

**REPONSES OF EXPERT PAUL L. CHERNICK TO REQUEST FOR INFORMATION NO. 2 OF THE
RÉGIE DE L'ÉNERGIE (THE "RÉGIE") (A-0097)
REGARDING THE GENERIC MATTER BEARING ON THE ALLOCATION OF COSTS
AND RATE STRUCTURE OF GAZ MÉTRO, R-3867-2013, PHASE 3, SUBJECT A**

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- 1. References:** (i) Document C-ROÉÉ-0082, p. 26;
(ii) Document B-0145, p. 5, 9 à 11.

Preamble:

- (i) « *Can you provide the Régie with an idea of the possible significance of your proposed corrections in the marginal costs estimated by the B&V and Gaz Métro?*

A : Not comprehensively, at this time. I expect that some of the issues I have raised will be considered in Phase 3B, such as the pre-commitment costs, the costs of customer turnover, vacancy rates, analysis period, discount rate and upstream costs. Gaz Métro may clarify other issues (such as the details of its estimates of various O&M costs, its practices regarding customer retention, the timing of bad debt and collect costs, or restating some costs on a volumetric basis) in this phase or in Phase 3B ».

- (ii) Tables 1 to 4 of Black & Veatch evidence.

Request :

- 1.1 Please provide a summary of your recommendations for Phase 3 A subject using the tables in reference (ii).

Response:

See attached Excel

- 2. Reference:** (i) Document B-0196, p. 6 and 7.

Preamble :

- (i) « *2.1 By comparing the study filed by Gaz Métro in the context of the 2015 rate case in reference (i) with the analysis filed by Black & Veatch in reference (ii), the Régie notes that the latter does not include the marginal costs of long-term service delivery for additional loads (reference (iii)). Please explain why.*

Response :

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. »

Request :

- 2.1 Please provide your opinion on the assumption used by Gaz Métro and its expert that the marginal cost of providing long-term service is zero for load additions.

Response:

The Gaz Métro response assumes that all upstream capacity additions will consist of replacement of existing pipes with larger pipes. This is not the only approach taken to increase capacity. Gaz Métro may add:

- a new take station on a pipeline, to increase delivery capacity in a particular area and to bypass constrained mains;
- a new transmission line, supply line, or distribution main, in parallel with existing equipment to reduce fluid friction and increase throughput capacity; and/or
- compression capacity, to increase delivery through an existing main.

All three of these options would increase O&M.