

J. KENNEDY AND ASSOCIATES, INC.

PRINCIPALS

STEPHEN J. BARON
LANE KOLLEN
PHIL HAYET

570 COLONIAL PARK DRIVE
SUITE 305
ROSWELL, GEORGIA 30075
770-992-2027
FAX: 770-992-0806
WWW.JKENN.COM

March 30, 2015

Mr. André Turmel
Fasken Martineau
The Stock Exchange Tower
PO Box 242, Suite 3700
Montréal Quebec H4Z 1E9
Canada
aturmel@fasken.com
514-397-5141

Re: Budget Proposal to Assist the Canadian Federation of Independent Businesses in a Filing Involving the Marginal Cost of Adding New Customers to Gaz Métro's gas distribution network.

Dear Mr. Turmel:

J. Kennedy and Associates, Inc. ("Kennedy and Associates") is pleased to submit this budget proposal to assist the Canadian Federation of Independent Businesses ("CFIB") to review, evaluate, and provide expert witness services concerning a filing that Gaz Métro made at the Régie de l'Énergie (referred to herein as the Quebec Energy Board). Gaz Métro's filing included an assessment of the marginal cost of adding new customers to its gas distribution system for the purpose of performing an investment profitability analysis.

Kennedy and Associates has considerable experience performing evaluations of gas and electric utility filings at both the State and Federal level in the United States, and has provided expert witness services in hundreds of regulatory proceedings. Our firm contains experienced economists, financial analysts, accountants, and engineers. We believe that we are well qualified to provide assistance to the CFIB on this matter. Our website (www.jkenn.com) contains resumes for all of our staff members.

Scope of Review

Kennedy and Associates' project team will review Gaz Métro's filing and will evaluate the reasonableness of its study of the marginal cost of adding new customers. We will work with CFIB Staff to identify the principal issues to be addressed, which likely would include the following:

1. Whether the marginal cost methodology and assumptions used in the modeling approach is reasonable.
2. Whether the results are reasonable compared to similar evaluations that other utilities have performed.
3. Whether the results for the different customer classes are consistent and reasonable.
4. Whether minor adjustments might be warranted to improve the accuracy of the Company's estimates, or whether an entirely new approach should be implemented.

Action Plan and Labor Budget to Perform Our Review

Phase 1

1. Analyze Filing and Develop Discovery – We will review the Company's filing, and identify and review background information concerning Gaz Métro. (35 hours)
2. Intervention request (5 hours)
3. Information request and conduct Research – We will investigate to determine if other marginal cost studies have been performed either in the U.S. or in Canada, and if so, we will obtain those studies for purposes of comparing to Gaz Métro. (45 hours)
4. Study of answers to IRs and analysis of Discovery – We will review all workpapers to evaluate the reasonableness of the Company's methodology. (45 hours)

Phase 2

5. Prepare Written Testimony – We will prepare written testimony, which we will review with CFIB Staff. (45 hours)
6. Study of evidence filed by other interveners (10 hours)
7. Respond to Discovery Requests – We will respond to all discovery requests that we receive. (15 hours)
8. Supporting counsel for pleadings (10 hours)
9. Prepare for Hearing – We will review and prepare for hearing and we will provide assistance to CFIB attorneys and Staff in their preparation for hearing, including reviewing the pleadings in this matter. (20 hours)
10. Attend Hearing – We will plan to attend up to three days of the hearing. (15 hours)

11. Contingency (10 hours)

Based on this scope of work, we propose that the time spent will be 255 hours, and based on an average blended rate of \$247 per hour, the project cost is \$62,985 US dollars. We note that the hours spent per task is simply an estimate, as some tasks may require more time, and others less; however, as long as no new tasks are requested to be performed by the client, we will commit not to exceed the total budget amount specified. Also, we will only charge for hours spent working on the project. For example, if after receiving discovery, performing our detailed review, and discussing our findings with CFIB Staff, we decide that the Company's marginal cost evaluation is reasonable, we may decide to end our evaluation at that point, without the need for any further activity, unless requested by the client. If that is the case, we would only conduct work associated with Phase 1 of the project, and our charges would reflect that amount of work.

Budget to Perform Comprehensive Review

To perform this project, we propose a labor budget of \$62,985 US dollars, and we will rebill all expenses as incurred, subject to the following conditions. All flights will be booked in economy class, and we understand that we will be only able to charge \$165 per night for hotel while in Montreal. We understand that all other expenses will be capped at 3% of the labor cost, however, we our other expenses will be well below the cap.

Conclusion

Kennedy and Associates looks forward to working with CFIB Staff on this project. We believe we are well qualified to assist with this project, given our prior experience in analyzing the operations, books, and records of utility companies. We believe we are also qualified because:

- (1) Our consultants have the appropriate educational backgrounds required for conducting this evaluation;
- (2) Our consultants have written numerous audit reports, and have participated in hundreds of regulatory proceedings and are thoroughly experienced testifying experts;
- (3) Our consultants are experts in the regulatory ratemaking process, and are knowledgeable of the appropriate accounting standards that are applied to gas and electric utilities; and,
- (4) Our approach to conduct this assignment will follow the Action Plan outlined in the prior section. We will be as flexible as possible, to address other matters of importance as they arise during this proceeding.

Thank you for the opportunity to provide consulting services to the CFIB Staff on this project. Please contact me at phayet@jkenn.com, or Rick Baudino at rbaudino@jkenn.com with any questions or comments.

Mr. André Turmel
March 30, 2015
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Sincerely,

A handwritten signature in black ink that reads "Philip Hayet". The signature is written in a cursive style with a large, sweeping 'P' and 'H'.

Phil Hayet
Vice President