

Montréal, le 5 février 2018

PAR DÉPÔT ÉLECTRONIQUE
ET PAR COURRIEL

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Objet : R-3867 Phase 3-B
Demande relative au dossier générique sur l'allocation des coûts et la
structure tarifaire de Gaz Métro
Notre dossier : 650011-01

Chère consœur,

Même si Option Consommateurs («OC») ne participe pas à l'audience débutant ce jour, elle a jugé qu'il serait néanmoins pertinent de fournir sa position concernant la nécessité de faire approuver la méthodologie d'évaluation de la rentabilité des projets d'extension de réseau. OC regrette de ne pas avoir été en mesure de fournir sa position plus tôt.

OC appuie la position de la FCEI telle qu'énoncée à la Section 2 du mémoire de M. Gosselin (C-FCEI-0189, pp. 2-3) et endosse la conclusion de la FCEI (à la page 3) :

[...] la Régie ne devrait pas se limiter à prendre acte du processus et des critères déterminés par Gaz Métro. Elle devrait fixer les critères qu'elle juge appropriés et exiger de Gaz Métro qu'elle fasse approuver tout changement à sa méthode d'évaluation de la rentabilité avant de les mettre en application.

OC souligne que cette conclusion de la FCEI concorde étroitement avec la décision EBO 188 de l'OEB (en vigueur depuis vingt ans) concernant l'approbation des méthodologies d'évaluation de la rentabilité des projets d'extension de réseau. OC souligne également que la décision ontarienne EBO 188 est citée dans le rapport Black & Beatch (de M. Feingold), *Review Of Methodologies For Evaluating The Profitability Of Sytem Extension Projects* (B-0278). À l'Appendice B de EBO 188, l'OEB fixe un grand nombre de paramètres qu'elle juge appropriés.

L'Annexe jointe à la présent lettre (*Comments Of William P. Marcus And Brigid Rowan Regarding Approaches To The Evaluation Of The Profitability of Natural Gas System Expansion Projects In Other Jurisdictions*) résume les approches utilisées dans d'autres juridictions. Nous soulignons que généralement les distributeurs gaziers canadiens sont assujettis à une réglementation plus sévère que les distributeurs américains en ce qui concerne l'approbation des méthodologies d'évaluation de rentabilité des projets d'extension de réseau.

Par ailleurs, tout comme la FCEI, OC juge que :

[...] le fait qu'un projet soit inférieur au seuil de 1,5 M\$ ne justifie pas qu'il ne doive pas être soumis à l'examen de la Régie avec la même rigueur que les projets de plus grande envergure.

En d'autres mots, la même méthodologie d'évaluation de la rentabilité pour un projet individuel devrait être appliquée quelle que soit la valeur du projet.

Espérant le tout conforme, veuillez agréer, chère consœur, l'expression de nos distingués sentiments.

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Les intervenants

p.j. Annexe

ANNEXE

COMMENTS OF WILLIAM P. MARCUS AND BRIGID ROWAN REGARDING APPROACHES TO THE EVALUATION OF THE PROFITABILITY OF NATURAL GAS SYSTEM EXPANSION PROJECTS IN OTHER JURISDICTIONS

We are presenting these comments to show that regulatory approval of natural gas system expansion projects is both common and important in other North American jurisdictions. While there may be differences in the approaches used to evaluate the profitability of such projects, nearly all regulators approve an approach. Indeed, some regulatory bodies, particularly Canadian regulators, have approved approaches very similar to the approach proposed by Énergir. Our discussion in this Appendix largely references B-0278, the report presented by Énergir's expert, Mr. Feingold.

TWO BASIC REGULATORY APPROACHES

There are two basic regulatory approaches to the analysis of natural gas system expansion projects:

1. A profitability analysis, which includes an analysis of profitability at a portfolio level, as well criteria for individual projects.
2. Tariffed extension policies, which involve either specific dollar amount or pipe length allowances to connect a new customer to the system. Customers must pay for needs that exceed the dollar amount or the pipe length allowed by the distributor.

The first method is the one proposed by Énergir and also recommended by OC. It uses a profitability analysis on an individual project and a portfolio basis. This method is more common in Canada than the US. Some distributors in the US have little or no regulation of profitability tests, and many rely on tariffed extension cost limits as discussed below, but the Canadian distributors (except for Atco, which also relies on tariffed extension cost limits) generally have stronger regulation, which includes profitability tests (as per the first method).

Examples of Canadian distributors using the first method include Enbridge and Union Gas in Ontario, which have been governed by a prescriptive set of rules established almost 20 years ago in the Ontario Energy Board Docket EBO 188.¹ Other examples include Enbridge New Brunswick (where a level of profitability is required to show prudence) and Fortis BC (where the Commission regulated with a

¹ EBO 188, Final Report of the Board, 1e January 30, 1998.

<https://www.oeb.ca/documents/cases/Xo188/decision.pdf>

See in particular Appendix B ONTARIO ENERGY BOARD GUIDELINES FOR ASSESSING AND REPORTING ON NATURAL GAS SYSTEM EXPANSION IN ONTARIO.

https://www.oeb.ca/oeb/Documents/Regulatory/EBO%20188%20Decision_AppB_Guidelines.pdf

somewhat lighter hand but still requires analysis of profitability of extensions to be provided to the Commission on a five- to seven-year interval).

The one area where Quebec appears to be different is in establishing the calculation of long-run incremental cost, which other regulators have not established. In other words, it is the calculation established in R-3867-2013 Phase 3A that is unusual, not the methodology to evaluate the profitability of system expansion projects being determined in the current Phase 3B.

