Redesign of the supply, transportation and load-balancing services and interruptible offer

Phase 2B, part 1A

Hearing
June 15, 2021

Original : 2021.06.14

Table of contents

1 Background of the tariff redesign

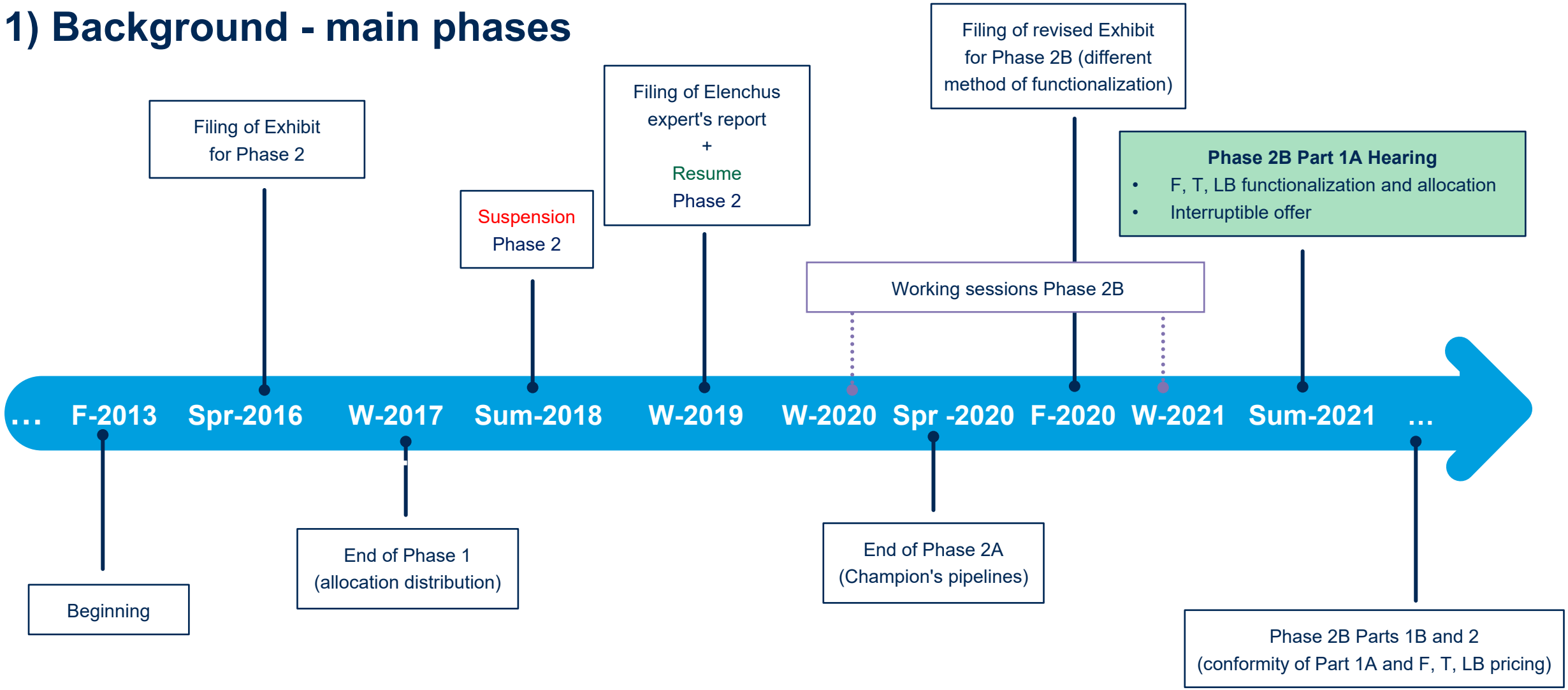
2 Functionalization between transportation, seasonal load-balancing, operational flexibility and not required costs

3 Differences between the current and proposed methodology

4 Redesign of the interruptible offer

1) Background of the tariff redesign

1) Background - main phases



There are many **reasons** why Énergir decided to review its rate structure

1) Background - supply structure

- Early 2000s:
  - ❑ Supply purchased at Empress uniformly
  - ❑ Transportation capacities almost entirely **FTLH**
  - ❑ Storage in franchise or at Dawn if needed

