

C A N A D A
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

RÉGIE DE L'ÉNERGIE

No.: R-4008-2017

ÉNERGIR
Applicant

v.

**INDUSTRIAL GAS USERS ASSOCIATION
(IGUA)**
Intervenor

**DISCUSSION PAPER REQUESTED BY THE RÉGIE IN
DECISION D-2018-052**

**THE INTERVENOR, INDUSTRIAL GAS USERS ASSOCIATION (HEREINAFTER
“IGUA”), RESPECTFULLY SUBMITS THE FOLLOWING:**

1- Background

In paragraphs 33 and 34 of decision D-2018-052,¹ the Régie states:

[Translation] “[33] (...) the Régie’s position is that this file concerns the establishment of a tariff and specific conditions of service to enable and facilitate, for Énergir customers, the voluntary purchase of RNG.

[34] The Régie finds that one of the main issues in this file concerns the handling of the additional cost that participating customers are willing to pay when purchasing RNG. (...)”

IGUA understands from paragraphs 39 through 43 of the decision that comments made here are limited to the topics indicated in paragraph 42.

First, IGUA supports the intention of Énergir to incorporate access to renewable natural gas (“RNG”) into its tariff and conditions of service to enable and facilitate the voluntary use of RNG by customers interested in taking advantage of this renewable energy.

¹ A-0008

To support the development of this industry, IGUA would like to see the encouragement and promotion of a market approach concerning RNG supply.

IGUA understands further that the current file aimed at facilitating the purchase and sale of RNG in Québec by Énergir falls within the context of The 2030 Energy Policy in that it targets reduced GHG emissions among other objectives.

It is useful to note that the cap-and-trade system (CATS) is already in place to ensure achievement of the reductions targeted by the government. It is also useful to note that all companies emitting at least 25,000 tonnes of CO₂ equivalent annually participate directly in CATS. These companies must either reduce their own emissions or purchase allowances for the emissions attributed to them. This applies to all IGUA members across Québec. It consequently provides them an incentive to reduce their emissions and take whatever measures they deem appropriate to reach the targets set by the government.

These measures may include modifying their industrial processes or adopting energy efficiency measures as well as using RNG. Customers must otherwise offset the cost of carbon emission allowances via CATS.

IGUA is favourable to making an RNG supply available to all interested customers either directly from a supplier or by voluntarily arranging service through a distributor. These customers will agree to pay for value-added RNG since they grasp its monetary and environmental value.

In the unlikely event that Énergir purchased more RNG supply than customers were willing to buy voluntarily, IGUA believes that Énergir could, first and foremost, offer this supply to other customers seeking either to arrange service or increase the proportion of RNG they buy (focusing above all on a voluntary approach). As a last resort, IGUA finds that Énergir should apply any quantities of RNG purchased but not sold toward reducing requirements for the environmental credits it would otherwise have to purchase under CATS for all customers on whose behalf it is obliged to conduct these transactions.

IGUA's position concerning the topics identified by the Régie in decision D-2018-052 for discussion among the participants should be interpreted in light of this context.

2- Discussion of the items identified by the Régie

2.1- First item:

[Translation] “Best option or best portfolio of options for tariffs and conditions of service related to supply, transmission and delivery through which RNG can be made available to Énergir’s customers;”

The provision of RNG is, by definition, dependent upon its supply in that it is the commodity that will be used by the customer. Since the supply offer is one component of a deregulated market, the supply of RNG should, ideally, be treated like the supply of any other commodity, whether it comes from Alberta (Empress) or Southern Ontario (Dawn) or is available in franchise.

As such, a customer could choose to obtain its supply directly from an RNG supplier of its choice, through direct purchase, either with or without transfer of ownership. Based on whether a customer opted for supply with or without transfer of ownership, the commodity price would be treated in the same manner as for supply via direct purchase. If the commodity were delivered in franchise, there would be no transmission cost. Alternatively, depending on operational constraints, a transmission credit could be applied to the amount billed to customers for quantities delivered in franchise. However, customers would have to pay the distribution rate corresponding to their consumption profile. In ex-franchise supply scenarios, customers would be responsible for transmission and distribution costs in addition to the supply cost, as is presently the case.

Customers could also opt for service provided by the distributor (Énergir) in a similar manner as for an ex-franchise supply provided by the distributor. The commodity price should reflect the distributor's conditions of purchase in accordance with the requirement set out in section 52 of the *Act respecting the Régie de l'énergie* (the Act):

"52. In any tariff for the supply of natural gas, the rates and other conditions applicable to a consumer or class of consumers must reflect the actual cost of acquisition to the distributor or any other terms granted to the distributor by producers of natural gas or their representatives in consideration of the consumption of that consumer or class of consumers."

To avoid transferring costs to future generations of customers and to maintain a market price signal, the price should ideally be subject to monthly adjustments, as is the case for system gas. There would consequently be two types of distributor prices, one for natural gas (system gas) and one for distributor-supplied RNG.

