

July 5, 2013

VIA RESS

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
PO Box 2319
2300 Yonge Street
27th Floor
Toronto, ON M4P 1E4

 **NORTON ROSE FULBRIGHT**

Avocats et agents de brevets et de marques de commerce

Norton Rose Fulbright Canada S.E.N.C.R.L., s.r.l.
1, Place Ville Marie, bureau 2500
Montréal (Québec) H3B 1R1 CANADA

F: +1 514.286.5474
nortonrosefulbright.com

Marie-Christine Hivon
+1 514.847.4805
Marie-Christine.hivon@nortonrosefulbright.com

Your reference

Our reference
01000241-0066

EB-2012-0451
EB-2012-0433
EB-2013-0074

Enbridge GTA Project
Union Parkway West Project
Union Brantford-Kirkwall Parkway D

Dear Ms. Walli:

Please find enclosed an English translation of the "Demande d'approbation du plan d'approvisionnement et de modification des conditions de service et tarif de Société en commandite Gaz Métro à compter du 1er octobre 2012", filed under Tab 4 of the Supplementary Motion Record of Union Gas and Métro Gaz.

Yours very truly,



Marie-Christine Hivon

MCH/jb

Enclosure

c.c.: All parties via RESS

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CANADA

RÉGIE DE L'ÉNERGIE

PROVINCE OF QUEBEC
District of Montréal

No. R-3809-2012

GAZ MÉTRO LIMITED PARTNERSHIP, a duly formed partnership, having its principal place of business at 1717 Rue du Havre, in the City and District of Montréal, Province de Quebec,

(hereinafter the "Applicant" or "Gaz Métro")

**APPLICATION FOR APPROVAL OF THE SUPPLY PLAN AND CHANGES TO
CONDITIONS OF SERVICE AND TARIFF OF GAZ MÉTRO LIMITED
PARTNERSHIP EFFECTIVE OCTOBER 1, 2012**
[Sections 31(1), 32, 48, 49, 52, 72 and 74 of the *Act respecting the Régie de l'énergie*,
R.S.Q. c. R-6.01 (the "Act")]

THE APPLICANT RESPECTFULLY STATES AS FOLLOWS:

1. It is a natural gas distributor and, as such, is subject to the jurisdiction of the Régie de l'énergie (the "Régie"), in accordance with the provisions of the Act;
2. Gaz Métro is applying to the Régie for approval of its supply plan and changes to its rates and certain other conditions on which natural gas will be transported, delivered and supplied to consumers effective October 1, 2012;
3. Gaz Métro is asking that its rates be modified accordingly effective October 1, 2012 so that they can generate the required revenues for the 2012-2013 rate year;
4. Gaz Métro will file its case in two phases. The first phase will deal with the following items:
 - The supply plan;
 - The historical evolution and value of location differentials to Henry Hub futures for various natural gas market hubs in the United States northeast;
 - The method of determining costs for LNG sales;
 - The history of purchases at Dawn;
 - The multi-points project and the strategy of transferring the supply structure from Empress to Dawn;
 - The financial derivatives program;
 - The rate changes related to interruptions; and
 - The performance indicator for supply tools optimization.

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5. Phase 2 will deal with all the other requests forming part of this rates case, including Gaz Métro's rate of return, and will be filed in November 2012;

A- INTERLOCUTORY APPLICATION FOR INTERIM RENEWAL OF THE 2011-2012 TARIFF EFFECTIVE OCTOBER 1, 2012

6. Seeing that a final decision of the Régie will not have been issued on October 1, 2012, Gaz Métro is requesting that the Régie order the interim renewal, effective October 1, 2012, of the *Conditions of Service and Tariff* in force during the 2011-2012 year, until a final decision is issued in this case;

B- PHASE 1

I- Supply plan of Gaz Métro (Exhibits Gaz Métro-1, Documents 1 and 3 to 13)

