EXPERT REPORT OF

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PRESIDENT

EMRYDIA CONSULTING CORPORATION

ON BEHALF OF

L'ASSOCIATION DES CONSOMMATEURS INDUSTRIELS DE GAZ

-AND-

OPTION CONSOMMATEURS

-AND

LA FÉDÉRATION CANADIENNE DE L'ENTREPRISE INDÉPENDANTE

-AND-

L'ASSOCIATION HÔTELLERIE DU QUÉBEC ET ASSOCIATION RESTAURATION QUÉBEC

IN THE MATTER OF THE

REQUEST FOR APPROVAL OF THE SUPPLY PLAN AND AMENDMENTS TO ÉNERGIR'S TERMS OF SERVICE AND RATES, EFFECTIVE OCTOBER 1ST 2025

R-4287-2024, PHASE 3

EMRYDIA

APRIL 20, 2026

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1 Introduction

Q: State your name and occupation.

A. My name is Dustin M. J. Madsen. I am the President of Emrydia Consulting Corporation (Emrydia), which is a consulting firm providing services to parties participating in the electric, gas and water utility industry in North America. Emrydia is incorporated in both Canada and the United States. Emrydia's Canadian business address is 304, 8 Ave SW, Suite #620, Calgary, AB, T2P 1C1.

Q: Summarize your educational background and professional experience.

A: I have more than 20 years of experience in auditing, accounting, and regulated utility businesses. I received a Bachelor of Commerce, majoring in accounting, awarded with Great Distinction from the Edwards School of Business at the University of Saskatchewan. I am a Canadian Chartered Professional Accountant and Chartered Accountant registered with CPA Alberta, as well as a US Certified Public Accountant registered with the Illinois Department of Financial and Professional Regulation. I am also a Certified Depreciation Professional with the Society of Depreciation Professionals and a Certified Rate of Return Analyst with the Society of Utility and Regulatory Financial Analysts.

My curriculum vitae is attached to this evidence as Exhibit DMM-1 and provides a complete description of my qualifications, regulatory and professional experience. I have provided services in several jurisdictions in Canada and the United States. In Canada, I have provided services in Alberta, British Columbia, Manitoba, New Brunswick, the Northwest Territories, Nova Scotia, and Ontario. In the United States, I have provided services in Arizona, Delaware, Maryland, Mississippi, New York, North Carolina, Ohio, and South Carolina. I have provided services to consumer advocates, utilities, regulators, and other interested parties in regulatory applications. For customer groups, I have represented small residential customers, small and medium sized commercial customers, large industrial electric customers, and large industrial gas customers, as well as landowners and public advocates who represent broad customer bases.

In Canada, I have testified before the Alberta Utilities Commission, the New Brunswick Energy and Utilities Board and the Northwest Territories Public Utilities Board on several occasions and have also testified before the Manitoba Public Utilities Board, Nova Scotia Energy Board, and Ontario Energy Board. In the United States, I have testified before the Arizona Corporation Commission, Maryland Public Service Commission, Mississippi Public Service Commission, the New York Public Service Commission, the North Carolina Utilities Commission, the Public Service Commission of South Carolina, and the Public Utilities Commission of Ohio.

Formerly I was a manager and consultant with two large regulated electric utilities. I have testified and presented expert evidence on virtually every aspect of utility revenue requirements and related issues, including but not limited to depreciation, cost of capital, capital structure, income taxes, operating costs, capital, prudence issues, deferral accounts, reserve accounts, cost-of-service, rate design, cost allocation, corporate allocations, accounting and finance issues, incentive-based regulation, formula-rates, and best practices for utilities to minimize costs. As it relates to formula-rates, and performance-based ratemaking matters, I have testified as an expert on formula rates and performance-based rate matters in Alberta, Arizona and Mississippi. I have also been recently retained to address performance-based rate matters in North Carolina. I have been qualified as an expert in these matters in Arizona and Mississippi. The Alberta Utilities Commission has a practice of not qualifying individuals as experts. I have also testified on various alternative forms of regulation such as multi-year rate plans, all of which include formulaic adjustments, in Maryland, New York, and Ohio. I have been qualified as an expert in all three states on these matters.

Finally, I have maintained an active presence in the industry having presented at various conferences. I was also appointed as the President of the Society of Depreciation Professionals beginning January 1st, 2026.

Q: On whose behalf are you testifying in this proceeding?

A: In this matter, I have been retained by l'Association des consommateurs industriels de gaz (ACIG). I also understand that my expertise is being relied upon by the Option

Consommateurs (OC), the Fédération canadienne de l'entreprise indépendante (FCEI) and l'Association hôtellerie du Québec and l'Association restauration Québec (AHQ-ARQ).

Q: What is the scope of your expert report in this proceeding?

A: The scope of my expert report relates to a review of the cost variation formula (FVC) proposed by Énergir, LLC (Énergir or the Company) for distribution services.

Q: Summarize the instructions you received from your client.

A: ACIG retained me to perform the following services:

i. Reviewing the evidence;

ii. Coordinate with other interveners;

iii. Preparing information requests;

iv. Review Interrogatory Responses;

v. Preparing full outline of evidence;

vi. Provide full written evidence;

vii. Provide Interrogatories on evidence of other parties;

viii. Provide responses on interrogatories received;

ix. Review and comment on interrogatory responses from other parties;

x. Attendance at the Hearing;

xi. Completing all work required until the Hearing is concluded and the Régie has taken the matter under advisement;

xii. Assisting with preparing the final argument.

ACIG did not provide me with any specific instructions regarding the content of my expert report or recommendations contained therein. My expert report accurately reflects my opinion as an independent expert whose role is to enlighten the Régie de l'énergie (Régie) regarding the FVC proposed by Énergir, as mentioned below.

Q: Please summarize your recommendations and findings for the Régie.

A: My recommendations are as follows:

i. The use of a single index for the one year FVC based on the 12-month average of Quebec CPI for 2025;

ii. The inclusion of a productivity factor of 0.265% in the FVC;

iii. The inclusion of the previously approved growth factor adjustment;

iv. Escalation of rate base costs based on the same formula as applied to operating and other costs;

v. True up of all forecast costs included in the formula rate year to actual results;

vi. True up of income taxes in the formula rate year to actual results.

The specific formula I recommend be applied to all FVC costs is as follows:

$$\text{Revenue}_{\text{Base t}} = \text{Revenue}_{\text{Base t-1}} * (1 + I + G_{\text{Base t}} * 75\% - X)$$

Where: I = Quebec CPI 100% weighted

G = -0.20%

X = 0.265%

As shown in Table 6 and Table 7 below, I estimate the revised 2026/27 revenue requirement as proposed by Énergir to be $697,568,000 whereas I proposed a revenue requirement of $691,964,000, for a difference of $5,604,000.

Q: Confirm that your opinion evidence is fair, objective and non-partisan and would not change were you to have been retained by another party in this proceeding.

A: Confirmed. My duty as an independent expert is to the Régie, not to my client. The purpose of my expertise in this case is to assist the Régie in its determination of all issues before it pertaining to Énergir's FVC.

Q: How have you structured your expert report in this case?

A: First, I provide a brief explanation of the purpose of formula rate making and a jurisdictional scan of the different methods of formula rating making in Canada and more generally in

North America. Second, I provide a summary of Énergir's applied for FVC and other matters relevant to the scope of my evidence in this case. Finally, I provide my recommended changes to the FVC including the rationale supporting those changes.

Q: Does your report rely on a translation of evidence and responses to information requests provided by Énergir in this case?

A: Yes. I was provided with an English language translation of all documents. Where necessary I have included copies of that information as it was translated. I trust this approach will avoid any confusion on the record and assist all parties in understanding what evidence I based my conclusions on.

2 Overview of formula rate making

Q: Please provide an overview of the different types of formula rate making applied in Canada and North America more broadly.

A: Formula rate making in the context of regulatory rate setting encompasses the setting of rates by virtually any other manner that does not rely on a historical or forecast test year to set rates for the utility. Formula rates can be applied as a simple formula or can involve a more complex formula including hybrid formula and forecasting methodologies for other discrete elements.

