

C A N A D A

RÉGIE DE L'ÉNERGIE

PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

Gaz Métro – Application
regarding the implementation
of measures concerning the
purchase and sale of renewable
natural gas

FILE R-4008-2017

Discussion paper

Prepared by

Nicole Moreau
Environmental and Energy Analyst
EnviroConstats

and

Jonathan Théorêt
Analyst for GRAME

FOR

Groupe de recherche appliquée en macroécologie (GRAME)

SUBMITTED TO THE RÉGIE DE L'ÉNERGIE

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MANDATE

For this file, GRAME retained the services of its external consultant, Nicole Moreau, Environmental and Energy Analyst. Ms. Moreau has undergraduate training in administration and accounting from the École des hautes études commerciales of the Université de Montréal, as well as a master's degree in environmental sciences from UQAM. She has participated in the writing of GRAME briefs on earlier Gaz Métro files.

GRAME also retained the services of its internal analyst, Jonathan Théorêt, Director of GRAME. Mr. Théorêt has training in business administration from HEC Montréal. He has been involved in many Gaz Métro files with the Régie de l'énergie as an analyst or senior representative.

I. RESPECT OF GOVERNMENT ENERGY POLICY OBJECTIVES

As indicated in paragraph 20 of the GRAME application for intervention, the *2030 Energy Policy Action Plan* indicates a minimum target of 5% of renewable natural gas (RNG) to be achieved by 2020.

[Translation] [20] Although the obligation regarding the quantity of RNG natural gas distributors must take into account in their supply plan has not yet been determined by regulation, GRAME maintains that a minimum target of 5% by 2020 was established by the Ministère de l'Énergie et des Ressources naturelles in the *2030 Energy Policy Action Plan*. GRAME is therefore of the opinion that knowledge of this target is sufficient to establish the framework for reviewing the Application.¹

GRAME submits that this target must be considered, in particular on the basis of the government's objective in The *2030 Energy Policy* of increasing the production of renewable natural gas in Québec:

Natural gas supply

The government intends to:

- pursue the extension of the gas network;
- develop a liquefied natural gas supply network;
- expand renewable natural gas production.

Reference: *2030 Energy Policy*: <https://mern.gouv.qc.ca/english/energy/strategy/pdf/The-2030-Energy-Policy.pdf>, page 54

Section 5 of the *Act respecting the Régie de l'énergie* highlights the importance of government energy policies:

5. In the exercise of its functions, the Régie shall reconcile the public interest, consumer protection and the fair treatment of the electric power carrier and of distributors. It shall promote the satisfaction of energy needs in a manner consistent with the Government's energy policy objectives and in keeping with the principles of sustainable development and individual and collective equity.

Furthermore, the Régie indicated that it would take into account the objectives of energy policies in this file:

[Translation] [30] As with the other concerns mentioned in section 5 of the Act, meeting energy policy objectives will certainly be a factor that the Régie will take into account when reviewing the Application. However, in the absence of a specific regulation regarding RNG, its regulatory framework is based on sections 48 and 52 of the Act. (D-2018-052, para 30)

¹ R-4008-2017, C-GRAME-0002, para 20, http://publicsde.regie-energie.qc.ca/projets/411/DocPri/R-4008-2017-C-GRAME-0002-DemInterv-Dem-2018_02_15.pdf

In GRAME's opinion, although the introduction of higher tariffs specific to RNG is an application contrary to the recognized polluter pays principle, if such tariffs are to be implemented, certain minimum conditions should be respected.

Accordingly, GRAME is of the opinion that should tariff options have to be created, their design should take into account the origin of RNG, particularly when determining the conditions of service for RNG supply services, so that they support achievement of the government objective of increasing the proportion of natural gas from renewable sources within Québec.

Furthermore, section 52 of the *Act respecting the Régie de l'énergie* states:

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.

A tariff may also reflect any other acquisition-related cost of the natural gas to the distributor.

This would make it possible to set an RNG/local production tariff and an RNG/import tariff differentiated by their acquisition cost or evaluated based on consumption.

In GRAME's opinion, if there must be an RNG tariff, introducing more than one tariff option would make it possible to promote RNG produced in Québec. They should be managed via the deferred expense account (DEA) input categories, i.e. RNG acquired by Énergir within Québec and RNG acquired through import. The resale price should be determined by accounting for acquisition costs according to these two categories or based on consumption.

GRAME therefore questions Decision D-2018-052, para 37, which specifically covers the components and contractual framework of RNG supply contracts, in particular regarding whether the method for calculating the acquisition price of RNG for the purposes of the application of the RNG tariff, as well as the creation and allocation of deferred expense accounts could be split into two categories or whether the offer to purchase will be open to all RNG supply markets:

[Translation] [37] Based on the evidence submitted in this file, the Régie has identified the following major issues:

- Method of calculating the RNG acquisition price for the purpose of applying the RNG tariff;
- Functionalization of costs incurred by Énergir in relation to RNG supplies;
- Monitoring of RNG sales;
- Impact of RNG volume imbalances;

- Changes to conditions of service related to RNG supplies;
- Components and contractual framework of RNG supply contracts;
- Useful life of RNG;
- Creation and allocation of deferred expense accounts (DEAs).