The second method, tariffed extension policies, is used more commonly in the US where many distributors rely on such policies. Atco Gas (Alberta)² and Pacific Gas and Electric Company (California)³ are examples of distributors following these methods, as well as several other distributors identified in B-0278. Distributors may offer more or less generous allowances under these methods,⁴ but they are tariffed. Several Canadian distributors offer a free 30 meters of pipe for residential customers on a tariffed basis (Enbridge New Brunswick and Fortis BC). Columbia Gas in the US has a tariffed free footage allowance for residential customers and a net present value model for non-residential customers.⁵ Under this method, the regulator does not specifically or directly regulate profitability, but establishes parameters setting the maximum that the distributor may pay for the new customer hookup and methods for the distributor to collect money from customers for more expensive extensions. These parameters are deemed to provide acceptable returns to ratepayers.

Generally tariffed policies are effectively more light-handed regulation than the profitability analyses described in the first method. However tariffed policies are still concerned with the profitability of individual projects and are approved by the regulator.

NOTES ON CANADIAN DISTRIBUTORS FROM THE B&V REPORT, REVIEW OF METHODOLOGIES FOR EVALUATING THE PROFITABILITY OF SYSTEM EXTENSION PROJECTS (B-0278)

Atco Gas (Alberta) uses Tariffed Extension Policies: standard charges, but if over 50 meters, customer must pay Atco any amount over three times annual revenue. **Tariffed rate approved by Commission.** (B-0278, p. 39)

Enbridge (Ontario) uses a profitability analysis very similar to Énergir: minimum threshold for individual projects of 0.8, minimum investment portfolio threshold (by customer class) of 1.1. Since 1988, EBO 188 has governed this process. (B-0278, p. 41)

OEB has a very clear process where the gas distributor is told what to do and how to analyze profitability.

² Black & Veatch Report, Review of Methodologies for Evaluating the Profitability of System Extension Projects (B-0278)

³ PG&E Gas Rule No. 15, Gas Main Extensions, https://www.pge.com/tariffs/tm2/pdf/GAS_RULES_15.pdf and PG&E Gas Rule No. 16, Gas Service Extensions https://www.pge.com/tariffs/tm2/pdf/GAS_RULES_16.pdf.

⁴ For Example Cascade Natural Gas in Washington offers a residential allowance of \$3255 US (over twice the maximum allowance provided by Pacific Gas and Electric). B-0278, p. 53.

⁵ B-0278, pp. 59-62.

EBO 188, Appendix B Ontario Energy Board Guidelines For Assessing And Reporting On Natural Gas System Expansion In Ontario⁶ (PARAGRAPH 263) STIPULATES THE FOLLOWING:

The Guidelines provide the utilities with direction with respect to the structure of their system expansion portfolios and the methods for conducting financial feasibility analyses at both the individual project level and the portfolio level. The Guidelines standardize the elements to be used in the discounted cash flow ("DCF") analysis as well as establish the parameters for the costs and revenues that are the inputs to that analysis.

The above paragraph indicates that the OEB requires this analysis and is not simply "taking note" of it or acknowledging it.

Moreover, paragraphs 315-324 of EBO Appendix B require filing historical information. Board financial monitoring is required in paragraphs 325-328. The Board's response to non-performance is outlined in paragraphs 339-341 (on a case by case basis).

Union Gas (Ontario) also uses a profitability analysis very similar to Énergir. Like Enbridge (Ontario), Union Gas is governed by EBO 188. Therefore, the methodology for evaluating the profitability of system expansion is very close to that of Enbridge (Ontario). The main differences are as follows: (a) 1.0 profitability is required where no further growth is anticipated (instead of 0.8); (b) a free 30 meters of line is allowed for residential customers; and (c) system expansion surcharges have been tariffed and permitted by the Board for projects extending gas service to entire communities that are unserved. (B-0278, pp. 50-52)

Enbridge (New Brunswick) uses profitability analysis to show prudence, but also offers a free 30 meters of pipe for residential customers on a tariffed basis. The distributor must submit data to the regulator and "must show revenues are at least 4% higher than costs to conclude that the expansions for that year were prudent investments." (B-0278, pp. 44-46)

Similarly, Fortis BC also uses profitability analysis, but also offers a free 30 meters of pipe for residential customers on a tariffed basis. The profitability analysis requires a minimum threshold for individual projects of 0.8 and a minimum investment portfolio threshold (by customer class) of 1.1. These thresholds are the same as those required for Enbridge (Ontario), but projects are reviewed over a longer period of time (every 5-7 years rather than single year portfolios). (B-0278, pp. 47-49)

CONCLUSION

In summary, in our review of approaches to the evaluation of profitability in other jurisdictions, we conclude that Canadian gas distributors are generally subject to stronger regulation (with the exception of Atco, which relies on tariffed extensions). Moreover, the Canadian regulators tend to set out more prescriptive requirements for profitability analysis. Canadian regulators, and particularly the OEB, that use project-by-project and portfolio-based profitability analyses, set out prescriptive criteria for these analyses and are not simply "taking note" of them or acknowledging them.

⁶ See footnote 1.

According to the B&V Report (B-0278), many US distributors rely on tariffed extension policies and some have little or no regulation of profitability tests. However, while tariffed extension policies are effectively more light-handed regulation than profitability analyses, these policies are still concerned with the profitability of individual projects and are approved by the regulator.