While the different types of formulas used to set rates for utilities are extensive and varied, it is common to divide formula rates into two broad categories: i) pure formula rates and ii) performance-based rates (also known as incentive-based rates). There are also other mechanisms used outside of North America such as the total expenditure or Totex approach to setting rates, which incorporates some formulas and performance incentive mechanisms to establish rates for utilities operating in the United Kingdom. However, this form of regulation is quite distinct and beyond the scope of this proceeding.

Pure formula rate setting functions by adjusting the base rates approved for a utility in the previous year by certain predetermined parameters. At its most basic level a formula rate could be set by simply adjusting the previous year's rates (or revenues) by inflation. This would be achieved by the following formula:

Prior Year Rates * (1 + inflation factor) = Current Year Rates

Formula rates can be further adjusted to include different combinations of parameters that are weighted in different manners. Additionally, some components of the costs may be set on a forecast basis or based on the actual historical costs rather than adjust those amounts using a formula.

Performance-based rate setting acts similar to a formula rate approach but incorporates additional mechanisms or parameters that seek to encourage the utility to become more efficient over time. Like formula rates, the number of different approaches to setting performance-based rates is extensive. Some performance-based rate setting approaches begin with a pure formula rates and apply a productivity factor which seeks to adjust the inflation parameter that is applied to the rates by an assumed level of productivity each year. An example of such a formula is provided below:

Prior Year Rates * (1 + (inflation factor – productivity factor)) =
Current Year Rates

Other performance-based rate setting approaches can become more complex, incorporating growth parameters, earnings sharing mechanisms, and separate capital tracking mechanisms.

Finally, performance-based ratemaking may also take a form that is more aligned with a forecast approach to setting rates, but which also layers on performance incentive mechanisms that provide a financial benefit or penalty depending on certain utility performance. For example, a utility may have a performance incentive mechanism that adjusts the allowed revenues recoverable from customers depending on the utility's reliability metrics relative to a target.

Ultimately, the specific formula that may be applied in one jurisdiction may not be appropriate in another jurisdiction. This is because each formula is set based on the unique facts and circumstances present in each jurisdiction. Nevertheless, it is helpful to understand the different approaches used in other jurisdictions to provide the Régie with examples of the approaches that have been approved by other regulators when faced with similar sets of facts.

Q: Did Énergir summarize any of its own formula rate benchmarking that it conducted in other jurisdictions?

A: Yes. Énergir provided the following figure summarizing its jurisdictional scan of formula rates, specific to the setting of a productivity factor or "X-Factor":[1]

Figure 1 – Énergir summary of jurisdictional analysis performed on use of X-Factor

Utility	Term	X-Factor	Applies To / Excludes
FortisBC Energy (gas, BC)	2020–2024	0.50%	Base O&M + growth capex; excludes integrity O&M & certain taxes/levies.
FortisBC Inc. (electricity, BC)	2020–2024	0.50%	O&M base only; capital via forecast allocations; excludes fuel & levies.
Ontario Distributors (OEB IRM)	2023–2027	0% + stretch 0.00–0.60%	Inflation minus X on distribution rates; excludes riders, SMEC, RTSRs, ACM/CM.
Hydro-Québec Distribution	Annual cases	CSI: CPI only	No productivity X; rates indexed by CPI (e.g., +3%).
Hydro-Québec TransÉnergie	2020–2023	0.0%	Transmission revenue CPI–0; select capex trackers.
Nat'l Grid (gas, MA)	2021–2026	–1.30%	Base distribution revenue (non-commodity); excludes fuel/purchased-gas & capital/rider trackers.
Eversource/NSTAR (gas, MA)	2019–2023	–1.18% + 0.15% CD	Base O&M; excludes system enhancement plan & tax/deferrals; includes Z-Factor.
SCE (electricity, CA)	2021–2023	CPI – X hybrid	O&M via index; annual capital trackers; wildfire, DSM & microgrid program trackers.
FPL (electricity, FL)	2022–2025	Load growth + trackers	Fuel, storm, solar capex, DSM, tax & environmental via deferrals; revenue decoupling.

Q: What is the current formula rate practice in Quebec?

A: The practice for Hydro-Quebec Distribution was provided in Figure 1 above. For Enbridge Gas Quebec, a parametric formula is used inclusive of a growth adjustment for operating expenses as shown below:[2]

[1] B-0326, Response to Information Request No. 1 from D. Madsen (Expert) on behalf of ACIG, PDF 15, Response to 1.19.
[2] B-0325, Énergir-V, Document 3, Appendix Q-8.3 – Page 1 of 1.

Figure 2 – Enbridge Gas Quebec parametric formula

Parametric formula similar to Énergir for OPEX	Starting point x (1 + I + 0.75 x Ĝ), where: I: Weighted inflation rate as explained in point B Ĝ: Inflation based on customer growth Two weighted inflation factors: • EERH (wages): x 55% + • CPI (other expenses) x 45%

Q: Are there any similarities between Enbridge Gas Quebec and Énergir?

A: Yes. Like Énergir, there is evidence of Enbridge Gas Quebec experiencing "low or stable" customer growth and a "slight decline or stagnation" in volumes.[3]

Q: Are you aware of any other Canadian experience that is relevant for consideration in Énergir's case?

A: Yes. The following two formulas have been approved for use in Alberta by the Alberta Utilities Commission (AUC) for electric[4] and gas distribution utilities,[5] respectively:

[3] B-0325, Énergir-V, Document 3 Appendix Q-8.3 – Page 1 of 1
[4] See for example Decision 30274-D01-2025 (December 17, 2025), FortisAlberta Inc. 2026 Annual Performance-Based Regulation Rate Adjustment, p. 2. https://media.auc.ab.ca/prd-wp-uploads/regulatory_documents/Reference/30274-D01-2025.pdf
[5] See for example Decision 30301-D01-2025 (December 11, 2025), ATCO Gas 2026 Annual Performance-Based Regulation Rate Adjustment, p. 2. https://prd-api-efiling20.auc.ab.ca/Anonymous/DownloadPublicDocumentAsync/848565

Figure 3 – AUC approved formula for electric distribution utilities

$$R_t = R_{t-1} * (1 + I - X) \pm K \pm Kbar \pm Y \pm Z - ESM$$

where:

$\boldsymbol{R_t}$	Rates for the current year
$\boldsymbol{R_{t-1}}$	Rates for the previous year
$\boldsymbol{I}$	The I factor
$\boldsymbol{X}$	The productivity offset
$\boldsymbol{K}$	Type 1 capital adjustments
$\boldsymbol{Kbar}$	Type 2 capital adjustments
$\boldsymbol{Y}$	Y factor adjustments
$\boldsymbol{Z}$	Z factor adjustments
$\boldsymbol{ESM}$	Earnings sharing mechanism (ESM)

Figure 4 – AUC approved formula for gas distribution utilities

$$RPC_t = BRPC_{t-1} * (1 + I - X) \pm K \pm Kbar \pm Y \pm Z - ESM$$

$$R_t = RPC_t \,/\, BDC_t$$

where:

$\boldsymbol{R_t}$	Upcoming year's rates for each class
$\boldsymbol{RPC_t}$	Upcoming year's revenue per customer for each class
$\boldsymbol{BR_{t-1}}$	Current year's base rates for each class
$\boldsymbol{BRPC_{t-1}}$	Current year's base revenue per customer for each class
$\boldsymbol{BDC_t}$	Billing determinants for each class for the upcoming year
$\boldsymbol{I}$	The inflation factor
$\boldsymbol{X}$	The productivity offset
$\boldsymbol{K}$	Type 1 capital adjustments
$\boldsymbol{Kbar}$	Type 2 capital adjustments
$\boldsymbol{Y}$	Y factor adjustments
$\boldsymbol{Z}$	Z factor adjustments
$\boldsymbol{ESM}$	Earnings sharing mechanism (ESM)

The primary difference between the two AUC approved formulas set out above is the base that is adjusted. For electric utilities, the AUC escalates the total revenues from the prior year. For gas utilities, the AUC sets rates based on the revenues for each class.

