) Please specify the following: does the addition of 54 units relate to 29 (in other words all 83 units will run on gas) or is this an addition of 25 units of natural gas for a total of 54 units?

**Response:**

Note that schedule Q1.14 of Exhibit B-0257, Gaz Métro-9, Document 3 was revised. The number of customers specified is 25 natural gas units. An addition of 38 units running on natural gas, for a total of 67 units, would allow for a profitability exceeding the PCC. Over time, the project will include 83 single family homes.

- b) Why are there no UMQ fees in the residential sector example? Is it because it's the residential market or due to a specificity of the municipality of Senneterre ?

**Response:**

Gaz Métro presumes that the intervenor is referring to the residential project in the municipality Senneville, which is not participating in the UMQ fee agreement.

**REQUEST FOR INFORMATION S.É.-3B-1-16**

**Reference: GAZ MÉTRO**, R-3867-2013, Phase 3, Subject B, Exhibit B-0257, Gaz Métro 9, Document 3, Responses to the FCEI's request for information no. 2, Schedule Q.1.14, pages 3 and 4:  
Table R-1.14, pages 3 and 4

Example of an industrial park project  
Investment Application for Project 10-007448-120  
Municipality: SAINT-JEAN SUR RICHELIEU  
Region: Montérégie  
Length of main: 300 m  
Project Information

This project seeks to extend Pierre-Caisse Street in an industrial zone of Saint-Jean-sur-Richelieu. Municipal utilities have already been installed, but the street is unpaved. 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

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area, 70% is used to calculate the heating volume, namely 131,250 m<sup>3</sup>. This volume excludes future processes which customers might consume.

Once completed, this project will include approximately 4 customers.

**Anticipated customers and volumes**

Customers	m <sup>3</sup> contract	% MAO	MAO m <sup>3</sup>	RCP \$	Displaced energy
Industrial Park, Pierre-Caisse St.	0	0	0	0	New constr.

Data included in the profitability assessment tool

Number of customers	0
Volume in 1,000 m <sup>3</sup>	0
Main line costs	53,004
Connection costs	
UMQ Fees (2.00%)	895
General expenses (14.53%)	7,832
RCP	0
System connection contribution	0
CASEP - Capital assets	0
Customer contributions	0
Total investments	61,731
Rate contribution (10 years)	41,079
Rate contribution (40 years)	77,385
Internal Rate of Return (IRR)	0.00%
Sensitivity analysis	

The addition of 2 customers will bring the profitability over the PCC.

**Request(s):**

- a) In this industrial development example, do the general expenses include a proportion of the UMQ fees? Please specify.

**Response:**

Yes, the general corporate expenses of 14.53% were calculated taking the 2% UMQ fees into account.

- b) If so, what is the logic behind this inclusion?

**Response:**

They were taken into consideration, seeing as Gaz Métro's internal resources work annually to manage this agreement with Union des municipalités du Québec (UMQ). Consequently, the general corporate expenses were applied against the 2 % amount.

**REQUEST FOR INFORMATION S.É.-3B-1-17**

**Reference:** GAZ MÉTRO, R-3867-2013, Phase 3, Subject B, Exhibit B-0257, Gaz Métro 9, Document 3, Responses to FCEI's request for information no. 2,



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

Schedule Q.1.14, pages 5 and 6.  
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 Autoroute 55. The one customer included in this project brings a volume of 24,146 m<sup>3</sup>, 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.

**Anticipated Customers and Volumes**

Customers	m <sup>3</sup> contract	% MAO	MAO m <sup>3</sup>	RCP \$	Displaced energy
Industrial Park, Pierre-Caisse St.	24,146	84	20,283	0	Conv.propane

Data included in the profitability assessment tool

Number of customers	1		
Volume in 1,000 m <sup>3</sup>	20.3		20,300 m <sup>3</sup> per customer
Main 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 assets	0		
Customer contributions	0		
Total investments	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.

**Request(s):**

- a) It would seem that the general expenses are higher than (14,353 X (50,664+9,375+1,099)), which gives \$8,883. Is that a typo or was a value omitted?

**Response:**

Gaz Métro notes that there is an error in the entry of the amount for the main line cost. The amount should be \$56,664 instead of \$50,664. Consequently (56,664 + 9,375 + 1,099) \* 14,53% = 9,755 \$. Gaz Métro has amended

**Gaz Métro Limited Partnership**  
**Application relating to the marginal costs of long-term service delivery**  
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Schedule Q-1.14. Please refer to the revised Exhibit Gaz Métro-9, Document 3.

- b) Shouldn't the total be \$70,893 instead of \$76,893? Please amend your Exhibit, if necessary.

**Response:**

The error detected in the response to the previous request (1.17a) influences the total, which is \$76,893. Gaz Métro has amended Schedule Q-1.14. Please refer to the revised Exhibit Gaz Métro-9, Document 3.

**REQUEST FOR INFORMATION S.É.-3B-1-18**

**References:** GAZ METRO, R-3867-2013, Phase 3, Subject B, Exhibit B-0258, Gaz Métro 9, Document 4, responses to OC's request for information no. 1, page 4, response table 2.2:

Number and costs of meters purchased

	\$	Number	Unit cost \$/meter	
Actual				
2006	3,420,638	15,585	219	
2007	2,469,197	14,002	176	
2008	3,072,707	17,377	177	
2009	2,708,584	17,322	156	
2010	2,517,169	12,644	199	
2011	5,057,573	19,595	258	
2012	3,495,466	16,564	211	
2013	4,218,832	19,105	221	
2014	5,788,916	26,922	215	
2015	4,814,973	14,875	324	
2016	5,405,337	20,002	270	Actual average 221
Projection				
2017	5,350,000	19,553	274	
2018	7,699,743	21,410	360	
2019	7,815,239	21,410	365	
2020	7,845,653	21,410	366	Projected average 341

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

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Growth
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55%
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**Request(s):**

- a) The table indicates strong growth between the meter unit costs anticipated for the 2017-2020 period as opposed to the average cost of meters purchased between 2006 and 2016. How do you explain this 55% growth?

**Response:**

The average projected cost for meters is higher than that for the 2006-2016 period due mainly to the two following reasons:

1. Purchases made from Gaz Métro's main meter supplier have been carried out since 2015 in US dollars, and the effects of the exchange rate have pushed costs up. The impact is approximately a 33% cost increase.
2. Gaz Métro intends to replace the S50-type meters over the next few years (following a more stringent regulatory context imposed by Measurement Canada) by Sonic 880 and D800 meters, which cost approximately 40% more.