

A D D I T I O N A L E V I D E N C E

S T E P C

TABLE OF CONTENTS

INTRODUCTION 3

1 ACCOUNTING FOR VOLUMES DELIVERED WITHIN THE MEANING OF THE REGULATION 4

2 FUNCTIONALIZATION OF RNG PURCHASES 5

 2.1 Regulatory treatment..... 5

 2.2 Rate impact and cross-subsidies 6

 2.3 RNG price seasonality 7

3 RNG SALES..... 9

 3.1 Price calculation 9

 3.2 Conditions of Service and Tariff..... 10

4 INVENTORY MANAGEMENT 12

 4.1 Similarities and differences 12

 4.2 DEA remuneration..... 14

5 USEFUL LIFE OF RNG 17

6 TREATMENT OF UNSOLD UNITS 18

7 REVIEW OF THE MINDEX REPORT 19

CONCLUSION 24

INTRODUCTION

1 On July 31, 2020, Énergir, L.P. (Énergir) filed its evidence on the step C file, which covers the
2 measures relating to the purchase and sale of renewable natural gas (RNG). On August 14, 2020,
3 the Régie de l'énergie (the Régie) ordered the distributor, in its procedural decision D-2020-111
4 (Decision), to file additional evidence regarding step C. The purpose of this document is therefore
5 to respond to the various requests listed by the Régie in Table 1 of its Decision.

1 ACCOUNTING FOR VOLUMES DELIVERED WITHIN THE MEANING OF THE REGULATION

1 As a first supplement, the Régie asks Énergir to specify the various services that it proposes to
 2 provide to its customers (supply-S, transportation-T, load balancing-LB, distribution-D, inventory-
 3 related adjustments-IA, CTEAS-C) for different scenarios. Table 1 presents the provider of each
 4 of the services for the different scenarios requested. The scenarios were presented assuming
 5 that the consumption of RNG covers customers' entire consumption. In cases where it is not
 6 mentioned that Énergir buys the RNG volumes, it has been assumed that the volumes are
 7 purchased directly by consumers.

Table 1

Scenario	S	T	LB	D	IA of S	IA of T	S ⁽¹⁾
1) Volumes of RNG purchased in franchise by Énergir for Énergir service consumers	Énergir	Énergir	Énergir	Énergir	Énergir	Énergir	N/A
2) Volumes of RNG produced outside the territory, delivered in the territory for consumption by one or more Énergir service consumers	Customer	Énergir or Customer	Énergir or Customer	Énergir	Customer	Énergir (or N/A if transportation provided by the Customer)	N/A
3) Volumes of RNG produced and injected into the Énergir system, consumed by one or more customers in the territory	Customer	Customer	Énergir or Customer	Énergir	Customer	N/A	N/A
4) Volumes of RNG produced and injected into the Énergir system, consumed by one or more customers outside the territory	N/A	N/A	N/A	N/A	N/A	N/A	N/A

8 (1) A decision is awaited in the 2020–2021 rate case (R-4119-2020, B-0137, Énergir-Q, Document 1, section 1.1) to address
 9 Énergir's proposal to temporarily exclude RNG volumes from the CTEAS service. Subject to this future decision, Énergir plans
 10 to possibly review its proposal and, if appropriate, align it with its proposal for the treatment of unsold units.

2 FUNCTIONALIZATION OF RNG PURCHASES

1 This section presents Énergir's proposed method for functionalizing the costs of purchasing RNG
2 across the different services, as well as how to allocate these costs. In addition, Énergir goes into
3 more detail on the issue of lack of seasonality in the purchase price of RNG.

2.1 REGULATORY TREATMENT

4 The costs associated with the volumes of RNG purchased by Énergir would be functionalized to
5 the RNG supply service. In the event that customers supply the RNG that they withdraw at their
6 facilities themselves, the costs associated with the RNG volumes purchased by these customers
7 would not be recognized by Énergir since Énergir is not involved in the transactions for these
8 purchases.