Q: Do you consider any of the approaches used in other Canadian jurisdictions to be worth exploring for Énergir?

A: I consider all the approaches to be informative. However, the setting of a formula for Énergir ultimately must be based on the facts in this case. Perhaps the most important conclusions to draw are 1) many utilities in Canada include a productivity factor in the formula and 2) growth-based adjustments are not uncommon, including in Quebec.

There are also other mechanisms that may be worth exploring for future FVC proposals advanced by Énergir, such as earnings sharing mechanisms and other potential adjustments to capital. However, such mechanisms would be complex to design and implement for a single year and are better considered as part of the first full 3-years rate cycle.

Q: Are you familiar with any other formula rate setting methodologies used in other jurisdictions outside of Canada?

A: Yes. There are many other methods upon which a formula can be set, and some of those are used in the United States. For example, a formula may simply reset the allowed return on equity (ROE) each year based on the variance from actual and approved ROE from the prior year if the variance exceeds a preset deadband. This is an example of a simple formula that is applied in Arizona and several other states like Mississippi. I do not recommend such a formula be approved for Énergir. Énergir is seeking to implement a formula that avoids the need for filing a multi-year forecast of costs. This is different from the intent of these mechanisms which is to true up current costs based on historical spending.

There are also of course several U.S. jurisdictions that apply more conventional formulas that escalate total revenue or components based on different indices. As many of these types of formulas are also used in Canada or been studied for Canadian gas distribution utilities, I have elected to focus my review on Canadian comparators.

3 Summary of Énergir's FVC proposal

Q: What are the legislative requirements for establishing a FVC for Énergir?

A: From my review of the legislative requirements, the following represent the most relevant guidance for the setting of the FVC for Énergir:

> "**48.1** The Régie shall fix the rates and conditions of service applicable to the distribution of natural gas, for a period of 12 months, as of the first day of a natural gas distributor's rate year. To that effect, the Régie shall, with respect to a period covering three rate years,
>
> 1° establish the revenues required to ensure the operation of a natural gas distribution system during the first rate year and fix, based on those revenues, the natural gas distribution rates applicable for that first year;
>
> 2° determine, for the purpose of establishing the revenues required for the last two rate years, a cost variance formula that takes into account, among other things, any surplus or loss of revenue for a previous rate year; and
>
> 3° fix the natural gas distribution rates applicable as of the first day of each of a distributor's last two rate years referred to in subparagraph 2, taking into account the variance referred to in that subparagraph.
>
> In addition, the Régie shall, during a rate year, on the application of an interested person or on its own initiative, fix a rate or conditions of service applicable to the distribution of natural gas. It shall take into account, according to the year concerned, the required revenues established in accordance with subparagraph 1 or 2 of the first paragraph.
>
> On the application of a distributor made during a three-year period referred to in the first paragraph, due to special circumstances, the Régie shall fix

the rates and conditions of service referred to in that paragraph in the manner provided for in that paragraph."[6]

"**49.** When the Régie fixes rates for the transmission or distribution of electric power or for the distribution of natural gas, it shall, in particular,

[…]

4° favour measures or incentives to improve the performance of the electric power carrier or distributor or a natural gas distributor and the satisfaction of clients' needs;

[…]

7° ensure that the rates and other conditions for the provision of the service are fair and reasonable; […]"[7]

Q: What is the formula Énergir is proposing for its FVC in this case?

A: Énergir is proposing what it describes as a simplified parametric formula for operating costs as shown below. All other costs are escalated based on CPI or as explained in Énergir's application:

Figure 5 – Proposed FVC for operating expense adjustment in 2026/27

$$OPEX\ CT\ t = OPEX\ CT\ t\text{-}1\ X\ (1 + I)$$

where: OPEX CT t-1 : represents the operating expense envelope authorized during the Previous CT, without the net cost of services rendered by the ASF;

I: corresponds to a weighted inflation index, composed of 75% of the growth of the EERH index (average remuneration), capped at 4.0%, and at 25% of the CPI.

[6] *Act respecting the Régie de l'énergie*, CQLR, c. R-6.01, Section 48.1.
[7] *Act respecting the Régie de l'énergie*, CQLR, c. R-6.01, Section 49.

Q: What indices is Énergir proposing for its FVC?

A: Énergir is proposing to use the EERH[8] and CPI[9] as its FVC indices. Énergir proposes to set the EERH according to the average of the 36 months ending in the month of February preceding the entry into force of the tariffs.[10] CPI is proposed to be set based on the average of the 12 months ending in February preceding the entry into force of the tariffs.[11]

Q: Did Énergir confirm the indices included in its application were illustrative?

A: Yes. Énergir confirmed the 3.5% EERH and 2% CPI were illustrative.[12] The updated actual parameters are discussed below and amount to 4.00% and 2.46%, respectively.

Q: Based on the updated indices are the results in Table 2[13] under the FVC higher than was initially illustrated by Énergir?

A: Yes. As explained earlier, the originally estimated indices are understated relative to the actual indices that have been determined based on February 2026 data. The result would be a higher overall revenue requirement.

Q: Were there any other proposals included in the FVC that are relevant?

A: Yes. Énergir is proposing to separately forecast certain distinct costs rather than include them in the FVC. The following table, which was provided by Énergir in its application, illustrates how the calculations would be performed under the proposed FVC:[14]

[8] Index of average non-seasonally adjusted remuneration, for all industries, excluding overtime, for Quebec, as published by Statistics Canada, table no. 14-10-0203-0123.
[9] CPI: Consumer Price Index for Quebec, published by Statistics Canada in table no. 18-10-0004-0124.
[10] B-0318, p. 28.
[11] B-0318, p. 28.
[12] B-0325, Response to ACIG Information Request No. 1, PDF 19 and 20, Response to 6.3 and 6.5.
[13] B-0318, p. 37, Table 2.
[14] B-0318, p. 37, Table 2.

Table 1 – Énergir's illustrative FVC calculations for 2026/27

		CT 2025-2026 CS* total (1) = (2) + (3)	2025-2026 CS* of base subject to the indices (2)	2025-2026 CS* distinct adjustment at the margin (3)	Indices (4)	CT 2026-2027 CS* of base (5) = (2) x (1 + (4))
1	Pricing basis	2 647 834	2 493 248	154 586	IPC 2,00 %	2 543 113
2	Distribution costs of the CDG	8 059	8 059		IPC 2,00 %	8 221
3	Other operating income	(4 195)	(4 195)		IPC 2,00 %	(4 279)
4	Operating expenses excluding cost of services rendered - ASF	241 536	241 536		FP 3,50 %	249 990
5	Cost of services rendered - ASF	20 392		20 392		
6	Other components of the cost of ASF	(11 038)		(11 038)		
7	Comprehensive Energy Efficiency Plan (CEEP)	6 855		6 855		
8	Depreciation fixed assets	157 310	157 310		IPC 2,00 %	160 456
9	Depreciation, deferred expenses, and intangible assets	80 187	48 718	31 469	IPC 2,00 %	49 692
10	Property taxes and other	50 977	50 977		IPC 2,00 %	51 996
11	Income Tax	24 601	24 601		IPC 2,00 %	25 093
12	Low Voltage Yield	160 459	151 091	9 368	IPC 2,00 %	154 113
13	Income required before GHG contribution	735 143	678 097	57 046		695 282
14	Contribution GES	(6 036)		(6 036)		
15	Income required for regulated clients	729 107	678 097	51 010		695 282

* Service cost.

Q: What is the impact of Énergir's proposed FVC on the revenues for 2026/27 from an illustrative perspective?

A: Excluding amounts that will be forecast for 2026/27, the base revenues escalate from $678.097 million to $695.282 million. This calculation has been performed on an illustrative basis, and I explain the impact of the updated parameters on the revenues requested in further detail below.

Q: Has Énergir provided an analysis of how its proposed FVC would have performed historically?