CHANGE IN THE SUPPLY STRUCTURE

- Since the move to Dawn in 2016:
  - ❑ Supply purchased mostly at **Dawn** in a less uniformly
  - ❑ Many FTLH transportation capacities replaced by **FTSH**
  - ❑ Location for functionalization of purchases = Dawn
  - ❑ Dawn storage site only used for operational flexibility

1) Background - guiding principles and objectives

- Adopt a **global approach** due to the indissociability of supply costs and tools interchangeability
- Refer to **direct functions** rather than indirect tools to separate S, T and LB services
- Respect **cost causality** as much as possible in the rate structure
- Reduce **cross-subsidy** between customer segments
- Send a **clear** price signal

Equity

Simplicity

Flexibility

2) Functionalization between transportation, seasonal load-balancing, operational flexibility and not required costs

2) Functionalization - Planning needs for daily volume

Daily volume	10^3m^3/day
Peak day	36 875
Extreme Winter	35 397
Maximum	**36 875**

RC 2021-2022, R-4151-2021, B-0031, p. 77

Sources	10^3m^3/day
Primary FTLH (Energir EDA & NDA)	2 243
Transmission via trade (EMP-Energir)	0
Purchases within the territory	11
Transportation provided by customers	223
FTSH (Dawn-Energir EDA)	2 192
Transmission via trade (Dawn-Energir)	2 875
FTSH (Parkway-Energir EDA & NDA)	13 777
FTSH (Parkway-Energir EDA & NDA) **– STS to the filed plan**	5 705
Pointe-du-Lac	1 600
Saint-Flavien	1 520
Category C	0
Peak service	625
LSR plant (vaporization)	5 806
Liquefaction interruptions, GM LNG	297
Subtotal supplies	36 875
Transportation Purchase / (Sale)	0
Total supplies after transportation purchase / (sale)	**36 875**

RC 2021-2022, R-4151-2021, B-0031, p. 80

Step 1 - Transportation

Costs of supply tools to meet customers stable demand based on daily average projected throughout the year.

Step 2 – Load Balancing

Total costs of supply tools to meet customers maximum required volume by deducting costs from Step 1.

Excludes additional premiums for transportation or storage services that add nomination windows.

2) Functionalization – Planning needs for additional flexibility

Sources	10^3m^3/day
Primary FTLH (Energir EDA & Energir NDA)	2 243
Transmission via trade (EMP-Energir)	0
Purchases within the territory	11
Transportation provided by customers	223
FTSH (Dawn-Energir EDA)	2 192
Transmission via trade (Dawn-Energir)	2 875
FTSH (Parkway-Energir EDA & NDA)	13 777
FTSH (Parkway-Energir EDA & NDA) **– STS to the filed plan**	5 705
Pointe-du-Lac	1 600
Saint-Flavien	1 520
Category C	0
Peak service	625
LSR plant (vaporization)	5 806
Liquefaction interruptions, GM LNG	297
Subtotal supplies	36 875
Transportation Purchase / (Sale)	0
Total supplies after transportation purchase / (sale)	**36 875**

RC 2021-2022, R-4151-2021, B-0031, p. 80

Flexibility need	Tool
Withdrawal and injection capacities during the gas day with additional windows	Dawn storage site
Additional nomination windows on transportation tools	Conversion from FTSH to STS service

Step 3 – Operational flexibility

Costs of supply tools or additional premiums to be paid in order to increase the operational flexibility required.

2) Functionalization - Optimization of surplus capacities

Sources	10^3m^3/day
Primary FTLH (Energir EDA & NDA)	2 243
Transmission via trade (EMP-Energir)	0
Purchases within the territory	11
Transportation provided by customers	223
FTSH (Dawn-Energir EDA)	2 192
Transmission via trade (Dawn-Energir)	2 875
FTSH (Parkway-Energir EDA & NDA)	13 777
FTSH (Parkway-Energir EDA & NDA) – STS to the filed plan	5 705
Pointe-du-Lac	1 600
Saint-Flavien	1 520
Category C	0
Peak service	625
LSR plant (vaporization)	5 806
Liquefaction interruptions, GM LNG	297
Subtotal supplies	36 875
Transportation Purchase / (Sale)	**0**
Total supplies after transportation purchase / (sale)	**36 875**

RC 2021-2022, R-4151-2021, B-0031, p. 80

Surplus capacities	Sold tools
None for 2021-2022 RC	

Step 4 – Not required costs

Net costs by disposal of not-required tools to meet customers maximum daily volumes or operational flexibility needs.