9 RNG transportation costs correspond to the distributor's transportation rate, less rate adjustments
10 to maintain FTLH capacity (85 TJ/day). These costs are an integral part of the transportation costs
11 and are therefore allocated based on the existing factor FB01T. The difference between the RNG
12 purchase price and transportation costs would be functionalized to the RNG supply service and
13 allocated according to the new factor FB01GNR. Factor FB01GNR would be calculated based on
14 annual RNG sales volumes. The concept of difference in location is not applicable for the
15 functionalization of RNG costs to the transportation service since the distributor's transportation
16 rate used to functionalize costs is established by calculating the overall cost of all transportation
17 capacity contracted by Énergir that originates from several delivery points. Énergir feels it is
18 opportune to specify that if the distributor's transportation rate were to change during the year,
19 the selling price of RNG would be adjusted to reflect this change. Table 2 below presents, for
20 four different scenarios, the services to which the costs would be functionalized and the proposed
21 allocation factors. Note that in order to illustrate several scenarios where costs would be incurred
22 by Énergir, cases 2 and 3 have been treated as if the RNG volumes were purchased by Énergir.

Table 2

Scenario	Costs functionalized to S	Allocation factor S	Costs functionalized to T	Allocation factor T
1) RNG volumes purchased in franchise by Énergir for Énergir service consumers	X	FB01GNR	X	FB01T
2) Volumes of RNG produced outside the territory, delivered in the territory to be consumed by one or more Énergir service consumers	X	FB01GNR		
3) Volumes of RNG produced and injected into the Énergir grid, consumed by one or more customers in the territory	X	FB01GNR	X	FB01T
4) Volumes of RNG produced and injected into the Énergir system, consumed by one or more customers outside the territory				

2.2 RATE IMPACT AND CROSS-SUBSIDIES

1 Since the differences between the actual acquisition cost and the supply price are posted to the
2 RNG price difference account, the revenues from the sale of RNG are equal to the RNG costs.
3 As a result, the impact of rates and cross-subsidies between RNG consumer and non-consumer
4 customers is zero. Revenues associated with the RNG supply service would be allocated
5 according to the new factor FB07GNR, calculated based on the RNG revenues billed to the supply
6 service. Since RNG revenues are charged at a single rate, the allocation of revenues by rate tier
7 would be exactly the same as the allocation of costs based on the FB01GNR factor, therefore
8 cross-subsidization among RNG consumer customers in the different rate tiers would be zero.
9 This is partly the case for supply, transportation and balancing services for all customers since,
10 as for RNG, rates are cost-based.

2.3 RNG PRICE SEASONALITY

1 Énergir negotiates fixed prices with producers over the term of the contracts, where prices
2 sometimes change based on indexing established when the contract is signed. Since RNG
3 purchase prices are independent of variations in the consumption of Énergir's customers based
4 on temperature, no seasonality-related costs are included in the RNG purchase price. Énergir is
5 aware that production will vary for some producers. However, as producers contractually commit
6 to annual quantities to be injected into the system, seasonal variations in production will not affect
7 the RNG purchase price. Therefore, the entire purchase costs would be functionalized to the RNG
8 supply service, without any transfer of costs to balancing.

9 As mentioned in Exhibit B-0006, Gaz Métro-1, Document 2 of this file, monetary penalties arising
10 from the LBA agreement with TCPL are billed to the Distributor when imbalances between
11 nominated and injected volumes occur. As explained in a response to a request for information in
12 rate case 2019–2020:

13 [translation] “Énergir does not offer a load-balancing service for customers who inject into the gas
14 system: they must balance themselves.”¹

15 This implies that RNG producers subject to the receipt rate are required to balance themselves,
16 and more specifically that they must deliver a quantity equal to their nomination each day. In the
17 answer, Énergir said this about RNG producers who find themselves with a volume imbalance:

18 [translation] “Otherwise, they may generate load-balancing costs for the Distributor, which is
19 obviously not desirable, since the Distributor does not offer load-balancing services and,
20 consequently, has not provided any balancing tools for them. Since customers who inject are not
21 subject to the Énergir load-balancing rate [...], they do not share the costs of these load-balancing
22 tools and cannot benefit from their use. If, for example, a customer who injects [...] was required to
23 deliver a nomination of 1,000 units of natural gas on January 15, but actually injected only
24 500 units, Énergir will have taken action during the day to be able to distribute the 1,000 units to
25 the recipient(s) of that natural gas. For example, Énergir may have used load-balancing tools or,
26 ultimately, may have created a difference with the carrier (TCPL). Consequently, Énergir must
27 recover the potential costs that could be incurred in a situation where the load-balancing tools—
28 provided and paid for by customers who are subject to the Distributor's load-balancing service—
29 must be used because of a difference between the nominated volume and the volume injected.

