

**DEMANDE DE RENSEIGNEMENTS N° 1 DE WILLIAM P. MARCUS, EXPERT D'OC À GAZ MÉTRO
RELATIVE À LA DEMANDE PORTANT SUR L'ALLOCATION DES COÛTS
ET LA STRUCTURE TARIFAIRE**

- 1. References :**
- (i) Exhibit C-OC-0049, page 6
 - (ii) Exhibit C-OC-0049, page 7
 - (iii) Exhibit C-OC-0049, page 9.

(i) *“With the exception of very large industrial projects (discussed below), I would apply certain common costs at the portfolio level, but not at the project level. These costs may be more difficult to attribute to specific individual projects than to the portfolio of projects.”*

(ii) *“First, I would recommend requiring each very large industrial project to stand on its own and meet the portfolio threshold P.I. independently (including its assigned share of portfolio costs) (Row 2).”*

(iii) *“However, my comments regarding the impact of the uncertainty in the rate of return and discount rate, given above, are part of the reason why I recommend a higher P. I. threshold of 1.3, instead of Gaz Metro’s 1.1 threshold.”*

Question:

- 1.1 Please define « very large industrial » by identifying the annual volume of consumption, the capacity (m³/h) and the minimal amount of investment required.

Response:

- 1.1 **I use the same definition of very large industrial customers (or simply large industrial customers) that Gaz Metro has used throughout its filings in Phase 3A and 3B. These customers (as also referred to by Gaz Metro as Major Industries customers/ *clients grandes entreprises/clients VGE*), along with related consumption volumes, are defined by Gaz Metro on Gaz Metro’s website at <https://www.gazmetro.com/en/major-industries/>.**

Question:

- 1.2 Please explain the meaning of « meet the portfolio threshold PI independently » by giving examples.

Response:

1.2 **The projects would need to meet the 1.3 threshold including overhead costs.**

Question:

1.3 As shown in preamble iii), you propose a PI of 1.3 for the portfolio. Are you of the opinion that projects for connecting large industrial customers should reach a PI of 1.3 on an individual basis? If so, please explain why Gaz Métro should refuse to go ahead with this type of project if a PI of 1.2 is reached.

Response:

1.3 **Yes. The threshold of 1.3 is designed to assure profitability under uncertainty, and industrial projects should neither be subsidized by projects from the smaller residential and commercial customers (if they did not individually meet a portfolio P.I. threshold themselves) nor mask the fact that smaller residential and business projects did not meet a P.I. threshold (if, on the other hand, the industrial projects were very profitable).**

Questions:

1.4 Please confirm that you propose to exclude of the global profitability the projects for connecting large industrial customers.

1.4.1. If so, please confirm that Gaz Metro will have to allocate costs, such as the general overhead costs, the general contractor fees and the system incremental investments between projects for « very large customers » and the other projects in order to be able to calculate the global profitability of each category of projects.

1.4.2. If so, please reconcile this proposition with the information reproduced in preamble i).

Responses:

1.4 **Yes.**

1.4.1 **Mr. Marcus would confirm that these costs should be allocated with the contractor and company overheads allocated by investment, and the capacity costs allocated by capacity.**

1.4.2 **This approach is consistent with preamble (i), which carves out an exception for large industrial projects. It is also the exception to the portfolio rule noted by OC in line 1 of Attachment A of the Experts' Joint Report (C-OC-0047).**

2. **Reference:** Exhibit C-OC-0049, page 7.

Preamble:

“Industrial projects should neither be subsidized by smaller customers (if they did not individually meet a portfolio P.I. threshold themselves) [...].”

Question:

2.1 Please confirm that, based on Gaz Métro’s proposal, each project has, on an individual perspective, to show a PI of 1 if there is no expectation of future growth and a PI of 0.8 if there is expectation of future growth.

Response:

2.1 Confirmed, except that overhead costs are not included in Gaz Metro’s proposal.

Question:

2.2 Please confirm that a project with a PI of 1 or more does not involve any subsidizing. In another word, please confirm the revenue generated by a project with a PI of 1 or more will cover its incremental costs, without any subsidizing.

Response:

2.2 Confirmed, except that overhead costs are not included in Gaz Metro’s proposal. However, Mr. Marcus believes that overhead costs need to be assigned to large industrial projects and uncertainties need to be recognized for these projects because of their size and the fact that the associated customers are generally not part of the D1 rate class.

Question:

2.3 If any project, taken individually, has to show, looking forward, a PI of 1 or more, please explain how industrial projects could subsidized [sic] projects for the connection of smaller customers.

Response:

2.3 See response to 2.2.

3. Reference: Exhibit C-OC-0049, page 7.

Preamble:

“These projects are concentrated in the business sector and appear to generate high volumes of new gas load per project, making them relatively profitable.”

Question:

3.1 If we take for granted the facts stated in the preamble relating to new gas load projects (i.e. they are concentrated in the business sector, they generate high volumes, and they are relatively profitable), please explain why these projects should be excluded from the global profitability analysis (plan de développement).

Response:

3.1 The bulk of the expenditures on new connections (an amount disproportionately higher than new sales) results from new construction in the residential and smaller business sector. Mr. Marcus believes that new construction should stand on its own with a robust level of profitability that meets uncertainties, without adding load to existing projects, which are already generally quite cost-effective on their own.

4. Reference: Exhibit C-OC-0049, pages 15 and 16.

Preamble:

“Where I have proposed changes to the methodology, particularly with regard to the Profitability Index, my proposals are based on specific considerations related to economics, engineering, and the environment in Quebec and Canada. In particular, my P.I. is higher than that in the rest of Canada because most of the rest of Canada does not appear to use a 5.42% rate of return because of the large volumes of short-term debt in Gaz Metro’s capital structure (which could increase over a long evaluation period), and most of Canada does not face the potential uncertainty of end-use electrification of gas end-uses to reduce greenhouse gas production. I also recommend including the cost of a second meter at the middle of the evaluation period for new projects, because Gaz Metro’s meters have an 18-year useful life that appears shorter than for other Canadian entities (e.g., shorter than even Union Gas at 25 years).”

(Gaz Métro underlined)

Question:

- 4.1 Please precise [sic] what you meant by the underlined expressions “rest of Canada”, “most of the rest of Canada”, “most of Canada” and “other Canadian entities” by providing a complete list of the entities targeted by these expressions.

Response:

- 4.1 **Mr. Marcus is referring to the entities (and the associated Canadian jurisdictions) identified in Mr. Feingold’s expert report (B-0278). In particular, Mr. Marcus emphasizes that the cost of debt does not include short-term debt for Atco Gas, and Atco Gas composite meter depreciation is also longer than Gaz Metro’s.**