

**DEMANDE DE RENSEIGNEMENTS N^O 2 D'OPTION CONSOMMATEURS (OC) À
SOCIÉTÉ EN COMMANDITE GAZ MÉTRO (GM)**

**DEMANDE RELATIVE AU DOSSIER GÉNÉRIQUE PORTANT SUR
L'ALLOCATION DES COÛTS ET LA STRUCTURE TARIFAIRE DE GAZ MÉTRO**

R-3867-2013 PHASE 3B

**GAZ METRO'S PROFITABILITY ANALYSES FOR SYSTEM EXPANSION
PROJECTS**

1. Reference: i) **Exhibit B-0277, GM-7, Doc 4, page 13, lignes 14-21.**

Preamble: Gaz Metro states: "Les coûts de renforcement sont ainsi considérés globalement dans la rentabilité du plan de développement et non projet par projet."

Questions:

- 1.1. Please provide a detailed calculation showing how the costs of reinforcement of the distribution network are calculated for evaluating the profitability of a development plan, using a recent development plan as an example.
- 1.2. Please explain how reinforcement costs are estimated and calculated on a regional or service area basis for any given development plan. Explain how specific projects are identified, if at all, and explain how costs per unit of increased demand are developed, if they are developed. Provide work papers showing sample calculations.
- 1.3. For how many years out (i.e. until what year in the future) is the potential for reinforcement cost calculated, and how is the cost apportioned between current and future development?
- 1.4. Please identify specific near-term or intermediate-term reinforcements and their respective costs for individual very large projects at the time of their initial development, rather than including those costs in the development plan for all projects? If so, please explain how those reinforcements could be identified. If not, why not?
- 1.5. How are operations and maintenance costs associated with the reinforcement (for main inspection and main maintenance, as well as operations and maintenance of new regulating stations and compressor stations) included, if at all, in the profitability of the development plan?
 - 1.5.1. If operations and maintenance costs are included, provide work papers showing sample calculations that demonstrate how those costs are calculated and included.
 - 1.5.2. If operations and maintenance costs are not included, please explain why it is reasonable not to include them.

- 2. Reference: i) Exhibit B-0264, GM-9, Doc 6, GM Response to ROEE Expert Paul Chernick's No. 2 IRs in Phase 3, Question 1.6, pp. 3-5.**

Question:

2.1 Please identify the length of each reinforcement project listed in this response in metres.

COST OF CAPITAL AND OTHER ECONOMIC PARAMETERS FOR EVALUATION

- 3. Reference: i) Exhibit B-0258, GM-9, Doc 4, GM Response to OC No. 1 IRs in Phase 3B, Question 7.2, pp. 24-27.**

Questions:

- 3.1 Is the cost of debt of 2.82% an embedded cost or an incremental cost?
3.2 Is the cost of debt net of the income tax deduction on debt interest?
3.3 In any case, please provide derivation or substantiation of the cost of debt.
3.4 Is the cost of preferred stock of 4.44% an embedded cost or an incremental cost?
3.5 In any case, provide derivation or substantiation of the cost of preferred stock.
3.6 Under item (xi), the volume of sales is identified as an item included in the analysis.
Explain how the volume of sales is forecast for new residential customers and for new business customers?
3.7 Under item (xi), it appears that the customer charge is missing from the list of specific entries of revenue received from each project. Is this correct? If so, why is it not included?

LONG-RUN MARGINAL OPERATION COSTS THAT ARE NOT DIRECT COSTS OF CUSTOMER CONNECTION

- 4. Reference: i) Exhibit B-0258, GM-9, Doc 4, GM Response to OC No. 1 IRs in Phase 3B, Question 4.4, pp. 12-13.**

Questions:

- 4.1 Please provide the costs of operating the corporate human resources department in each year from 2012 to 2016 inclusively.
4.2 What percentage of these costs is capitalized and what percentage is expensed?

5 PROFITABILITY OF NETWORK ADDITIONS IN RECENT YEARS

References: i) **Exhibit B-0258, GM-9, Doc 4, GM Response to OC No. 1 IRs in Phase 3B, Question 6.2, p. 21.**

Question:

5.1 Please provide the direct cost in total for each type of project for which cumulative customers and revenues are estimated.

MARKETING AND ADMINISTRATION OF NEW CUSTOMER CONNECTIONS

- 6 Reference:** i) **Exhibit B-0258, GM-9, Doc 4, GM Response to OC No. 1 IRs in Phase 3B, Question 4.2, pp. 11-12.**
 ii) **Exhibit B-0264, GM-9, Doc 6, GM Response to ROEE Expert Paul Chernick's No. 2 IRs in Phase 3, Question 11.11, p. 25.**
 iii) **Hearing Exhibit C-OC-0032 (Phase 3A)**

Preamble: In Document C-OC-0032 presented in the Phase 3A hearing, on item 19 “line extension administration (pre-commitment)”, the position of OC is shown as “not included but should be part of profitability analysis (Regie IR 1.3)” and the position of ROEE is shown as “figure not developed yet but should be included.” These intervenors indicated that the information was relevant to a determination of profitability in Phase 3A but was not available.

Questions:

- 6.1 Please provide an organization chart showing those employees who are involved with the planning and marketing of new customer connections, and where they fit in the overall Gaz Metro organization. If there are separate groups serving new residential and new business connections, please identify them.
- 6.2 Please identify the cost of the planning and marketing of new customer connections by these employees (ie. those involved in the planning and marketing of new customer connections) in 2015 and 2016.

METHODOLOGY FOR PROFITABILITY IN OTHER PROVINCES

7 Reference: i) **Exhibit B-0278, GM-7, Doc 5, pp. 29-31**

Questions:

- 7.1 Please provide a copy of the E.B.O. 188 Final Report of the Board and the Ontario Energy Board Guidelines for Assessing and Reporting on Natural Gas System Expansion in Ontario, Dated January 30, 1998.
- 7.2 Please describe any differences in methodology of determining profitability and/or the components included in a profitability analysis between the Ontario Energy Board's report and Gaz Metro's proposal in this case, including but not limited to the concept of "tax savings" identified by the OEB.
- 7.3 Please describe any differences in methodology of determining profitability and/or the components included in a profitability analysis between the Fortis BC method and Gaz Metro's proposal in this case.

INDIRECT COSTS

8 Reference: i) **Exhibit B-0278, GM-7, Doc 5, p. 31**

Questions:

- 8.1 Please confirm that the Capitalized General Contractors fees are paid as a percentage of the cost of each individual project, so that if a project were not completed, the capitalized general contractor's fee would be different. If you cannot confirm this point, please explain in detail.
- 8.2 Please define Capitalized General Overhead Expenses, and in particular, specify if those expenses include costs such as workers' compensation insurance, employee benefits, and other costs that could be directly associated with a given worker.

SYSTEM INCREMENTAL CAPITAL INVESTMENT

9 Reference: i) **Exhibit B-0278, GM-7, Doc 5, p. 32**

Question:

9.1 Please explain how Black and Veatch would calculate the System Incremental Capital investment and would determine whether to assign portions of it to specific customers or at the portfolio level.