¹ R-4076-2018, B-0358, Énergir-U, Document 3, answer to question 1.1.

Measures concerning the purchase and sale of renewable natural gas, R-4008-2017

1 *The fee charged to a client who injects [...] must therefore be based on the potential impact that*
2 *the imbalance may have caused. Thus, charges are provided for when differences (beyond the*
3 *permitted margin of flexibility) occur between nominations and injected volumes, and are found in*
4 *Article 13.2.2.2 of the Conditions of Service and Tariff.”*

5 That being said, the costs related to the franchise balancing tools recovered through Énergir’s
6 load-balancing rates are not intended to balance producers. That is why the charges in
7 Article 13.2.2.2 of the Conditions of Service and Tariff (CST) are in place—to deter injector
8 customers from generating volume imbalances.

3 RNG SALES

1 This section reconciles the pricing methodology proposed by Énergir in step C with that used for
2 the calculation of the provisional rate. Next, the similarities and differences between the DEAs
3 applicable to system or direct purchase gas and the DEAs proposed by Énergir for RNG are
4 highlighted.

3.1 PRICE CALCULATION

5 The Énergir proposal in step C (namely, that the RNG rate be calculated using the formula “RNG
6 rate = Projected average cost for the 12 months of the rate case + RNG price difference”) and the
7 proposal to update the provisional rate² have the same average acquisition cost methodology, i.e.
8 weighting of the functionalized purchase prices at Dawn based on relative volumes. However,
9 there are two differences in the more specific calculation of the RNG rate charged to customers.
10 The first difference lies in the volumes and costs used to calculate the rate. When calculating the
11 provisional rate, the actual volumes and costs incurred by the Distributor—based on the most
12 realistic projections possible—are taken into account, in accordance with the provisional rate-
13 setting methodology approved by the Régie in decision D-2019-107. To calculate the permanent
14 rate, Énergir proposes taking into account anticipated volumes and supply costs, making it
15 possible to meet demand for a 12-month period, which may lead to the inclusion of assumed
16 contracts with suppliers as yet unknown at the time the rate is set. The second difference between
17 the two rate formulas is including the price difference in the permanent rate. On the one hand, the
18 provisional RNG rate is established without any price difference to be included in the rate; the
19 differences between the actual purchase prices and the prices billed to customers are recorded
20 in a non-rate-base deferred expense account (DEA). On the other hand, the proposed step C
21 RNG rate proposal aims to establish a permanent calculation methodology and capture the fair
22 acquisition price for the supply of RNG. As a result, the formula now includes the recovery or
23 remittance of price differences, based on a principle that is similar to that applied in the monthly
24 calculation of the system gas price.³

² B-0335, Gaz Métro-1, Document 26, p. 7.

³ See section 4.1 for more details.

3.2 CONDITIONS OF SERVICE AND TARIFF

1 For customers, the benefits of changing the RNG supply rate on a quarterly basis are that they
2 pay a supply price that represents a regularly updated projection of Énergir's planned purchases
3 and are paid (or have to pay) the price difference more quickly. Treating the price difference at a
4 shorter interval ensures that intergenerational equity is respected better.

5 Conversely, a price that varies on a quarterly basis makes the bill less stable within the same
6 year. In the short term, fluctuations in the average supply price of RNG would be mainly due to
7 the proportions of volumes injected by each producer, which could vary. A quarter leaves little
8 time for price smoothing. An average rate over a 12-month period would make it possible to
9 protect against short-term fluctuations in the price, as influenced by fluctuations in the volumes
10 injected. This volatility would make it more difficult for the customer to make budget projections
11 for a period longer than three months, whereas the analysis reports have shown there is a
12 preference for a product with a predictable price.

