RÉPONSES D'OC À LA DEMANDE DE RENSEIGNEMENTS N° 1 DE LA RÉGIE DE L'ÉNERGIE (LA RÉGIE) RELATIVE AU DOSSIER GENERIQUE PORTANT SUR L'ALLOCATION DES COUTS ET LA STRUCTURE TARIFAIRE DE GAZ METRO

1. Références : (i) Pièce C-ROEÉ-0082, p. 20;
(ii) Pièce C-ROEÉ-0082, p. 21;
(iii) Pièce C-ROEÉ-0082, p. 25.

Préambule :

(i) « ***What categories of operating costs result from additions of new loads, as distinct from additions of new customers?***

A :Gaz Métro identifies four categories that it treats as being driven by the number of customers added, but that probably vary more with the added revenue, which I list below, with the line numbers from the B&V Report(B-0145, pp. 9–11) :

- *Cost of Bad Debts;*
- *Collection and recovery costs;*
- *Customer retention costs -Major accounts;*
- *Customer retention costs -Major industries.*

A small customer who goes into financial distress or leaves unpaid bills will impose lower costs of bad debt and debt collection than a larger one, for the same number of months of unpaid bills. »

(ii) « ***Q: Why do you disagree with B&V on the treatment of Distribution Gas Supply expenses***

A :The costs in this account cover long-term and short-term planning of Gaz Métro purchases of gas for its customers; system control for all gas on the Gaz Métro system; and contractual relationships with Gaz Métro's suppliers, third-party suppliers, and self-supplying customers. »

(iii) « ***Q:Has Gaz Métro omitted any costs from this category?***

A :I believe so. Gaz Métro must incur costs prior to the commitment of customers to connection to the new line, for marketing; explaining the connection process, rates, the CRP, and other matters to potential customers; and estimating the costs of service connections so that customers can commit to the connection. Those costs must be included in the evaluation of the decision to proceed with the line extension. »

Demandes :

1.1 Veuillez commenter l'opportunité que les coûts relatifs aux « *Cost of Bad Debts* » et « *Collection and recovery costs* » soient fonction des revenus attendus comme le suggère l'expert Chernick à la référence (i).

1.2 Veuillez commenter l'opportunité d'inclure dans les coûts marginaux de prestation de service long terme, des coûts relatifs aux dépenses « *Distribution Gas Supply expenses* » comme suggérés par l'expert Chernick à la référence (ii).

1.3 Veuillez commenter l'opportunité d'inclure dans les coûts marginaux de prestation de service de long terme, des coûts relatifs aux dépenses de marketing comme suggéré par l'expert Chernick à la référence (iii).

Responses:

1.1 Mr. Marcus agrees with Mr. Chernick that « Collection and Recovery Costs » should be included in long-run marginal costs and has included them in his written testimony (OC Expert Report, C-OC-0023, p. 6). See also the response to question 4.1 below.

Mr. Marcus believes that bad debt costs are not marginal costs of current customers but are costs of customers who left the system without paying their full cost (OC Expert Report, p. 8). They are thus revenue-related. While he left those costs out of the calculation, as not strictly being marginal costs of operation related to <u>customers</u>, he could envisage including them in a profitability analysis in a similar way to his inclusion of « Collection and Recovery Costs ».

1.2 Regarding distribution gas supply expenses, the question is whether the addition of <u>customers</u> increases these expenses. It is possible that the need to <u>purchase more gas</u> could increase these expenses. However, for the residential and small commercial classes, the addition of customers has tended for many utilities to be offset by reductions in use per customer due to improving efficiency of buildings and appliances. Consequently, annual residential and small commercial gas consumption has not increased as fast as customer increases and in some cases has been flat. Very Large Industrial customers tend to transport their own gas and may cause Gaz Metro to incur transportation administration costs, which are typically compensated as part of these customers' rates.

1.3 Mr. Marcus agrees with Mr. Chernick that these costs should be accounted for in some way in the analysis of profitability, although he has not included them in marginal operating costs. He would include them as part of the overhead costs of connecting customers (i.e., on the side of the ledger with the cost of connection) rather than in the one-time costs of operating the system after customers are connected.

2. Références : (i) Pièce C-ROEÉ-0082, p. 8 et 9;
(ii) Pièce B-0196, Annexe 1, p. 1 à 4.

Préambule :

(i) « *Gaz Métro provides a range of estimates, from zero to the average expected cost of the service, for several cost categories (processing CRP applications, customer retention, various meter maintenance costs).* [...]