7. As required by section 72 of the Act, Gaz Métro has prepared its supply plan covering both its needs for the year and its needs over a 3-year time horizon;
8. In the said plan, Gaz Métro presents the hypotheses that lead to its forecast for natural gas demand over the 2013-2015 time horizon, its supply strategy to meet the projected demand during that period, the existing supply contracts and supply planning for the 2013 year;
9. At the supply strategy level, Gaz Métro has for several years been pursuing a business strategy aimed at bringing its supply structure closer to its territory by transferring the starting point of its transportation capacity from Empress to Dawn;
10. This strategy of transferring the supply structure stands to generate significant savings for the entire regulated sector clientele;
11. Gaz Métro had wanted to submit for the Régie's approval, as part of this rates case, a major piece of its strategy which consisted of asking Union and TCPL to build additional capacity on their respective segments between Dawn, on the one hand, and GMI EDA or GMI NDA on the other, the whole with the ultimate objective of having that additional capacity available in 2016 and abandoning Empress almost entirely as a delivery point;
12. However, in the spring of 2012, TCPL and Union launched calls for bids aimed at bringing additional capacity into service for the fall of 2014 on the segments sought by Gaz Métro, thus making it necessary for Gaz Métro to accelerate its strategy of transferring to Dawn;
13. In parallel with these two calls for bids, Gaz Métro had an opportunity to enter into a swap between Dawn and GMI EDA in the secondary market for a 10-year period starting from November 1, 2013.
14. Encouraged by the results of the analyses conducted which found that substantial savings could be generated for the regulated sector clientele, Gaz Métro seized the opportunity to enter into the swap offered to it in the secondary market and submitted bids, which were subsequently accepted, in connection with the calls for bids launched by Union and TCPL;
15. The additional capacity that will be available on TCPL and Union means that Gaz Métro could transfer its supply structure to Dawn as early as November 1, 2014;

16. Insofar as its existing supply contracts, more specifically contracts for supply from Dawn, are concerned, Gaz Métro is required to functionalize the cost of these contracts based on the commodity cost at Empress to which a location differential is added;
17. In its Decision D-2011-162, the Régie approved the functionalization method proposed by Gaz Métro, but asked it to revise the said method based on the multi-points supply project;
18. In view of the recommendation of Gaz Métro in regard to that project – which recommendation is more fully set out hereinafter and in Exhibit Gaz Métro-1, Document 16 – and the transfer of its supply strategy to Dawn anticipated for November 1, 2014, Gaz Métro did not revise the said method;
19. Instead, Gaz Métro proposes to re-use the method approved in Decision D-2011-162 for the 2013 and 2014 rate years and will suggest a new functionalization method as part of the 2015 rates case at the latest, which is the case that will reflect the reality of the transfer of the supply structure;
20. In short, Gaz Métro is asking the Régie to approve the supply plan more fully set out in Exhibits Gaz Métro-1, Documents 1 and 3 to 13, including the transfer of the supply strategy to Dawn and the use of the functionalization method approved in Decision D-2011-162 for the 2013 and 2014 rate years;

II- Historical evolution and value of location differentials to Henry Hub futures – follow-up to Decision D-2011-182 (Exhibit Gaz Métro-1, Document 2)

21. Following up on Decision D-2011-182, paragraph 41, Gaz Métro is filing Exhibit Gaz Métro-1, Document 2, which sets out the historical evolution and value of location differentials to Henry Hub futures for various natural gas market hubs located in the United States northeast;
22. Gaz Métro is asking the Régie to declare that the information thus provided is in keeping with the follow-up requested;

III- Method of determining costs for LNG sales (Exhibit Gaz Métro-1, Document 14)

23. Gaz Métro has calculated all of the costs associated with LNG sales at GMST in accordance with Decisions D-2010-057, D-2010-144 and D-2011-030, as more fully set out in Exhibit Gaz Métro-1, Document 14;
24. In determining these costs, Gaz Métro has also taken into consideration the adjustments suggested by it in case R-3800-2012, which relate to the possibility of liquefying in winter;
25. Gaz Métro is asking the Régie to approve the costs determined in relation to LNG sales;

IV- History of purchases at Dawn – follow-up to Decision D-2011-153 (Exhibit Gaz Métro-1, Document 15)

26. Following up on Decision D-2011-153, paragraph 21, Gaz Métro is filing Exhibit Gaz Métro-1, Document 15, which provides, for each of the last five years, a comparison between the average price of its purchases at Dawn, weighted according to the volumes traded, on the one hand, and the monthly prices at Dawn according to a published index;

27. Gaz Métro is asking the Régie to declare that the historical comparison of purchases at Dawn presented in Exhibit Gaz Métro-1, Document 15, is in keeping with the follow-up requested;

V- Multi-points supply project – follow-up to Decision D-2011-164 (Exhibit Gaz Métro-1, Document 16)

28. In its decision D-2011-164, paragraphs 41 and 42, the Régie asked Gaz Métro to submit a comprehensive solution to the problems associated with offering multi-point supply to direct purchase customers;