2) Functionalization - Ranking responds to a cost optimization need

**** Fictious costs for illustration purposes only***

379 10^3m^3 increase in the peak demand

Potential tools	Tool costs
Transportation SH-D of 379 10^3m^3 per day	Fixed premium of \$0,03/m^3 Variable premium of \$0,00/m^3 Annual cost of \$2,9M
Transportation SH-D of 379 10^3m^3 per day	Fixed premium of \$0,02/m^3 Variable premium of \$0,01/m^3 Annual cost of \$1,9M to \$2,9M
Increase in-franchise storage withdrawal capacity of 379,10^3m^3 per day (at Pointe-du-Lac)	Annual cost of \$1,5M

General ranking
Deliveries in franchise
Transportation LH
Transportation SH-D
Transportation SH-P
Transportation STS
St-Flavien
Pointe-du-Lac
Interruptible customers (A + B)
LSR plant
Peak service
Other interruptibles

Many different tools can meet an increase of the same customers need.

Once the tool is selected, Énergir reorganizes the tools ranking in order to optimize the total supply costs.

Transportation tools are then ranked from those with the lowest variable cost to those with the highest variable cost, regardless of the total cost of the tool.

Generally, the same will be true for storage tools.

The purpose of tool ranking is to reduce gas supply costs and not to meet a specific transportation or balancing need

3) Differences between the current and proposed methodology

3) Differences between the current and proposed methodology

Direct purchase

Components	Actual treatment	Proposed treatment
Mechanisms to eliminate cross-subsidy between direct purchase service and network gas service		
Daily imbalance	Financial settlement	Financial settlement
Contract-period imbalance	Financial settlement	Financial settlement
Change in DCV during contract-period	Volume transposition	- With transportation: Financial settlement (adjustment charges) - Without transportation: Volume transposition

3) Differences between the current and proposed methodology

Rate Case

Components	Actual treatment	Proposed treatment
Cost functionalization by service mode		
Transportation costs	• The ranking determines a functionalization percentage applied to the transportation and load-balancing costs • Uses the ranking result for transportation supply tools that are below stable demand	• Determines average demand proportion on total transportation capacities for annual transportation tools (excluding in-territory purchases and customer-provided transportation) • Assigns this proportion to the annual transportation supply tools costs at a 100% LF
Seasonal load-balancing costs	• The ranking determines a functionalization percentage applied to the transportation and load-balancing costs • Uses the ranking result for transportation supply tools that are below stable demand • Costs separation between average winter demand (space) and average peak demand (peak)	• The surplus of the average demand ratio applied to the costs of annual transportation supply tools • The cost of all storage tools purchased for purposes other than operational flexibility
Operational flexibility costs	• Operational flexibility and non-required cost elements are included into existing services	• The cost of transportation/storage services additional premiums that add nomination windows for operational flexibility • Calculation of supply costs savings from Dawn's site usage profile
Not required costs		Net costs of non-required tools disposal
Inventory return and tax	• In a different service (inventory-related adjustments)	• Included into load-balancing service (seasonal portion, operational flexibility portion or not required portion)

3) Differences between the current and proposed methodology

		Rate Case
Components	**Actual treatment**	**Proposed treatment**
Cost allocation method		
Load balancing - seasonal portion	• Consumption profile using A-W-P factors • Split between peak and space	• Consumption profile using LF
Load balancing - operational flexibility portion	• N/A	• Load-balancing volumes
Load balancing - not required portion	• N/A	• Distributed volumes

3) Differences between the current and proposed methodology

Annual report

Components	Actual treatment	Proposed treatment
Cost functionalization by service mode		
Transportation costs	• Cost update • Functionalization percentages used in the rate case remain unchanged	• Cost update • Average demand proportion on total transportation capacities for annual transportation tools calculated in the rate case remains unchanged
Seasonal load-balancing costs		
Operational flexibility costs		• Cost update and actual data
Not required costs		