A: Yes. In response to Question 11.1 of the Régie's information request No. 9, Énergir provided tables showing the differences between the application of a FVC and the actual rate application approved revenues for 2019/20 through to 2024-25.[15] The following table summarizes the results of Énergir's analysis:

Table 2 – Comparison of simulated FVC and Rate Case results (2019-2020 to 2024-2025)

Fiscal Year	FVC Revenues ($000s)	Rate Case Revenues ($000s)	$ Difference ($000s)	% Difference
2019-20	$ 553,458	$ 544,598	$ 8,860	1.6%
2020-21	$ 580,136	$ 575,827	$ 4,309	0.7%
2021-22	$ 636,361	$ 647,126	$ (10,765)	-1.7%
2022-23	$ 707,393	$ 694,357	$ 13,036	1.9%
2023-24	$ 701,623	$ 700,703	$ 920	0.1%
2024-25	$ 755,987	$ 746,377	$ 9,610	1.3%
Total	**$ 3,934,958**	**$ 3,908,988**	**$ 25,970**	**0.7%**

Based on this analysis, Énergir concludes:

> "The results show that there is little variation in the required revenue between that established using the FVC and that determined based on the cost of service. The use of the FVC therefore allows for the maintenance of fair and equitable rates, while significantly streamlining the process of establishing the required revenue."[16]

Q: What conclusions do you draw from the scenario analysis prepared by Énergir?

A: I conclude that the simulated use of a FVC has resulted in some years that are significantly above and below the rate case approved revenues, with an overall increase in the level of approved revenues of approximately $26.0 million over all years or 0.7%. This difference is

[15] B-0317, Énergir-V, Document 1, Response to the Board, PDF 33, Appendix Q-11.1.
[16] B-0317, Énergir-V, Document 1, Response to the Board, PDF 25, Response to Question 11.1.

significant, particularly considering the annual variation that is visible, which is important in the context of a one-year FVC. I also note that the lone year of an under collection occurred in the year following the COVID-19 pandemic, which is an outlier year, as there are many through the period 2020 to 2022. Accordingly, it is difficult to infer any clear conclusion from the analysis that was presented by Énergir for a single FVC year in 2026/27.

4 Recommended design changes for the FVC

Q: Please summarize your primary concerns with Énergir's FVC.

A: A core purpose of the formula rate mechanism is to set rates at a level that would generally reflect the levels otherwise approved by the regulator, while also providing for a reduced level of administrative cost and regulatory burden. Properly implemented, a formula rate mechanism should also induce incentives for the utility to become more efficient. These objectives can be beneficial both to the utility and its customers, if achieved.

Having assessed Énergir's FVC, I conclude these objectives will not be met if the FVC is approved as filed. First, the FVC is too simplified to provide for a result that is likely to align with the costs that would have otherwise been approved by the Régie as part of a full general rate case. While a simplified formula rate mechanism can provide improved clarity and reduced confusion, that simplicity must be balanced against the need for accuracy and proper protection for the utility and customers during the formula rate term.

Specifically, I have concerns with the following elements of Énergir's FVC as proposed:

i. The proposed indices for O&M expenses do not provide for a reasonable reflection of the expected future costs in 2026/27. Instead, reliance on a 12-month average of CPI would provide for a better indication of future costs for a period of just one year. Alternatively, the weighting should be changed more heavily to CPI and both indices should be calculated on a 12-month rolling basis, with potential reconciliation to actual inflation in the next year.

ii. The lack of a productivity factor despite evidence of efforts to achieve productivity gains relative to historical indices is inappropriate.

iii. Exclusion of a growth factor for the first year of the FVC is inappropriate until further detail regarding the longer-term trend in customer changes is understood. As I explain below, this recommendation acknowledges Quebec's longer term energy transition and decarbonization goals, as well as Énergir's 2024 Climate Resilience Report.[17]

iv. Escalation of rate base and other service costs using CPI is imprecise and creates too great a risk of over or under recovery of costs, with the risk of over recovery being greater given that Énergir controls its spending levels.

v. Lack of a reconciliation mechanism for forecast costs.

vi. Imprecise forecast of income taxes without a reconciliation is improper.

I address each of the above items in the sections that follow.

4.1 EERH and CPI indices

Q: Did Énergir provide support for its proposed indices in this case?

A: Yes. Énergir provided the following tables to support the calculation of the 4% capped (4.12% uncapped) EERH,[18] and CPI of 2.46%:[19]

[17] https://energir.com/files/energir_common/%C3%89nergir_Climate-Report-2024_vf.pdf
[18] B-0325, Response to ACIG Information Request No. 1, PDF 17, Response to 6.1.1.
[19] B-0325, Response to ACIG Information Request No. 1, PDF 18, Response to 6.1.1.

Figure 6 – Energir calculation of EERH indice

	Current dollars	Change	Average Average
2023-01	1,103.28	3.23%	
2023-02	1,096.42	1.35%	
2023-03	1,107.99	0.37%	
2023-04	1,109.24	2.84%	
May 2023	1,124.50	4.09%	
2023-06	1,136.40	3.56%	
July 2023	1,130.98	4.52%	
2023-08	1,142.61	5.79%	
2023-09	1,124.17	3.72%	
2023-10	1,135.93	4.75%	
2023-11	1,168.18	7.50%	
2023-12	1,128.70	2.24%	
2024-01	1,143.28	3.63%	
2024-02	1,160.52	5.85%	
2024-03	1,146.70	3.49%	
2024-04	1,156.26	4.24%	
May 2024	1,178.37	4.79%	
2024-06	1,163.48	2.38%	
July 2024	1,187.20	4.97%	
2024-08	1,198.26	4.87%	
2024-09	1,194.58	6.26%	
2024-10	1,222.28	7.60%	
2024-11	1,193.34	2.15%	
2024-12	1,208.86	7.10%	
2025-01	1,211.53	5.97%	
February 2025	1,209.97	4.26%	
2025-03	1,207.93	5.34%	
2025-04	1,215.21	5.10%	
2025-05	1,225.99	4.04%	
2025-06	1,223.34	5.14%	
2025-07	1,245.27	4.89%	
2025-08	1,231.69	2.79%	
2025-09	1,235.37	3.41%	
2025-10	1,231.22	0.73%	
2025-11	1,227.42	2.86%	
2025-12	1,239.64	2.55%	4.12%

Figure 7 – Energir calculation of CPI

	Current dollars	Change	Average Average
2025-01	157.60	1.81%	
2025-02	158.60	1.99%	
2025-03	159.70	1.91%	
2025-04	160.40	2.17%	
2025-05	160.90	1.71%	
2025-06	161.00	2.22%	
2025-07	161.60	2.34%	
2025-08	161.90	2.66%	
September 2025	162.60	3.30%	
2025-10	162.90	3.17%	
2025-11	162.60	3.04%	
2025-12	162.60	3.24%	2.46%

Q: What rationale was provided for the selected indices?

A: The choice to use a 36-month rolling average for EERH was explained by Énergir as follows:

> "Furthermore, using a wage index calculated over 36 months is appropriate because wages change slowly and in long cycles, generally determined by multi-year collective bargaining agreements. This longer period helps smooth out one-off variations, prevents exceptional adjustments from distorting the index, and better reflects the structural and stable trend in compensation. In short, a 36-month horizon accurately captures the real trend in wages, which is not affected by short-term economic fluctuations."[20]

Additionally, Énergir provided the following table to compare the trend in salary increases and those of other expenses to the proposed EERH and Quebec CPI:[21]

Table 3 – Énergir comparison of salary and O&M expense growth to EERH and Quebec CPI

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	CAGR 1
Regular and On-Call Salaries								
PMO 2	1,500	1,536	1,531	1,528	1,521	1,536	1,552	
Regular Salaries (k$) 2	134,449	140,864	148,494	150,264	154,828	162,192	172,124	
Average Regular Salary ($)	89,636	91,713	96,961	98,343	101,800	105,584	110,879	3.61%
Actual % Increase		*2.32%*	*5.72%*	*1.43%*	*3.52%*	*3.72%*	*5.02%*	
% increase parametric formula 3		*2.50%*	*3.81%*	*4.89%*	*4.00%*	*4.00%*	*3.44%*	*3.77%*
Other expenses								
Other expenses (k$) 2	72,817	69,922	72,158	77,174	81,619	83,543	86,855	2.98%
Actual % Increase		*-3.98%*	*3.20%*	*6.95%*	*5.76%*	*2.36%*	*3.96%*	
% increase parametric formula 3		*1.71%*	*1.74%*	*1.61%*	*5.73%*	*5.79%*	*3.61%*	*3.35%*

[20] B-0325, Énergir-V, Document 3, Response to ACIG Information Request No. 1, PDF 18, Response to 6.3.
[21] B-0317, Énergir-V, Document 1, Response to the Board, PDF 45, Response to 5.3.

