

UMQ Discussion Paper Presented to the Régie de l'énergie du Québec

File R-4008-2017

**Énergir L.P. application regarding the implementation of
measures concerning the purchase and sale of
renewable natural gas**

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PRESENTATION OF THE UNION OF QUEBEC MUNICIPALITIES

Since it was founded in 1919, the Union of Quebec Municipalities (UMQ) has been representing municipalities of all sizes in all regions of Québec. Its mission is to provide provincial leadership for effective, autonomous local governments and uphold the fundamental role of those elected to municipal office.

UMQ members represent over 80% of the population and land area of Québec and are grouped into affinity caucuses: local municipalities, central municipalities, regional cities, major cities, and municipalities in Montreal.

UMQ interventions before the Régie de l'énergie are based on the following principles and objectives:

- Represent the interests of the different categories of municipalities in any energy file aligned with the Régie's mission, and thereby better inform it of the municipal situation and interests
- Intervene only when UMQ's contribution can make a significant difference for both its members and the Régie's understanding, while avoiding as much as possible redundancy with other intervenors recognized by the Régie

1 INTRODUCTION TO THE DISCUSSION PAPER

In its most recent decision on the file submitted by the Distributor in July 2017,¹ in paragraph 39, the Régie states that *[translation]* “before examining the Application in detail, 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 customers.”

Later, in paragraph 42, it lists the topics on which it would like to hear recognized intervenors in the file, i.e.:

- Best portfolio of options for tariffs and conditions of service related to the supply, transmission and delivery through which RNG can be made available to Énergir customers
- Elements or features of the proposed RNG tariff that ensure compliance with the Act
- 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

UMQ therefore agrees to respond to the Régie’s request and provide its point of view to the Régie in the coming pages, addressing the topics we feel to be important for following up on the file.

¹ Decision D-2018-052.

2 COMMENTS ON THE PORTFOLIO OF OPTIONS FOR TARIFFS AND CONDITIONS OF SERVICE FOR RNG

In UMQ's opinion, the most promising approach for the development of RNG production in Québec consists in establishing an environment conducive to the flourishing of such industry. This environment would consider a feed-in tariff for subsidized producers, an actual RNG tariff, and favourable conditions of service. All of these provisions are deemed important to facilitate both the production and consumption of RNG.

UMQ is aware that a feed-in tariff does not constitute a true tariff in the legal sense, but submits that the price that would be paid to producers, following an approach based on the estimated cost of production,² would take into account the special nature of these producers and stimulate the development of such industry. This includes, as the Régie is well aware, a significant portion of Québec municipalities that, with goals other than producing RNG (implementation of the Québec Residual Materials Management Policy), will have in the coming years raw material for producing biomethane, which, after processing, could be injected into the gas distribution network. To reach this stage, municipalities will nonetheless have to make the choice to dispose of the organic matter they collect separately from other types of residual materials (recyclable materials and waste).

However, UMQ has, on several occasions, brought to the attention of the Régie the random nature of the profitability of such an operation and the risk aversion of the municipalities or groups of municipalities, despite their very strong commitment to sustainable development initiatives. As indicated by UMQ, municipalities must not be drawn into using property taxes to finance the deficit-based operation of injecting renewable natural gas into a distribution network.

² Instead of, for example, a variant of avoided costs (a formula seen in the Ville de Saint-Hyacinthe file [R-3909-2014]).

Hence UMQ's past proposal to isolate RNG-producing municipalities from all production deficits.³ Subject to a number of aspects to be addressed once the file has progressed sufficiently, UMQ rallies around the approach proposed in this file by the Distributor, which consists in establishing a purchase-price table (that could subsequently be adjusted) based on production costs, in order to generate interest among municipal RNG producers.

Regarding the RNG tariff itself, UMQ believes that its implementation would make the market more fluid for this type of supply. UMQ feels that by making RNG available, the Distributor will help spur demand for this type of gas; some brokers even seem convinced that a residential market exists for this type of supply, even if the price is slightly higher. This would simply introduce the natural gas sector to a rapidly developing market trend, consisting of differentiated products (based on luxury, origin, personalized service, social benefit, impact on sustainable development, etc.).