3) Differences between the current and proposed methodology

Year-end adjustment

Components	Actual treatment	Proposed treatment
Network gas purchases seasonality		
Location differential update	No change	
Supply to load-balancing transfer and supply savings related to the operational flexibility need calculation	• Supply to load-balancing transfer, based on network gas supply purchases, determined following the seasonality calculation approved by the Régie (Decision D-2015-177) • No specific supply savings related to the operational flexibility calculation, since this service is currently integrated into load-balancing	• Supply to load-balancing transfer, based on network gas sales and direct purchases with transfer of ownership, determined following the seasonality calculation proposed by Énergir • Update of the supply savings related to the operational flexibility need calculation and allocation of these savings to the right services (balancing and operational flexibility)
Transportation to load-balancing transfer	• Based on the seasonality calculation approved by the Board (Decision D-2015-177)	• Based on the volume normalization to the annual report

3) Differences between the current and proposed methodology

Deferred expense accounts

Components	Actual treatment	Proposed treatment
DEA - fixed premiums from Dawn's storage site and cost of transportation tools functionalized to load-balancing		
Additions and amortization of DEAs	• Capitalization of fixed premiums from Dawn's storage site and cost transportation tools functionalized to load-balancing for the last six months of a fiscal year • Amortization of these additions included to tools costs in the following fiscal year	• Stop capitalization of fixed premiums from Dawn's storage site and cost of transportation tools functionalized to load-balancing • Costs recognition during the year in which they occurred
Transition period	• N/A	• As answered to questions from the DDR No. 4, Round 6 of the Régie[1], maintain the current DEA in order to follow the balance of unamortized costs amortization as of September 30 of the year prior to the change in accounting method • Amortize this balance over a period to be determined

[1] Refer to exhibit B-0633, Gaz Métro-12, Document 13

4) Redesign of the interruptible offer

4) Redesign of the interruptible offer - objectives

In the past, substantial discounts have been included into the D_5 rate to address business issues (competitive position, market development, retention, etc.)

Énergir seeks to reposition the interruptible offer as follows:

- Consider interruptible volumes as a supply tool used for cost **optimization** in Énergir's portfolio (and not as a service)
- Maximize supply cost **savings** and **profit** to all customer base
- **Calibrate** the offer so that:
  - ❑ its cost-effective compared to other supply tools (e.g.: LT transportation)
  - ❑ its downward impact on costs is greater than the total compensation amounts given to interruptible customers
  - ❑ it remains attractive to target customers

4) Redesign of the interruptible service - comparative

		Proposed offer		
Components	**Actual offer**	**Peak**	**Unlimited Seasonal**	**Rate optimization**
Terms and conditions	Min. 3,200 m^3/day under rate D_5 Customer uses Énergir's transportation Unauthorized withdrawals: 50¢/m^3 + market price Max. number of interruption days fixed each rate case	DVI min. 10,000 m^3/day Customer uses Énergir's transportation Unauthorized withdrawals: \$5/m^3 Max. 5 days of interruption Potential restricted access	DVI min. 10,000 m^3/day Customer uses Énergir's transportation Unauthorized withdrawals: \$5/m^3 Max. days of interruption fixed each rate case Potential restricted access	Min. 3,200 m^3/day Customer uses Énergir's transportation Unauthorized withdrawals: \$5/m^3 Customer determines a Pmax
Load-balancing Rates	Load-balancing rate reduction for customers under D_5 rate, based on number of interruption days	**Recognition of interruptible customers' contribution to load-balancing only** Fixed annual credit: \$0.25/m^3 Daily variable credit: \$4/m^3 for each interruption day (not paid during unauthorized withdrawal)	Fixed annual credit: \$2/m^3 Daily variable credit: \$0.25/m^3 for each interruption day (not paid during unauthorized withdrawal)	The peak used to calculate the load-balancing rate is the minimum between the Pmax and the actual peak observed.
Distribution Rates	Rate D_5 includes unit rate reduction	End of Rate D_5 Same treatment as other distribution customers Transitional measures proposed as part of the rate case corresponding to the implementation of the new offer		

Thank you!