13 Énergir would like to add that changing the price every quarter would also mean an additional
14 administrative burden as well as communication and representation efforts to inform and explain
15 the reasons for the fluctuations, whereas annually the price would remain about the same.

16 Table 3 shows the differences and similarities for all of the DEAs proposed for RNG in this file
17 compared to what is currently planned for system gas and direct purchase with or without transfer
18 of ownership. As the RNG market has different characteristics from conventional natural gas,
19 such as limited available quantities, Énergir has thought about the DEAs applicable to RNG so
20 that they can be adapted to its reality. For this reason, it is sometimes difficult to compare the
21 arrangements for RNG with those for other types of supply (system gas or direct purchase).

Table 3

DEA	Similarities	Differences
Article 1.3 <i>Definition of fixed-price supply agreement</i>	<ul style="list-style-type: none"> Harmonization of the definition of fixed-price supply agreement so that the same treatment is applied to both the supply of natural gas and to the supply of renewable natural gas. 	<ul style="list-style-type: none"> None
Article 10.2 <i>Combination of Customer's and Distributor's Services</i>	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> The combination of supply services is only permitted when the customer's consumption includes RNG.
Article 11.1.2 <i>Supply Rate</i>	<ul style="list-style-type: none"> System gas supply, fixed price, direct purchase with transfer of ownership and RNG customers are subject to the inventory adjustment. 	<ul style="list-style-type: none"> The price of system gas is adjusted monthly, while the price of renewable natural gas is adjusted for each rate case. Customers switching from direct purchase supply service to system gas supply service (or vice versa) are subject to a transfer charge. On the other hand, a direct purchase customer who wants Énergir's RNG for a portion of their consumption does not pay these transfer charges.
Article 11.1.3.5 <i>Renewable Natural Gas</i>	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> The period for prior notice of entry and withdrawal between system gas and direct purchase for natural gas is 6 months. On the other hand, a customer may consume RNG, modify their consumption or stop consuming it, subject to 60 days' notice. RNG is offered on a "first come, first on the list" basis with an allocation in 50,000 m³ increments, while system gas is offered to all customers without limits. A financial settlement is provided for when the distributor does not supply the quantity of RNG requested by the customer. This does not happen with system gas.

4 INVENTORY MANAGEMENT

1 This section presents the similarities and differences of Énergir's proposal for tracking and
2 accounting for RNG inventory, as compared to system gas processing and direct purchases with
3 or without transfer of ownership, and presents the advantages of Énergir's proposed solution. It
4 also covers the request for justifying the remuneration of the RNG price difference DEA at the
5 prevailing weighted average cost of capital (WACC).

4.1 SIMILARITIES AND DIFFERENCES

Direct purchase without transfer of ownership

6 The inventory volume associated with this type of contract is monitored and changes in line with
7 the pace of deliveries and customer consumption. However, no value is recorded in Énergir's
8 books since Énergir does not own the volumes from these contracts. Since these volumes have
9 no value, no comparison can be made with the treatment of the RNG inventory held by Énergir.

Direct purchase with transfer of ownership and system gas

10 Delivered volumes from direct purchase customers with transfer of ownership are purchased by
11 Énergir at the system gas price. Customers are then billed at this price when they consume natural
12 gas. Direct purchases with transfer of ownership are therefore valued in the same way as the
13 system gas inventory. Since the treatment of inventory associated with this type of contract is
14 identical to the treatment of the system gas inventory, they have been grouped together for
15 analysis purposes.

16 Table 4 shows the similarities and differences between Énergir's proposal for tracking and
17 accounting for RNG inventory, compared to the treatment of system gas and direct purchases
18 with transfer of ownership.

Table 4

Inventory monitoring	Inventory valuation	Inventory revaluation	Inventory yield and tax (inventory maintenance)
System gas and direct purchase with transfer of ownership	System gas price, based on the rate in effect. The difference between the actual acquisition cost and the current rate is posted to the cumulative cost of natural gas supply difference account.	Revaluation based on the current rate. Inventory revaluation is included in the natural gas supply inventory-related adjustment rate.	Inventory maintenance is included in the natural gas supply inventory-related adjustment rate.
RNG	Current RNG rate. The difference between the actual acquisition cost and the current rate is posted to the RNG price difference account.	Revaluation based on the current rate. The revaluation is included in the RNG price difference.	Inventory maintenance is included in the natural gas supply inventory-related adjustment rate.