Furthermore, UMQ submits that heightened production of RNG could correspond, in some respects and obviously with contextual differences, with the challenge posed by self-generation of electricity for a power distributor in terms of maintaining fixed distribution costs. The fact that customers cannot readily procure RNG could translate into lost markets if they decide to turn to another type of "green" energy supply, an issue raised by the Distributor in its evidence.⁴

³ Found in various forms in the evidence submitted by UMQ in files R-3824-2012 and R-3972-2016.

⁴ Item B-0022, GM-1 Document 1, page 14, line 7 and following.

Lastly, the most favourable conditions of service should be encouraged to boost the RNG industry and be expressed by limited and justified constraints (minimum threshold, prior notice, combined services, etc.).

To respond broadly to the Régie's question on this first point, UMQ believes this to be the overall combination of factors required to successfully shift toward "greener" energy consumption by stimulating a new production industry, that of RNG.

3 COMMENTS REGARDING THE RNG TARIFF FEATURES LIKELY TO COMPLY WITH THE ACT

In paragraph 40 of its decision, the Régie suggests that it must ensure compliance with the provisions of the Act governing the determination of a tariff of the type requested for RNG.

In this case, section 31 of the *Act respecting the Régie de l'énergie* reads:

It is within the exclusive jurisdiction of the Régie to

(1) fix or modify the rates and conditions for the transmission of electric power by the electric power carrier or the distribution of electric power by the electric power distributor, and the rates and conditions for the supply, transmission or delivery of natural gas by a natural gas distributor or for the storage of natural gas;

(...)

(2.1) monitor the operations of the electric power carrier, the electric power distributor and natural gas distributors to ensure that consumers are charged fair and reasonable rates;

(...)

UMQ understands from this section that the Régie has the power to establish general conditions (subparagraph 1) allowing a natural gas distributor to operate and, subsequently

(subparagraph 2.1), to ensure that, in its operations, said distributor respects as closely as possible the principle of a fair price to consumers.

Section 52 states as follows:

“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.”

UMQ finds that paragraph 2 of section 52 is clear on the leeway available to the Régie to determine an RNG tariff, since it specifies “any other acquisition-related cost of the natural gas”. In UMQ’s opinion, this must include additional costs sufficient to interest RNG producers to undertake such an operation.

Therefore, in response to the Régie’s question concerning compliance with the Act, UMQ feels that the Régie is entitled to set an RNG tariff that would reflect the purchase cost of this supply, as the Distributor suggests, even if this purchase cost is higher than that for conventional natural gas.

4 COMMENTS ON THE ELEMENTS OF COSTS, RECIPROCITY AND CONDITIONS FOR CUSTOMER ELIGIBILITY FOR THE RNG TARIFF

In its proposal, the Distributor already sets a minimum of 5% as the threshold to sign up for the RNG tariff, with 60 days’ prior notice, and subject to transmission, load-balancing and

in-franchise distribution costs, but exempt from CATS service.⁵ The same is true for the more flexible combination of services proposed by the Distributor, which is both easily applicable and would not entail significant costs to customers.⁶ UMQ feels that this proposal is generally balanced and likely to spur demand for RNG.

Overall, UMQ feels that the Distributor's application is not only acceptable, but that the Régie should hear it, despite what it identifies in its decision as an *[translation]* "anticipation" of the applicable regulatory framework.⁷ There are, in UMQ's opinion, sufficient indicators from the government (both in the form of energy policy and declarations of interest) for the Régie to proceed with the application submitted by the Distributor.

5 CONCLUSION

UMQ calls for the implementation of conditions that stimulate the municipal component of the renewable natural gas production industry in Québec and hopes the observations, comments and recommendations made in this discussion paper prove useful to the Régie in its analysis of the opportunity to hear the Distributor's application.

⁵ Item B-0022, GM-1 Document 1, pages 38–39.

⁶ *Idem*, page 42.

⁷ Decision D-2018-052, paragraph 38.