Q: Do you have any observations based on the above information?

A: Yes. First, I agree that salaries can change slowly over time, but this does not mean that an index based on the previous three years will be more indicative of future salaries in 2026/27 than would a narrower index. Énergir has conducted no analysis to show that the future expected salaries in 2026/27 align with a 36-month index. This could have been accomplished, for example, by Énergir disclosing its expected or approved salary rates increases for 2026 or comparing the index against compensation studies prepared by Énergir for the 2026/27 test year.

Second, while there is a comparable long-term trend over the period presented, the year-to-year variances are significant. For example, in 2024/25, the difference for labour costs was 1.58%.[22] This is a significant change in a single year. Similarly, other expenses have varied considerably year-to-year relative to the index. This is important as the context of this case is a single year, and thus any variance that results from the FVC relative to actual experienced cost escalation cannot be smoothed out over several years.

Third, Énergir is mistaken that the data points show a correlation. As shown in the table below, the correlation coefficient between the two sets of data shows a weak relationship and certain not one that can be construed as correlated for either data set:

Table 4 – Assessment of the correlation coefficient of labour and other expenses

	Labour		Other expenses	
	Actual	Index	Actual	Index
2019-20	2.32%	2.50%	-3.98%	1.71%
2020-21	5.72%	3.81%	3.20%	1.74%
2021-22	1.43%	4.89%	6.95%	1.61%
2022-23	3.52%	4.00%	5.76%	5.73%
2023-24	3.72%	4.00%	2.36%	5.79%
2024-25	5.02%	3.44%	3.96%	3.61%
Correlation coefficient	**-0.187242508**		**0.248292041**	

[22] 5.02% actual increase versus the indices of 3.44% = 1.58%.

Finally, the analysis of salaries appears to exclude benefits and other labour costs like overtime and variable compensation in the analysis. It is unclear what the impact of including such information in the analysis would have on the total increases of the correlation between the two data sets.

Q: Is it reasonable to expect the 36-month EERH to reflect future wage growth for Énergir in the formula rate period?

A: No. In addition to my earlier observations, the likelihood that salaries awarded in 2026/27 after a period of high inflation and higher than normal increases in salaries would reflect the trend over the last three years is low.

Over the long-term increases in salaries are intended to compensate employees for changes in the cost of living. The two are not directly correlated from year-to-year because inflation is unknown in any given year and salary increases are preemptive to that inflation but also reactionary.

It is also important to note that by setting the escalation rate in advance, Énergir will have the opportunity to react to that rate and set actual salary increases based on the myriad other factors it must consider that extend beyond the rate approved by the Régie.

Therefore, reliance on a random 36-month period for EERH to reflect salaries in a single year (2026/27) is highly unlikely to yield a result that will closely approximate the actual costs.

Q: Would a narrower period of time for the EERH perhaps provide a better indication of future salary trends?

A: It may. However, due to the variability in salaries from year-to-year, and the recent trend of heightened inflation and salary increases, it is unlikely to be more reliable. A more ideal trend would likely be one that reflects a much longer trend of 5 to 10 years of data, which would properly "smooth out" the variability from year-to-year. However, such a result would just be closer to the rate of inflation for the reasons I stated earlier and thus become somewhat of a redundant inclusion in any single year formula rate term.

Q: Did Énergir provide a 12-month calculation of EERH?

A: Yes, as shown in the following figure:[23]

Figure 8 – Calculation of EERH for the 12 months ending December 2025

	Current dollars	Change	Change Average
2025-01	1,211.53	*5.97%*	
2025-02	1,209.97	*4.26%*	
2025-03	1,207.93	*5.34%*	
2025-04	1,215.21	*5.10%*	
2025-05	1,225.99	*4.04%*	
2025-06	1,223.34	*5.14%*	
2025-07	1,245.27	*4.89%*	
2025-08	1,231.69	*2.79%*	
2025-09	1,235.37	*3.41%*	
2025-10	1,231.22	*0.73%*	
2025-11	1,227.42	*2.86%*	
2025-12	1,239.64	*2.55%*	**3.92%**

Q: Do you rely on this revised result for purposes of your FVC?

A: No. For the reasons stated below, I consider that a more appropriate approach for this single year is to use just the CPI as the only variable in the calculation.

Q: Is it reasonable to expect the CPI measure as estimated to reflect future pressure on costs for Énergir in the formula rate period?

A: Yes, to an extent. However, Canada has recently experienced a period of heightened inflation and that trend may not continue. Additionally, there is significant uncertainty in the current geopolitical climate and the impact of that uncertainty on inflation and the costs Énergir bears will not be known until they are incurred.

Current forecasts for inflation appear to suggest that the trend for 2026 and 2027 will be around 2% to 2.75% as shown in the table below:

[23] B-0325, Response to ACIG Information Request No. 1, PDF 19, Response to 6.4.

Table 5 – Recent large Canadian bank forecasts of inflation for 2026 and 2027

	CPI	
	2026	**2027**
CIBC	2.60%	1.80%
RBC	2.50%	2.00%
Scotia	3.00%	2.20%
TD	2.50%	2.00%
BMO	3.10%	2.20%
Average	**2.74%**	**2.04%**
	2.39%	

This forecast trend is relatively comparable to the 2.46% historical average experienced over the previous twelve months of 2025. While this compares a Quebec CPI index to Canada wide CPI, I consider the analysis to be generally reasonable given the broader based inflationary pressures that can occur across Canada. The inputs for these forecasts are included in Exhibit DMM-3 through DMM-7.

Q: When Énergir was asked to provide additional general ledger details to support the historical trend of its expenses, was that information forthcoming?

A: No. Énergir declined to provide the requested information.[24]

Q: Would that analysis have assisted in understanding the historical trend of the proposed indices against specific cost elements included in revenue requirement?

A: Yes. This analysis would have allowed me to assess at a more granular level how each category of operating costs trended with the proposed indices to be used in the FVC and to account for any anomalies.

Q: Are there other ways to address the inflation factor?

A: Yes. In Alberta, the AUC has determined it to be appropriate to base the inflation factor on an interim calculation and then require a true up to the calculation as part of a future formula

[24] B-0326, Response to Information Request No. 1 from D. Madsen (Expert) on behalf of ACIG, PDF 4, Response to 1.2.

rate adjustment. In effect what is done is an index is applied to the formula rates for the year, and then the index and revenues are revised in a subsequent year to reflect the change in the index based on the actual experience. The benefit of this approach is that it provides for a formulaic adjustment to rates, but also only compensates for the actual cost and pressures the utility experiences. The difference can swing both ways with the utility refunding an overcollection or collecting additional amounts from customers.

Q: Could actual salary escalation information also be relied upon as a index to adjust the FVC?

A: Yes. Particularly in the context of a single year, information pertaining to known salary increases, such as those from collective bargaining agreements, can also be used to inform the FVC. However, I am not aware of that information being filed on the record and thus have not relied upon it in this case.

Q: Based on the above, what index do you recommend the Régie use for the FVC?

A: I recommend the Régie approve the use of Quebec CPI over the twelve-month period ending December 2025 as a 100% weighted index for the single year. This approach will be more accurate for the reasons noted above and likely reflect the actual cost pressures Énergir will experience in 2026/27. Additionally, reliance on CPI for a single year is appropriate as it reduces the risk of variations for the year due to changes in inflationary pressures relating to salaries and other costs over a much shorter period of time (i.e., as compared to a two or three-year formula rate term).

Q: Do you have any further alternative recommendations if the Régie chooses to continue with a two-pronged index consistent with that proposed by Énergir?