- 1 The treatment for the valuation of the RNG inventory has been modelled on that of system gas.
2 Inventory is valued based on the current rate. In this way, the selling price and the cost of the
3 supply sold are always equal, thus avoiding generating a margin. Differences between the actual
4 acquisition cost and the supply price are posted to the RNG price difference account.
- 5 When the rate is revalued, the inventory must also be revalued. In contrast to the revaluation of
6 system gas inventory, the revaluation of the RNG inventory is included in the RNG price
7 difference. This method allows for the recovery or remittance to customers of all differences
8 between the actual acquisition cost and the amounts received. Thus, the full acquisition costs are
9 recovered through the RNG supply rate.
- 10 For the reasons mentioned in section 4.2 of Exhibit B-0343, Gaz Métro-5, Document 3, Énergir
11 proposes to functionalize the cost of maintaining RNG inventories to the adjustment service
12 related to existing system gas inventories.
- 13 Valuing RNG inventory on an alternative basis (e.g. at average cost) would generate a margin
14 since the revenues from the sale of RNG would not be equivalent to the cost of RNG sold. In

1 order to recover all acquisition costs, an adjusting entry should then be recorded to reduce the
2 cost of RNG sold equivalent to the RNG revenue for the period. The counterpart of this adjustment
3 should be recorded in a DEA, such as the RNG price difference. The average cost method
4 therefore involves more steps than the method proposed by Énergir, whereas the objective and
5 result of the two methods are the same: to recover the full acquisition cost through the RNG rate.

6 Furthermore, the method proposed by Énergir is consistent with the treatment relating to the
7 monitoring of system gas inventory since it was established based on the same logic. The
8 similarities between the method used for system gas and that of RNG allow Énergir to avoid the
9 administrative burden associated with maintaining different treatments. For all of these reasons,
10 Énergir believes that the proposed RNG inventory treatment is the most appropriate.

4.2 DEA REMUNERATION

11 The Régie asks for [translation] “justification of the remuneration of the RNG price difference DEA
12 at the current weighted average cost of capital (WACC), based on the principle of equitable
13 treatment of distributors by the Régie, taking into account decision D-2020-005 of Phase 1 of
14 file R-4113-2019, p. 12.

15 First of all, it should be noted that in this decision handed down in a Gazifère file, the Régie
16 authorized that the DEA which is used to account for differences between actual purchase costs
17 and the selling price of RNG billed to customers be non-rate-based and bear interest based on
18 the cost of Gazifère’s short-term debt. In this file, Énergir proposes a treatment at the WAAC for
19 a similar DEA.

20 It should also be noted that, without wishing to presume the Régie’s basis for decision D-2020-
21 005, the remuneration authorized to Gazifère for this DEA seems to stem from the fact that all of
22 this distributor’s difference and deferral accounts also bear interest based on the cost of its short-
23 term debt since decision D-2016-092. This treatment, for the RNG price difference account, thus
24 seems consistent with the remuneration applied to other difference accounts at Gazière, such as
25 temperature stabilization, for example.

1 In Énergir's case, the Régie recognized, in decision D-2015-181, that a different treatment from
2 that already authorized for HQD,⁴ and that of Gazifère⁵ which would come the following year, was
3 justified:

4 [translation] "[494] In addition, the Régie notes that [Énergir] maintains an actual capital structure
5 in its non-consolidated financial statements similar to that presumed and authorized by the Régie..

6 [495] **Considering that [Énergir] maintains a capital structure similar to that presumed and
7 authorized, the Régie maintains the remuneration of the DEAs at the weighted average cost
8 of capital rate."**

9 The Régie's analysis on the remuneration of DEAs (or difference and deferral accounts), which
10 was held at about the same time at Gazifère, Énergir and Hydro-Québec between 2015 and 2016,
11 showed that in the interests of equity, the treatment of DEAs had to be adapted to the financial
12 reality of each of these distributors. The same treatment, applied uniformly to all distributors, could
13 have been unfair and detrimental to the economic and financial reality of each one.