29. The results of the studies and analyses conducted by Gaz Métro and presented in the context of the meetings of the working group authorized by the Régie, in which its technical personnel took part, are such that Gaz Métro does not recommend offering its direct purchase customers the option for multi-point delivery of their natural gas, the whole as more fully set out in Exhibit Gaz Métro-1, Document 16;

30. Accordingly, Gaz Métro is asking the Régie to declare that the studies and analyses conducted in regard to the multi-point delivery project are satisfactory and that the decision to terminate this project is justified;

31. In the place and stead of the multi-point supply project, Gaz Métro is proposing to transfer its supply structure to Dawn, as more fully set out in Exhibits Gaz Métro-1, Documents 1 and 16;

VI- Financial derivatives program (Exhibit Gaz Métro-2, Document 1)

32. In 2001, the Régie approved Gaz Métro's financial derivatives program in its current form;

33. Over the years, this program has enabled variations in the cost of gas billed to network gas customers to be levelled out;

34. For a few years now, the cost of natural gas has been dropping significantly, giving Gaz Métro cause to reflect on the suitability of this program;

35. Its reflections led Gaz Métro to conclude that the financial derivatives program should be renewed, for the reasons more fully set out in Exhibit Gaz Métro-2, Document 1;

36. Consequently, Gaz Métro is asking the Régie to approve the aggregate volumes that can be protected and the ceiling applicable to fixed price swap contracts, as described in greater detail in Exhibit Gaz Métro-2, Document 1;

VII- Rate changes related to interruptions (Exhibit Gaz Métro-3, Document 1)

37. Currently, article 16.4.2.6 of the *Conditions of Service and Tariff* provides that if an interruptible service customer withdraws volume during an interruption, that customer will have to pay the penalty provided for in the said article for his unauthorized withdrawal;

38. However, the evolution of the cost of natural gas relative to alternative energy forms means that the penalty provided for in article 16.4.2.6 of the *Conditions of Service and Tariff* is no longer having the hoped for deterrent effect;

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39. In certain regions such as Saguenay–Lac Saint-Jean, the network capacity might no longer be sufficient to meet the demand of firm service customers if interruptible service customers do not interrupt their consumption as required by an interruption notice, resulting in the loss of the network to a part of that region;
 40. Gaz Métro thus proposes to revise certain existing articles of the *Conditions of Service and Tariff* and add some new articles, the whole as more fully set out in Exhibit Gaz Métro-3, Document 1;
 41. Accordingly, Gaz Métro is asking the Régie to approve the proposed amendments or additions to articles 1.3, 16.4.2.6 and 16.4.6 of the *Conditions of Service and Tariff*, as more fully set out in Exhibit Gaz Métro-3, Document 1;

VIII- Proposal for a performance indicator for supply tools optimization (Exhibit Gaz Métro-4, Document 1)

42. In connection with its Decision D-2010-116, the Régie authorized Gaz Métro and the intervenors (collectively referred to as the “Working Group”) to commence negotiations for a new incentive mechanism, as the mechanism in effect is scheduled to expire on September 30, 2012;
43. On September 2, 2011, Gaz Métro filed the agreement negotiated by the Working Group and requested authorization to hold three additional work sessions where the Régie’s technical personnel would be in attendance for the purpose of defining a performance indicator for supply tools optimization, which authorization was subsequently granted by the Régie;
44. These meetings resulted in a performance indicator for supply tools optimization, which quantifies the variation in supply structure cost for a given year relative to supply structure cost for the 2010 reference year discounted for that same given year, along with the method for sharing the value created, the whole as more fully set out in Exhibit Gaz-Métro 4, Document 1;
45. Gaz Métro is asking the Régie to approve the said performance indicator for supply tools optimization;
46. In the alternative, should it not be possible for this new performance indicator to be implemented for the 2013 rate year and seeing that the incentive mechanism proposed by the Working Group has been rejected by Decision D-2012-076, Gaz Métro proposes, by way of interim methods for improving optimization transactions for this same year, that the Régie renew the terms of section 3.2.2 of the incentive mechanism in effect until September 30, 2012 that was authorized by Decision D-2007-047;
47. In connection with the alternative request, Gaz Métro is asking the Régie to approve projected revenues of \$0 for operational transactions and \$1,350,008 for financial transactions, as more fully set out in Exhibit Gaz Métro-1, Document 1;
48. In conclusion, Gaz Métro proposes that a decision be issued no later than November 23, 2012. This will allow Gaz Métro to complete all the necessary transactions before December 1, 2012 in order to have adequate tools in place by that date so that the projected demand during the 2013 winter season can be met;

49. Moreover, a decision before November 23, 2012 would mean that the amendments to the *Conditions of Service and Tariff* would be in force before the winter period starts and would give Gaz Métro tools to prevent a situation from arising where the network capacity in the Saguenay region might not be sufficient to meet the demand of firm service customers.