These ranges add nothing to the analysis of profitability, for two reasons. First, the values presented as the high end are not high-end estimates: they are averages, reflecting high-cost and low cost situations. Gaz Métro is proposing ranges from zero to average, rather than just using the average.

Second, Gaz Métro has not explained how it would use these ranges.

Where Gaz Métro has distinguished the costs of serving different types of customers (as for meter maintenance), those values can be used in the profitability analyses, by multiplying the cost for each type of meter by the number of those meters to be added. It is not clear how Gaz Métro would know, as it is proposing to extend a line, whether the eventual new customers would use the call center, apply for a CRP grant, or require customer retention services in the future. »

(ii) Tableaux décrivant la méthodologie utilisée pour établir chacun des coûts présentés dans la proposition l'expert de Gaz Métro.

Demande :

2.1 Veuillez donner votre opinion sur la position de l'expert Chernick citée à la référence (i), sur la pertinence et l'utilité de définir des plages de coûts marginaux de prestation de service de long terme, variant entre zéro et une valeur moyenne (référence (ii)).

Response:

Mr. Marcus generally agrees with Mr. Chernick on this issue. The tables that he attached to his Exhibit WM-2 generally do not include values between zero and the mean value for calls, customer retention services, and other activities where the behavior of a single customer will be unknown at the time of the connection.

The only exception that Mr. Marcus made in the residential class involves meter maintenance. It will be known which of the few large residential customers have the specific meter requiring maintenance. For CII customers, Mr. Marcus made exceptions for the meter maintenance because the clients requiring maintenance are known at the time of connections. He also included a range for major accounts. Mr. Marcus believes that GM could know which CII customers receive major accounts services in at least some cases, because they are generally small accounts associated with larger entities or franchises rather than independent small businesses. For Major

Industries customers, he assigned a value of zero to the meter reading value because customers who are telemetered will not have their meters read conventionally. Again, this is a factor that will be known at the time of connection.

3. Référence : (i) Pièce B-0196, p. 6 et 7.

Préambule :

(i) « *2.1 En comparant l'étude déposée par Gaz Métro dans le cadre du dossier tarifaire 2015, à la référence (i), et l'analyse produite par Black & Veatch, à la référence (ii), la Régie note que cette dernière, n'inclut pas les coûts marginaux de prestation de services de long terme pour les ajouts de charge (référence (iii)). Veuillez expliquer pourquoi.*

Réponse :

Load additions typically do not require new facilities and therefore do not have any marginal O&M. If load additions require new capital to replace existing facilities there is also no incremental O&M and in fact the NPV of future O&M actually decreases. In fact the new facilities have lower current O&M than the replaced facilities because they are largely plastic pipe that requires no cathodic protection. Also, new plastic typically requires little or no maintenance compared to older plant.

Any additional administrative costs would likely be more than offset by the decreased O&M costs, hence the assumption of zero marginal O&M costs.

Demande :

3.1 Veuillez donner votre opinion sur l'hypothèse retenue par Gaz Métro et son expert, selon laquelle, les coûts marginaux de prestation de service de long terme sont nuls pour les ajouts de charge.

Response:

Mr. Marcus disagrees with Gaz Metro and with Dr. Overcast on this issue and believes that there are likely to be either administrative costs or costs of capacity additions or both caused by the aggregate of demands of new customers. OC posed information requests in Phase 3A to enable an evaluation of this issue. Gaz Metro refused to answer those information requests, claiming that such questions were beyond the scope of Phase 3A and were instead part of the scope of Phase 3B. As a result, Mr. Marcus and OC have planned to address the issue substantively in Phase 3B.

4. Référence : (i) Pièce C-OC-0023, p. 7.

Préambule :

(i) « *I would recommend including the average of collections and recovery costs as a long-run marginal cost. In a profitability analysis, it should ramp up by 25 % per year from year 2 to 100 % in year 5.* »

Demande :

4.1 Veuillez expliquer davantage votre recommandation d'augmenter les coûts « *collections and recovery* » de 25 % à partir de l'année 2, jusqu'à 100 % à l'année 5.

Response:

Mr. Marcus believes that « Collection and Recovery Costs » should be included in long-run marginal costs. He recognizes, however, that in a profitability analysis, there may be a lag in the incurrence of these costs, because the original owner is unlikely to face financial difficulty at the onset, but the passage of time and the mobility of customers between dwellings will cause this cost to increase over time to average levels. That is why Mr. Marcus suggested a phase-in of the costs to reach full marginal cost by year 5 (i.e. 25% of the costs incurred in year 2, 50% in year 3, 75% in year 4 and 100% in year 5).