14 Even today, the foundations on which the Régie authorized remuneration for Énergir's DEAs that
15 differs from that authorized for its Québec peers are maintained. Whether it is the financing of an
16 RNG price difference deferred expense account, a system gas price difference DEA or any other
17 DEA, the same financing structure that led to D-2015-181 has been applied to date. Under these
18 conditions, Énergir does not see how it would be justified to treat the remuneration of the RNG
19 price difference deferred expense account differently from the method used for its other DEAs.
20 To the extent that the Régie wanted to review the remuneration of price difference deferred
21 expense accounts, Énergir submits that this file does not present an appropriate framework for
22 the in-depth study of the remuneration of all its DEAs.

⁴ D-2015-018.

⁵ D-2016-092.

1 In conclusion, Énergir always maintains an actual capital structure in its non-consolidated financial
2 statements, similar to the structure presumed and authorized by the Régie. Thus, Énergir
3 considers that the RNG price difference DEA should be remunerated at the WAAC as are its other
4 DEAs, for the sake of consistency with decision D-2015-181 and for the sake of equity with its
5 peers, for whom the remuneration of DEAs is based on the specifics of their own funding structure.

5 USEFUL LIFE OF RNG

1 According to Énergir's reading of the Régie's interpretation of the Regulation in its
2 decision D-2020-057, the Distributor is required to supply itself to the extent of the voluntary
3 demand that will be generated from marketing efforts. Based on this principle, it is very unlikely
4 that the quantities of RNG held will expire beyond the proposed 24-month life span. However,
5 Énergir has reflected on the means available to it to avoid devaluing the RNG. In the course of its
6 reflections, the following strategies emerged:

- 7 • transfer of contractual capacities to third parties;
- 8 • sale of excess quantities of RNG held on the secondary market; and
- 9 • sale of environmental attributes related to the RNG held.

10 In the context of the Régie's interpretation of the Regulation in its decision D-2020-057, Énergir
11 believes that the means chosen to avoid devaluing the value of the RNG held should be applied
12 upstream of those for the processing of unsold units. Since these strategies go hand in hand,
13 Énergir proposes to come back to them in more detail when formulating its proposal for the
14 treatment of unsold units.

6 TREATMENT OF UNSOLD UNITS

1 In its procedural decision D-2020-111, the Régie asked Énergir to justify how decision D-2020-
2 057 delays the formulation of a proposal for the treatment of unsold units.

3 First, Énergir would like to point out that it has already begun to reflect on the subject. It has been
4 working on a proposal for the treatment of unsold units for several months. In order to arrive at a
5 proposal that is consistent with best regulatory practice, Énergir must respect the main rate
6 principles for the allocation of costs. The manner and context in which the costs associated with
7 unsold units are encountered are key elements in developing a method for their disposal.

8 The Régie's interpretation of the distributors' obligation under the Regulation differs greatly from
9 that of Énergir, and even from that contained in the expert report discussed in the next section.
10 This interpretation influences thinking about the nature of the costs incurred if units are unsold. It
11 is mainly this issue that Énergir is looking into to ensure the consistency of its proposal.

7 REVIEW OF THE MINDEX REPORT

1 In November 2019, the Régie retained the services of Consultations Mindex Inc. (Mindex) to
 2 research, analyze and report on the integration of RNG purchases into Énergir's rates. On
 3 November 29, 2019, Énergir provided preliminary comments on the Mindex report (B-0261),
 4 including agreement with certain portions of the report. However, Énergir respectfully submits that
 5 the Régie's interpretation of the Regulation in its decision on step B⁶ makes it difficult to apply
 6 most of the proposals put forward by Mindex in its discussion paper.⁷ Moreover, Énergir points
 7 out that it reviewed its rate proposal following decision D-2020-057, to ensure that it was
 8 consistent with the following Régie conclusions:⁸

- 9 [translation] “• *volumes delivered to interconnections in the territory must be accounted for for*
 10 *the purposes of the Regulation; and*
 11 • *for the purposes of the Regulation, Énergir must ensure that the volumes purchased are*
 12 *matched to the needs of voluntary customers.”*

13 Table 5 lists the points of convergence and divergence between the Énergir proposal and the
 14 Mindex report, while specifying whether the Énergir proposal is dependent, if applicable, on
 15 decision D-2020-057 regarding step B.