A: Yes. First, I recommend the Régie assigns equal weight to both measures for the single year. While I appreciate the costs are more heavily weighted towards labour costs, I am not convinced, for the reasons noted earlier, that the historical labour rate escalation will be reflective of escalation experienced in 2026 and 2027 under a lower inflationary environment.

Second, I recommend that the forecast index be trued up in the following year. For example, if the indices are approved as 4.00% for EERH and 2.46% for 2026 and 2027, then I

recommend that each index be updated to reflect the actual index calculated for the twelve-month period covering the 2026/27 rate year once that information is known. This approach is consistent with the approach used in Alberta and reduces the risk of over or under recovery. It also balances the need to provide a reasonable set of indices for the formula while ensuring the formula accurately compensates for the cost pressures experienced in the rate year. I note that this true up is particularly important in the context of a single formula rate year where there will be no opportunity for differences to be smoothed out over several years due to changes in variables.

Q: Based on your recommendations above, are you opposed to the use of weighted indices including EERH and Quebec CPI in a future FVC?

A: No. For clarity, my recommendation above is offered in the context of a single year FVC. Relying on historical trends for salaries based on EERH for a single year, given the recent volatility experienced, introduces significant risk that the FVC will yield a result that does not reflect the expected cost pressures in 2026/27. Accordingly, I would support further consideration of a weighted indices as part of a multi-year FVC, which would allow for a better chance of normalization between the years, even though I do not recommend its use for this single year FVC.

4.2 Productivity factor

Q: What is the purpose of a productivity factor in a formula rate mechanism?

A: A productivity factor is included in a formula rate mechanism to mimic the incentives that are naturally inherent within a regulated utility to control and manage costs within the level set in rates. In the context of formula rate setting, as opposed to forecasting costs, a productivity factor serves the added function of layering in the potential cost reductions that may otherwise be expected by the regulator of the utility if it were to approve costs on an individual forecast basis. In summary, a productivity factor seeks to better align the revenues determined under the formula with the actual expected costs that the utility will incur.

Q: Does Énergir's formula include a productivity factor adjustment?

A: No.

Q: Did Énergir explain why it has not proposed a productivity factor in its FVC?

A: Yes. Énergir states:

> "Énergir reiterates that its current proposal is intended to be a simple and transparent comprehensive formula, inspired by past regulatory relief measures and achieving the desired objective of regulatory relief. If deemed necessary, changes to the FVC could be made during a future rate cycle.
>
> Furthermore, as mentioned in Section 8 of Exhibit B-0318, Énergir-U, Document 1, the inclusion of a productivity factor is generally associated with incentive mechanisms, which is not the approach advocated by Énergir in this case.
>
> Please also refer to the response to question 2.2."[25]

Q: Do you agree with Énergir that a productivity factor is only used in "incentive mechanisms" and that the FVC is somehow different?

A: No. The distinction Énergir seeks to make between its FVC and an "incentive mechanism" appears to be that its FVC is different from an incentive mechanism. This is false. As explained earlier, the purpose of the FVC is to mimic the results that would be achieved under a full general rate case, which would include the incorporation of known productivity gains into the forecasts. Whatever approach is used to structure a formula the same fundamental purpose exists as I have described. In my experience, there is always an expectation by a regulator that a utility will seek out efficiencies. Whether that is communicated through a clear productivity factor or the design of the other components of the formula rate mechanism, the end goal is the same.

[25] B-0325, Response to ACIG Information Request No. 1, PDF 7, Response to 2.5.

Q: Did Énergir confirm that it seeks out productivity savings each year?

A: Yes. Énergir stated:[26]

> "Énergir notes that controlled cost growth over the past few years has been made possible by multiple initiatives such as improving the site selection process, revising the planning-to-operation process, optimizing routes, sound management of overtime, and reflection following departures retirement, an increase in the proportion of time spent on non-regulated activities, etc. Énergir cannot quantify the amounts associated with each initiative, as it is the combination of these efforts that accounts for this controlled growth.
>
> Énergir reiterates that it is always seeking opportunities to improve its productivity, even in the absence of a cap. While remaining below the cap is important, Énergir does not limit its cost-control efforts simply to avoid reaching the authorized level.
>
> Énergir's proposal aims for a simple, transparent, and comprehensive formula consistent with the regulatory relief approaches of recent years and based on recognized regulatory principles. This proposal does not aim to create an incentive mechanism."

Q: Should a productivity factor be approved for inclusion in the FVC?

A: Yes. Énergir continues to seek out efficiency gains year-after-year. If a productivity factor is excluded from the formula, it creates two problems. First, it sends the signal that the Régie does not expect Énergir to achieve further efficiency gains. Second, the resulting revenues from the formula are unlikely to reflect the actual costs considering that Énergir will continue to act to find efficiencies, which it should.

[26] B-0326, Response to Information Request No. 1 from D. Madsen (Expert) on behalf of ACIG, PDF 15-16, Response to 1.20.

The need to find efficiencies is heightened in the context of a declining customer base. This is because as fewer customers and volumes are served on the system, there becomes a clear need to control the level of spending within reasonable levels to avoid passing on higher and higher costs to a steadily declining base of customers, which may only further increase the reduction in customers.

Q: What productivity factor do you recommend?

A: In lieu of a detailed productivity factor analysis, which would be unduly burdensome for a single year, I recommend that the productivity factor be set at 0.265% which reflects the average difference over the last six years between the index and the actual costs as shown in Table 3.[27] This trend at least indicates the long-term efficiency gains Énergir has achieved relative to the baseline indexes it proposes to rely on. I note that calculating the variance based only on CPI would lead to a higher productivity factor adjustment. I also recommend that any future productivity factor be supported by a comprehensive productivity factor analysis, which I did not perform in this case.

Q: Did you determine your productivity factor based only on operating costs?

A: Yes. I acknowledge that a productivity factor should contemplate all costs incurred by Énergir, including operating and capital costs. However, I reviewed the changes in capital-related costs and noted that there was generally a surplus of revenues over the index for Énergir in the last six years based on Appendix Q-11.1. However, the balance of capital changes did not generally coincide with the changes in costs due to the exclusion of certain forecast costs in each year. For this reason, I focused my productivity factor on operating expenses at this time and recommend a more comprehensive productivity factor study be performed specific to Énergir in the future.

[27] [(% increase in parametric formula 3.77% - actual average salary increase 3.61%) + (% increase in parametric formula 3.35% - actual average increase in other expenses 2.98%)] / 2 = 0.265%

4.3 Growth factor

Q: What is the purpose of a growth factor in a formula rate mechanism?

A: A growth factor is designed to account for changes in revenues in the rate year due to changes in certain billing determinants such as the number of customers served or the volumes of gas delivered. Assume a simple example where the utility serves 100 current customers with a total revenue of $1,000. Under this scenario, each of the 100 customers would pay $10.00. If the customer count decreases to 90 customers, then assuming there is no change in costs to serve those customers, the amount paid would be increased to $11.11 per customer. Under this scenario the utility still recovers its $1,000 in revenues but from a smaller customer base. If the change in customers is not reflected, then an incorrect amount of revenue is recovered from customers. Like a productivity factor and the indices applied to the FVC, the intent of including a growth factor is to ensure the revenues recovered from customers reflect the actual operating conditions for the utility.

Q: Was Énergir previously subject to a growth factor adjustment in its formula rates?

A: Yes. The most recently approved parametric formula for Énergir is as follows:[28]

Figure 9 – Previously utilized parametric formula for Énergir

$$OPEX_{CT\,t} = OPEX_{CT\,t-1} \times (1 + I + G_{CT\,t} \times 75\%)$$

where:

G denotes the projected growth in the number of customers at the time the rate case was filed.

Q: Did Énergir explain why it did not include a growth factor?

A: Yes. Énergir stated:

> "Please refer to section 6.2.1 of Exhibit B-0318, Énergir-U, Document 1. As Énergir indicates, in the absence of compelling evidence supporting the relevance of this factor in a context of declining customer numbers, it is

[28] B-0326, Response to Information Request No. 1 from D. Madsen (Expert) on behalf of ACIG, PDF 11, Response to 1.8.

reasonable to remove it. This proposal is also supported by the Nera report available in Appendix 1 of the same document.