This point is also consistent with para 39 of D-2018-052, i.e. the determination of the type of supply and its price:

[Translation] [39] Under these circumstances, before examining the Application in detail, the Régie believes that it is appropriate to clearly determine the parameters and features of the file by studying the various options for tariffs and conditions of service related to supply, transmission and delivery through which RNG can be made available to Énergir’s customers. For example:

- Supply of “RNG tariff”-type RNG by Énergir according to the Énergir proposal;
- Supply of “fixed price”-type RNG;
- Supply of “direct purchase by customers”-type RNG, where customers can obtain supplies directly from a production site;
- Through a recognized broker;
- Through an Énergir subsidiary carrying out non-regulated activities.

Failing respect of the polluter pays principle through complete socialization of the cost of RNG supply, should a specific tariff be implemented to promote the purchase of supply under the RNG tariff, GRAME is of the opinion that it would be appropriate for the tariff to be set (by RNG category, i.e. local or imported) for a predetermined period, and that the difference between the purchase cost and the resale price be transferred to all customers by means of the deferred expense account.

Regarding the type of supply, GRAME is of the opinion that there is no reason to retain the measures implemented by Énergir to allow direct purchase, thereby avoiding price variations in supply markets.

COSTS OF MANAGING THE TERMS AND CONDITIONS OF PARTICIPATION IN THE RNG TARIFF

Regarding the elements of reciprocity between a service offered by a broker and that offered by Énergir, GRAME submits that Énergir does not specify the method contemplated to reach its resale customers, nor which markets will be favoured in the short term to sell off the RNG inventory making it possible to confirm that the RNG will be completely sold.

Furthermore, Énergir has not established that broker services will actually be needed within the next five years to dispose of its RNG inventory, and therefore that the five additional cost elements are necessary to ensure broker service for the resale of the RNG inventory. GRAME is of the opinion that it is premature to envision cost elements regarding broker services or reciprocity elements between a service offered by a broker and that offered by Énergir. Therefore, GRAME recommends that these management and sales costs instead be determined by Énergir’s needs for its customer service team.

Furthermore, the residential market should not be opened to the broker resale process. GRAME is of the opinion, like the Régie, that *[translation]* “the RNG molecule is identical to and interchangeable with the molecule originating from fossil sources”.² The sale of RNG, without a dedicated pipeline, is therefore clearly virtual or theoretical. As a result, it would not be appropriate to solicit residential customers, solicitation that could take the form of disinformation, or a lack of understanding of natural gas consumption by the customer:

[Translation] [35] Furthermore, the Régie notes that the RNG molecule is identical to and interchangeable with the molecule originating from fossil sources. It therefore feels that a debate about identifying the natural gas molecule actually consumed by a customer who wishes to consume RNG, if one must take place, is not relevant to this file. The Régie therefore has not retained this issue.

Furthermore, regarding the conditions of customer eligibility for the RNG tariff, GRAME is of the opinion that the management efforts that should be implemented for residential customers, with a minimum threshold of 5%³ of consumption, would increase the costs of distribution accordingly either at Énergir’s expense or through the cost of broker service, and recommends excluding the RNG tariff offer for the residential market. We note in passing that Énergir’s communication efforts to underscore the total proportion of RNG in the network will no doubt be brought to people’s attention. A signal by specific tariff would only increase confusion.

III. SUMMARY (D-2018-052, PARA 42)

In Decision D-2018-052, para 43, the Régie asks participants to submit a discussion paper regarding the elements indicated in paragraph 42 of the same decision.

A. 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

In GRAME’s opinion, although the introduction of higher tariffs specific to RNG is an application contrary to the recognized polluter pays principle, if such tariffs are to be implemented, certain minimum conditions should be respected, namely:

- Set differentiated RNG/local production and RNG/import tariffs according to their acquisition costs, with inventory management and DEA according to two input categories;
- Retain a fixed tariff (by RNG category, i.e. local or imported) for a predetermined period;

² D-2018-052, para 35

³ B-0014, page 34

- DEA: transfer the difference between the purchase cost and resale price to all customers by means of deferred expenses.

Lastly, regarding the type of supply, GRAME is of the opinion that there is no reason to retain the measures implemented by Énergir to allow direct purchase, thereby avoiding price variations in supply markets.

B. Elements or features of the proposed RNG tariff that ensure compliance with the Act

Section 52 stipulates that 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 natural gas producers or their representatives in consideration of the consumption of that consumer or class of consumers, which would allow setting a differentiated RNG/local production and RNG/import production according to their acquisition cost or evaluated according to their consumption.

This solution would make it possible to comply with section 31 (2.1) of the *Act respecting the Régie de l'énergie*, thereby ensuring that consumers are charged fair and reasonable rates.

C. 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 to the RNG tariff

Reciprocity elements between a service provided by a broker and a service provided by Énergir:

- Énergir has not established that broker services will be needed within the next five years, and therefore that additional cost elements are necessary;
- GRAME is of the opinion that it is premature to envision cost elements regarding broker services.

Customer eligibility for RNG tariff:

- GRAME recommends excluding the residential market from the RNG tariff offer.