Table 5

	Concept from Mindex discussion paper	Énergir proposal			Explanations
		Convergence	Divergence	Based on the step B decision	
Causality	<p>The following two <u>causal links</u> can be established:</p> <ul style="list-style-type: none"> Objectives of the 2030 Energy Policy and costs of purchasing RNG from Québec production sources Regulation respecting the minimum quantity to be delivered by distributors and costs of RNG purchases outside Québec. 		√	√	The origin of production did not emerge as a contract feature by the Régie. The Régie has determined that Énergir's RNG supply must be driven by voluntary customer demand.

⁶ D-2020-057.

⁷ A-0083, *Document de réflexion Intégration des coûts des achats de Gaz Naturel Renouvelable (GNR)*, Consultations Mindex Inc.

⁸ B-0343, *Gaz Métro-5*, Document 3, p. 4.

Measures concerning the purchase and sale of renewable natural gas, R-4008-2017

	Concept from Mindex discussion paper	Énergir proposal			Explanations
		Convergence	Divergence	Based on the step B decision	
Supply	<p>The costs of supplying RNG can be divided into two components:</p> <ol style="list-style-type: none"> 1) Costs of purchasing supplies related to meeting customers' consumption needs; 2) Supply purchase costs related to government requirements related to the 2030 Energy Policy. <p>It is suggested that the costs of the first component be <u>functionalized</u> to the "conventional" supply service while those associated with the second component be functionalized to the supply service, but separately, or to the distribution service, subject to the interpretation of the regulatory obligation (compliance with section 52 of the <i>Act respecting the Régie de l'énergie</i> could eliminate this possible functionalization in distribution).</p> <p>Thus, the costs of the "consumption" component would be <u>allocated</u> based on factor FB01F and those attributable to the "regulatory obligation" component according to factor FB01D.</p> <p>Therefore, it would be appropriate to price the supply costs related to unsold RNG volumes to voluntary customers separately, and to charge them fairly to all customers.</p>		√	√	<p>Énergir proposes an approach that consists of functionalizing the natural gas costs related to the demand of voluntary customers to the existing supply service. Since the Régie has retained only one causal component of the cost of RNG supply, i.e. voluntary demand, the supply costs are not split into two components.</p> <p>For the allocation exercise, Énergir proposes to allocate the costs associated with the voluntary application based on factor FB01GNR (see section 2.1 to this effect).</p>

Measures concerning the purchase and sale of renewable natural gas, R-4008-2017

	Concept from Mindex discussion paper	Énergir proposal			Explanations
		Convergence	Divergence	Based on the step B decision	
	<p><u>Socializing</u> to all customers the costs that would not be recovered through the distributor's supply rate paid by voluntary customers militates in favour of the <u>causal link</u> identified previously. In order not to penalize direct purchase customers, the impact of the socialization of units purchased by the distributor on these customers should be considered.</p>			√	Énergir has not yet submitted a proposal on this topic (see section 6).
Inventory-related adjustments	<p>The maintenance costs related to RNG purchases can be broken down into two components, identical to those of supply ("consumption" needs and meeting "obligations").</p> <p>Considering that, for both cost components, the timeframes between the payment for the purchase and the revenue obtained by the rate are caused by the same elements of volumes consumed by customers, the <u>functionalization</u> to the inventory adjustment service could be appropriate.</p> <p>As with the supply service, it may also be appropriate to <u>functionalize</u> the maintenance costs related to the obligation of the 2030 Energy Policy to the distribution service (compliance with section 52 of the <i>Act respecting the Régie de l'énergie</i> could eliminate this option).</p> <p>Therefore, it would be appropriate to use the BASETARF and REVNETF factors for the costs of the "consumption" component and it would be useful to assess whether it is appropriate to use factor FB01D or the BASETARD and REVENETD factors for the "obligation" component.</p>		√		Énergir proposes to functionalize and allocate the yield and tax costs generated by the inventory to the adjustment service related to existing inventories, since it is not possible to distinguish a customer's "conventional gas" consumption profile from their "RNG" consumption profile.