C- PHASE 2

50. The application of Gaz Métro and the evidence related to Phase 2 will be filed with the Régie in November 2012;
51. In the meantime, Gaz Métro is asking the Régie to reserve its rights in regard to the items that will be covered in Phase 2;
52. This application is well founded in fact and in law.

FOR THESE REASONS, MAY IT PLEASE THE RÉGIE TO:

IN CONNECTION WITH THE INTERLOCUTORY APPLICATION FOR INTERIM RENEWAL OF THE 2011-2012 *CONDITIONS OF SERVICE AND TARIFF*, EFFECTIVE OCTOBER 1, 2012:

ORDER the interim renewal, effective October 1, 2012, of the *Conditions of Service and Tariff* in force during the 2011-2012 year, until a final decision is issued in this case;

IN CONNECTION WITH PHASE 1 OF THIS CASE:

In regard to the supply plan (Gaz Métro-1, Documents 1 and 3 to 13)

APPROVE the supply plan including the strategy of transferring the supply structure from Empress to Dawn and the use of the functionalization method approved in Decision D-2011-162 for the 2013 and 2014 rate years;

In regard to the historical evolution and value of location differentials to Henry Hub futures – follow-up to Decision D-2011-182 (Exhibit Gaz Métro-1, Document 2)

DECLARE that the information provided in Exhibit Gaz Métro-1, Document 2 is in keeping with the follow-up requested in paragraph 41 of Decision D-2011-182;

In regard to the determination of costs for LNG sales (Gaz Métro-1, Document 14)

APPROVE the costs determined by Gaz Métro in relation to LNG sales;

In regard to the history of purchases at Dawn – follow-up to Decision D-2011-153 (Exhibit Gaz Métro-1, Document 15)

DECLARE that the historical comparison of purchases at Dawn presented in Exhibit Gaz Métro-1, Document 15, is in keeping with the follow-up requested in paragraph 21 of Decision D-2011-153;

In regard to the multi-point supply project – follow-up to Decision D-2011-164 (Exhibit Gaz Métro-1, Document 16)

DECLARE that the studies and analyses conducted in response to the follow-up on the multi-point delivery project requested by the Régie in Decision D-2011-182, at paragraphs 41 and 42, are satisfactory and that the decision to terminate the said project is justified;

In regard to the financial derivatives program (Exhibit Gaz Métro-2, Document 1)

APPROVE the aggregate volumes that can be protected and the ceiling applicable to fixed price swap contracts, as described in greater detail in Exhibit Gaz Métro-2, Document 1;

In regard to the rate changes related to interruptions (Exhibit Gaz Métro-3, Document 1)

APPROVE the proposed amendments to article 16.4.2.6 of the *Conditions of Service and Tariff* relating to the penalty to be paid by a customer who makes an unauthorized withdrawal;

APPROVE the proposed addition to article 1.3 of the *Conditions of Service and Tariff* relating to the definition of “unauthorized withdrawals”;

APPROVE the proposed addition to article 16.4.6, paragraph 1, and the addition of paragraphs 6 and 7 to the *Conditions of Service and Tariff* relating to the order for carrying out interruptions in the event of operational issues and the various possibilities available to Gaz Métro in the event of unauthorized withdrawals;

In regard to the proposal for a performance indicator for supply tools optimization (Exhibit Gaz Métro-4, Document 1)

APPROVE the performance indicator for supply tools optimization as presented in Exhibit Gaz Métro-4, Document 17;

IN THE ALTERNATIVE

APPROVE, for the 2013 rate year, the renewal of the performance incentive for transportation and load balancing provided for in section 3.2.2 of the incentive mechanism authorized by the Régie in its Decision D-2007-047;

APPROVE projected revenues of \$0 for operational transactions and \$1,350,008 for financial transactions;

IN CONNECTION WITH PHASE 2 OF THIS CASE:

RESERVE Gaz Métro's rights in respect of the possible filing of an amended application and evidence related to Phase 2.

Montréal, July 6, 2012

(Sgd) Vincent Regnault

Vincent Regnault
Counsel for the Applicant
1717 Rue du Havre
Montréal, Quebec H2K 2X3
Telephone: (514)-598-3102
Fax: (514)-598-3839
Email address for this case: dossiers.reglementaires@gazmetro.com