Customers could opt to use an RNG supply to satisfy a portion or all of their needs.

The conditions of service should be modified to allow for dual supply whereby a portion is delivered in-franchise and the remainder ex-franchise. Customers could also arrange for a combination of services whereby a portion of their supply is provided under a direct-purchase contract and the remainder via the distributor's service.

Lastly, to ensure that all RNG producers have equal opportunity to offer their supply, Énergir should maintain neutrality and transparency in keeping with market rules and follow a tender process to ensure that all potential suppliers are on equal footing.

The purchase price of the distributor, or of any party purchasing RNG to satisfy its own needs, would correspond to the price offered for each block purchased (the market price). The distributor's sales price would correspond to the weighted average cost of its contracted volumes adjusted to reflect any contract variations.

IGUA finds it would be necessary to modify the conditions of service governing the transmission service to enable dual service in-franchise and ex-franchise.

IGUA does not find it would be necessary to modify the conditions of service for the distribution service. However, the procedure applicable to the handling of end-of-contract imbalances and calculation of load-balancing needs would have to be clarified.

2.2- Second item:

[Translation] "Elements or features of the proposed RNG tariff that ensure compliance with the Act;"

In IGUA's opinion, the Act specifies the elements to consider when setting a tariff. As such, section 72 of the *Act respecting the Régie de l'énergie* has been amended to now indicate that a supply plan for natural gas shall be prepared having regard to:

"(b) the quantity of renewable natural gas determined by regulation of the Government under subparagraph 4 of the first paragraph of section 112."

Section 112 specifies:

"112. The Government may make regulations

determining (...)

(4) the quantity of renewable natural gas to be delivered by a natural gas distributor and the terms and conditions according to which it is to be delivered." (our underlining)

IGUA interprets this wording to mean that the government has the **power (and neither a commitment nor an obligation)** to determine the quantity of RNG **to be delivered (and not purchased)** by the distributor.

IGUA understands further based on The 2030 Energy Policy and the government strategy to support development of the RNG industry, notably through subsidies, that customers seeking to acquire RNG should ideally be able to do so voluntarily.

IGUA finds that the government added the new provision to section 112 of the Act to equip itself with tools it may need to facilitate development of this industry regardless of whether this development was in response to free market forces. In so doing, the government could ensure that RNG would have a market in Québec.

In IGUA's opinion, the government's desire to promote the development of RNG sends a clear message. However, IGUA considers it inappropriate to await a government directive before initiating a new service enabling voluntary access to an RNG supply.

In this regard, IGUA supports the intentions of Énergir to facilitate the voluntary purchase of RNG by customers who are also willing to pay a higher cost in order to reduce their CO₂ emissions and, as a result, reduce the need to purchase offset credits.

2.3- Third item:

[Translation] "Cost elements to be taken into account in the RNG supply price and the reciprocity elements between a service provided by a broker and a service provided by Énergir as well as the conditions for customer eligibility for the RNG tariff."

The supply price of RNG, whether through Énergir or on the free market, should reflect the acquisition price from the supplier.

IGUA has always favoured free market access. The cost of RNG should consequently reflect the price that the market is willing to pay for this service. To ensure that the market remains open and unconstrained, RNG suppliers should ideally be able to sell their RNG to the highest bidder. As such, it would be appropriate to develop a mechanism (tender process or other) to keep market participants (buyers and producers) informed concerning the status of supply and demand. This mechanism has to be transparent, fair and non-discriminatory.

Access to RNG would then be available equally to customers who opt to deal with a broker or directly with a producer at an agreed price and to distributors buying on behalf of a group of customers subject to the conditions under which they obtain their supply based on one or more tender processes.

This openness to the free market would provide motivation to producers to move forward with their projects knowing that they could get market value for their production. Some producers might then decide to expand their production capacity.

IGUA understands that producers benefiting from government subsidies are limited to selling in the Québec market. However, this does not at all infringe upon development of an open market in Québec in order to optimize supply and demand.

In this type of market, producers would have the option to seek to offer their services on the market to whomever is willing to pay the highest price, just as a distributor or broker would be able to explore supply offer options to identify the various sources available at the lowest cost. The meeting point between these two approaches is what determines the market value.

At this time, IGUA does not foresee setting specific conditions for customer eligibility for the RNG tariff apart from the fact that customers subscribe to this service by request and voluntarily.

3- Conclusion

IGUA reiterates its support for free and voluntary access to an RNG supply subject to market conditions.

The Régie has a duty to ensure that the service offered by Énergir comes with reciprocal conditions for customers seeking to obtain their RNG directly from a supplier.

Lastly, IGUA finds that maximizing the supply at market value will provide producers encouragement to develop new RNG sources and boost the development of this energy industry.

Respectfully submitted,

Industrial Gas Users Association

May 30, 2018