Measures concerning the purchase and sale of renewable natural gas, R-4008-2017

	Concept from Mindex discussion paper	Énergir proposal			Explanations
		Convergence	Divergence	Based on the step B decision	
Transportation	In transportation, the <u>functionalization</u> and <u>allocation of</u> RNG costs related to the various purchase locations are identical to those for conventional natural gas. The place of purchase is a characteristic that is independent of how the gas is produced.	√			Énergir proposes to functionalize natural gas purchases at the same location (Dawn), regardless of the renewable nature of the supply.
Load balancing	In load balancing, the costs for RNG can be divided into two components: 1) Consumption balancing; 2) Production balancing. The first component would be <u>functionalized</u> to the load-balancing service and <u>allocated</u> based on existing A, H and P dependent factors while the second component could be <u>functionalized</u> to distribution and <u>allocated</u> based on factor FB01D. The <u>pricing</u> methodology should be revised to reflect the new production component.	√	√		<ul style="list-style-type: none"> • There is convergence with respect to load-balancing costs, which Énergir proposes to functionalize in load balancing, and to allocate and price based on existing A, H and P parameters. • On the other hand, there is divergence where Énergir does not consider production balancing costs in the rates paid by its customers, since RNG producers must balance on their own. Thus, the Énergir proposal ensures that no adjustments would be required to the load-balancing service rate.
CTEAS	This is an avoided cost that is not included in the purchase price of the RNG. As a result, it appears that no RNG purchase costs should be <u>functionalized</u> or <u>allocated</u> to the CTEAS service. It appears necessary to analyze the current CTEAS pricing to ensure equity between the various clienteles and to correct it if necessary.	√			For the time being, Énergir's proposal is convergent with that of Mindex. However, as mentioned in section 1, the Énergir proposal is set to change.

- 1 Lastly, in its report, Mindex proposes an alternative regulatory framework that would obviate
- 2 individual applications for approval to the Régie and could be implemented until the 5% threshold
- 3 is reached, in response to the problems surrounding RNG purchases made by Énergir, mainly
- 4 due to the absence of a market index to set the price level. For the time being, this new regulatory

1 framework is not compatible with the decision rendered by the Régie in the previous step, because
2 it is based on the following principles:

- 3 • no costs related to the Québec production objective should be allocated to voluntary
4 customers, since the Regulation is aimed at Énergir and not a subset of customers;
- 5 • no costs related to production outside Québec should be socialized to all customers, since
6 government requirements are designed to promote Québec production.

7 Based on these principles, the alternative regulatory framework proposes a supply rate that would
8 contain the costs associated with the following categories of supply, in this order:

- 9 • prioritize purchases from sources outside Québec up to the level of voluntary demand
10 (quantities purchased in excess of voluntary demand, if any, could not be socialized to all
11 customers); and
- 12 • to be supplemented with purchases from Québec sources to meet the maximum between
13 the voluntary demand and the government target (quantities purchased beyond the
14 voluntary demand, if any, would be socialized to all customers).

15 Although the self-regulatory mechanism resulting from Mindex's proposal would make it possible
16 to control the price of the supply service that customers agree to pay while meeting the
17 government's volume targets, Énergir reiterates that it has set this mechanism aside since it
18 seems irreconcilable with the Régie's interpretation of the Regulation in its decision D-2020-057.

CONCLUSION

1 **Énergir asks the Régie to:**

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|---|--|
| 2 | • take note of and be satisfied with the additional evidence produced in response to |
| 3 | decision D-2020-111; |
| 4 | • approve the use of the existing factor FB01T to allocate RNG transportation costs; |
| 5 | • approve the use of factor FB01GNR to allocate RNG supply costs; and |
| 6 | • approve the use of factor FB07GNR to allocate RNG supply revenues. |