Énergir notes that it is now operating in an environment of declining customer numbers, which differs from the situation observed in recent years. This decline does not necessarily translate into a proportional reduction in its costs, which are predominantly fixed. This new context for Énergir requires a process of learning and adjustment, while continuing to bear the costs of maintaining and ensuring the safety of its entire network, the costs associated with a workforce governed by collective bargaining agreements, and the costs of adapting the network as part of the energy transition.

Énergir also notes that the "number of customers" factor contributed in the past to a higher indexation of OPEX. Indeed, the number of customers has always allowed for an increase in the spending cap, except in 2025, the first year showing a decline in the number of customers.

Furthermore, the proposed FVC now covers a larger proportion of the cost of service—approximately 90%—whereas previously only OPEX was subject to a formula. By proposing the FVC, Énergir accepts a higher level of risk than a full annual rate update based on projected costs, since rates will no longer be reviewed annually to account for anticipated cost increases. Instead, the methodology provides for a comprehensive reassessment of service costs every three years, which takes into account, where applicable, productivity gains achieved through sound cost management over the past fiscal years. This allows for a downward adjustment of the starting point for cost calculations, thereby passing the savings on to customers, as was the case when the parametric formula was renewed for the 2022–2023 Rate Case and the 2025–2026 Rate Case.

> Énergir is confident that the proposed FVC will enable it to maintain rigorous cost management while providing sufficient flexibility to adapt to various contingencies or changes.
>
> In summary, Énergir believes that the proposed formula provides an accurate assessment of the cost of service. As shown in Table 13 of Appendix 2 to Exhibit B-0318, Énergir-U, Document 1, the average growth in the base cost of service for the period from 2017–2018 to 2024–2025 is 3.29%, compared to the FVC's proposed average inflation rate of 3.21%, a difference of only 0.08%."[29]

Q: Did Énergir provide any analysis supporting that other Canadian peers are in a growth phase unlike Énergir, and thus may warrant inclusion of a growth factor?

A: No. When asked, Énergir referred to its response to question 8.3 of ACIG Information Request No. 1, Exhibit Énergir-V, Document 3, which does not provide the analysis requested.[30] Instead, it only provides a general description of the historical growth trends with no context for the future trends in customers and volumes.

Q: Does Énergir consider that there is any reduction in customers that would contribute to a reduction in O&M expenses?

A: No. Énergir states:

> "As mentioned on page 32 of section 6.2.1 of Exhibit B-0318, Énergir-U, Document 1, there is no conclusive evidence demonstrating a correlation between a decline in the number of customers and a reduction in operating expenses. Énergir therefore finds it difficult at this time to assess the impacts on its operating expenses, especially since this is the first time Énergir has had to evaluate and manage its operations based on forecasts of medium- and long-term demand decline.

[29] B-0325, Response to ACIG Information Request No. 1, PDF 6, Response to 2.2.
[30] B-0326, Response to Information Request No. 1 from D. Madsen (Expert) on behalf of ACIG, PDF 21, Response to 1.39.

> Furthermore, Énergir wishes to point out that the vast majority of its costs are fixed. Thus, even as its customer base shrinks, it will still need to continue maintaining, upkeeping, and ensuring the safety of its entire network and other assets in order to provide reliable and safe service to its remaining customers. Furthermore, Énergir's ability to adjust its operations is limited because a large proportion of its workforce is covered by collective bargaining agreements. Consequently, a decline in the number of customers does not result in a proportional reduction in its operating expenses."[31]

Q: Do you agree that O&M expenses should remain stable under the formula despite changes in customers?

A: No. As the requirements for the utility change over time so do the operating expenses. While I agree that several of the operating expenses would be fixed in nature, there would be some opportunity to reduce certain costs or improve efficiencies over time to serve a declining base of customers.

Q: Would costs other than O&M expenses be impacted by changes in customer numbers?

A: Yes. As customer growth declines, so too would the need to incur additional capital to serve new customers. As this capital declines, the level of rate base will decline as well, leading to lower returns, income taxes, depreciation, and property taxes (i.e., by volume). The primary source of new capital would be replacement capital to ensure the system remains functional (i.e., safe and reliable) for customers that remain connected to the system.

Q: Do you recommend a growth factor be included in the FVC?

A: Yes. I recommend a growth factor similar to the previously applied growth factor be applied to all costs included in the FVC. As explained above, applying a growth factor to costs

[31] B-0325, Response to ACIG Information Request No. 1, PDF 7, Response to 2.3.

outside of operating costs is appropriate in this case as reductions in customers would directly impact on the level of spending that is anticipated in the formula rate year.

Q: What growth factor do you recommend and why?

A: I recommend a growth factor of -0.2% which aligns with the most recent known trend in 2024.[32] I further recommend this growth factor continue to be adjusted by 75% as was previously done for Énergir.

Q: Does your recommendation for a growth factor take into consideration Quebec's energy transition and decarbonization goals as well as Énergir's climate reliance report?

A: Yes. While I acknowledge the external drivers that are likely to cause a decline in customers for Énergir in the future, there is limited information available at this time to demonstrate that trend will continue at a certain pace in 2026/27. It is this lack of information in the near term that causes me to recommend a growth factor be included in the FVC for Énergir. I note that sustained evidence of a declining customer base may alter my recommendation regarding the appropriateness of applying the growth factor to the operating cost component of the FVC. However, it may not alter my recommendation regarding the application of a growth factor to other components of the FVC, such as changes in rate base, which may be more influenced by changes in the customer base.

Q: Do you support consideration of other growth-based indices as part of a future three-year FVC?

A: Yes. As noted above, I consider that in advance of the next FVC proposal there is a likelihood of increased information regarding the trend of customer and volume growth or decline for Énergir. This information could assist in informing either the removal of a growth factor going forward or other indices including a measure of the total cost of service per customer or per unit of gas delivered. Setting costs based on the proportion that revenues change based on the different components of rates (i.e., fixed or variable) may

[32] B-0318, p. 53, Figure 2.

provide for a more accurate estimate of future revenues under the FVC for Énergir, while also addressing the need for growth (including negative growth) to be properly considered within the formula.

4.4 Reconciliation mechanism for forecast costs

Q: Does Énergir perceive there may be some risk as a result of the FVC?

A: Yes.[33]

Q: When referring to risk that the FVC may be incorrect, what was Énergir implying?

A: Énergir explained that the "risks" were as follows:

> "Énergir refers to the risk that actual costs may exceed the result of the formula. For the interim years, the FVC proposal entails establishing the majority of the cost of service based on indices, rather than through a detailed forecast. Although Énergir has demonstrated the correlation between the average growth of costs subject to the FVC and the average CPI and EERH indices, there remains a risk that annual variances, whether favorable or unfavorable, may occur. In the event that the actual cost of service exceeds that determined by applying the FVC, any shortfall would be borne by shareholders in accordance with the current cost-sharing arrangement. Énergir could thus fail to achieve its authorized rate of return."[34]

Q: Is risk generally symmetrical?

A: Yes, it is. However, as Énergir ultimately controls the costs it is required to incur in the rate year, the risk is not perfectly symmetrical. For these reasons, it is concerning that Énergir appears to be concerned only with the risk that actual costs may exceed the formula.

[33] B-0318, p. 5, lines 7–15.
[34] B-0325, Response to ACIG Information Request No. 1, PDF 24, Response to 8.1.

Q: Is Énergir proposing to address some of this risk by forecasting certain costs rather than including them in the FVC?

A: Yes.

Q: Is there anything inherently wrong with forecasting costs where they may not escalate based on an index?

A: No.

Q: Is Énergir proposing to escalate actual or forecast costs using the FVC?

A: Énergir is proposing to escalate the 2025/26 approved forecasts subject to certain marginal adjustments.[35]

Q: What is the concern with this approach?

A: Escalating a forecast may exacerbate any errors in the forecast costs relative to the actual costs that have been experienced by escalating that difference into the formula rate year. At the same time, there is a strong incentive under any formula rate mechanism to seek out efficiencies in the base year (2025/26) as those efficiencies will flow through the base year and the future formula rate year.

Q: Is there a risk that using a combination of formulas and forecasts for costs may trigger an over or under recovery of costs?

A: Yes. As explained by Énergir, for costs subject to the FVC "there will be no adjustment based on actual results in a subsequent year within the same multi-year cycle."[36] Therefore, there is a possibility that actual costs will be below the costs subject to a formula while forecast costs would also be below the forecasts leading to an over recovery of revenues under both components of rates. The opposite may also be true.

[35] B-0326, Response to Information Request No. 1 from D. Madsen (Expert) on behalf of ACIG, PDF 5, Response to 1.4.
[36] B-0326, Response to Information Request No. 1 from D. Madsen (Expert) on behalf of ACIG, PDF 16, Response to 1.22.2.

Q: Is it a viable option for the Régie to direct Énergir to update the forecasts to actual costs as part of the next formula adjustment, or next rate case, and account for any difference in future rates?

A: Yes. Given the high variability of costs that are subject to forecasts, an appropriate course of action would be to true up those costs to the actual costs once known, with any differences being collected or refunded to customers.

Q: Should any such adjustment be symmetrical?

A: Yes. Subject to an assessment of the prudence of the costs incurred under the forecasts, it would be appropriate to adjust the costs symmetrically. This approach may be appropriate to adjust if a longer formula rate plan is implemented where caps on the upward adjustment are implemented to encourage Énergir to continue to manage those costs that are forecast prudently.

Q: Does Énergir oppose updates to forecasted costs that are included in the FVC?

A: Yes. Énergir explains its opposition as follows:

> "In Énergir's view, this approach is not desirable. The adjustments currently made on the margin target service cost components that are characterized by high variability and an unpredictable nature, which can lead to significant variances, both upward or downward. It is therefore impossible to identify a reliable trend or derive an adequate indexation formula. The data produced in this way could deviate significantly from what they should have been, generating substantial variances at year-end.
>
> These discrepancies would then be recovered or reincorporated into the cost of service at a later date, meaning they would be borne by a different generation of customers than the one that benefited from or bore the actual variations."[37]

[37] B-0326, Response to Information Request No. 1 from D. Madsen (Expert) on behalf of ACIG, PDF 17-18, Response to 1.26.

Q: What do you recommend as it relates to forecast costs for this one-year FVC?

A: Considering the evolving nature of Énergir's business and the yet unknown impacts on its business of a declining customer base, at least in the rate year, I recommend that all forecast costs included in 2026/27 be trued up to reflect the actual costs incurred subject to a prudence assessment by the Régie. For clarity, this recommendation only applies to those costs outside the FVC. I do not recommend any further true up of costs included in the FVC beyond the income taxes as discussed below.

4.5 Imprecise income tax forecasts

Q: Is Énergir proposing to adjust its approach to calculating income taxes in future FVCs?

A: Yes.[38]

Q: Has Énergir provided any further clarity on its future proposal?

A: No.[39]

Q: Is Énergir's approach to calculating forecast income taxes appropriate?

A: Not necessarily. There is a high degree of potential inaccuracy as Énergir simply escalates the income taxes by the same factor it uses for rate base. Income taxes can vary for numerous reasons such as the timing of deductions or changes in tax policy or rates.

Q: Do you support Énergir's efforts to fine tune its income tax calculations?

A: Yes.

Q: In lieu of an updated approach to calculating income taxes under the FVC do you have any interim recommendations?

A: Yes. I recommend that the income taxes that are forecast be subject to true up as part of a reconciliation mechanism for 2026/27. This true up will allow for any variances in income

[38] B-0318, p. 34, lines 18-25.
[39] B-0326, Response to Information Request No. 1 from D. Madsen (Expert) on behalf of ACIG, PDF 18, Response to 1.27.

taxes, which would be primarily timing differences, to flow through rates in a future year. It provides important protection to both Énergir and customers, as income taxes are a statutory obligation, and the payment of those amounts are outside Énergir's control. Furthermore, if the timing of deduction of a cost is altered in 2026/27 for income tax purposes, this reconciliation will ensure that Énergir's customer benefit from or pay for that change in future rates.

4.6 Revised calculation of FVC adjustment

Q: Have you prepared a revised calculation of the FVC based on your proposed changes?

A: Yes. Please refer to Exhibit DMM-2 for the revised calculation of the 2026/27 revenue requirement based on the changes to the FVC that I propose:

Table 6 – Recommended 2026/27 revenues based on adjusted FVC

($000s)	2025/26 Rate Case	2025/26 Base subject to FVC	2025/26 cost forecast	Indices	2026/27 Rate Base and Revenues
Rate base	$ 2,647,834	$ 2,493,248	$ 154,586	2.05%	$ 2,544,235
Distribution costs of the CDG	$ 8,059	$ 8,059		2.05%	$ 8,224
Other operating income	$ (4,195)	$ (4,195)		2.05%	$ (4,281)
Operating expenses excluding cost of services rendered - ASF	$ 241,536	$ 241,536		2.05%	$ 246,475
Costs of services rendered - ASF	$ 20,392		$ 20,392		$ -
Other components of the cost of ASF	$ (11,038)		$ (11,038)		$ -
Comprehensive Energy Efficiency Plan (CEEP)	$ 6,855		$ 6,855		$ -
Depreciation fixed assets	$ 157,310	$ 157,310		2.05%	$ 160,527
Depreciation deferred expenses and intangible assets	$ 80,187	$ 48,718	$ 31,469	2.05%	$ 49,714
Property taxes and other	$ 50,977	$ 50,977		2.05%	$ 52,019
Income tax	$ 24,601	$ 24,601		2.05%	$ 25,104
Return	$ 160,459	$ 151,091		2.05%	$ 154,181
Income required before GHG contribution	**$ 735,143**	**$ 678,097**	**$ 47,678**		**$ 691,964**
Contribution GES	$ (6,036)	$ -	$ (6,036)		$ -
Income required from regulated clients	**$ 729,107**	**$ 678,097**	**$ 41,642**		**$ 691,964**
				Previous simulation	**$ 695,282**
				Difference	**$ (3,318)**

I am also including in Exhibit DMM-2 revised calculations of the FVC showing the updated impact of the revised indices on Énergir's proposed 2026/27 revenues:

Table 7 – Revised calculation of Énergir's proposed FVC revenues for 2026/27

($000s)	2025/26 Rate Case	2025/26 Base subject to FVC	2025/26 cost forecast	Indices	2026/27 Rate Base and Revenues
Rate base	$ 2,647,834	$ 2,493,248	$ 154,586	2.46%	$ 2,554,582
Distribution costs of the CDG	$ 8,059	$ 8,059		2.46%	$ 8,257
Other operating income	$ (4,195)	$ (4,195)		2.46%	$ (4,298)
Operating expenses excluding cost of services rendered - ASF	$ 241,536	$ 241,536		3.62%	$ 250,268
Costs of services rendered - ASF	$ 20,392		$ 20,392		$ -
Other components of the cost of ASF	$ (11,038)		$ (11,038)		$ -
Comprehensive Energy Efficiency Plan (CEEP)	$ 6,855		$ 6,855		$ -
Depreciation fixed assets	$ 157,310	$ 157,310		2.46%	$ 161,180
Depreciation deferred expenses and intangible assets	$ 80,187	$ 48,718	$ 31,469	2.46%	$ 49,916
Property taxes and other	$ 50,977	$ 50,977		2.46%	$ 52,231
Income tax	$ 24,601	$ 24,601		2.46%	$ 25,206
Return	$ 160,459	$ 151,091		2.46%	$ 154,808
Income required before GHG contribution	**$ 735,143**	**$ 678,097**	**$ 47,678**		**$ 697,568**
Contribution GES	$ (6,036)	$ -	$ (6,036)		$ -
Income required from regulated clients	**$ 729,107**	**$ 678,097**	**$ 41,642**		**$ 697,568**
				Previous simulation	**$ 695,282**
				Difference	**$ 2,286**

The difference between the amount calculated by Énergir and the amount I recommend is a reduction in 2026/27 revenues of $5,604,000.

Q: Does this conclude your expert report?

A: Yes.