

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

S T E P C

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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 was
5 therefore to respond to the various requests listed by the Régie in Table 1 of its Decision.

6 A first version of the evidence was submitted on September 15, 2020. Following a working
7 meeting held on November 4th, several elements were clarified and the Gaz Métro-5, Document 3
8 evidence was revised. Some proposals have also been added.

9 As a result of these changes, certain sections of this exhibit no longer apply or are dealt with in
10 greater detail in a revised exhibit: Gaz Métro-5, Document 3. These sections are therefore
11 removed.

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	Énergir (or customer if large emitter)
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)	Énergir (or customer if large emitter)
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	Énergir (or customer if large emitter)
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

(1) Énergir's proposal for CTEAS RNG volumes can be found in Section 4 of Gaz Métro-5, Document 3 exhibit from case R-4008-2017.

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 FB07F-GNR, calculated based on the RNG revenues billed to the
6 supply service per rate level. Since RNG revenues are charged at a single rate, the allocation of
7 revenues by rate tier would be exactly the same as the allocation of costs based on the
8 FB01F-GNR factor, therefore cross-subsidization among RNG consumer customers in the
9 different rate tiers would be zero. This is partly the case for supply, transportation and balancing
10 services for all customers since, as for RNG, rates are cost-based.

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 the revised exhibit, Gaz Métro-1, Document 2 of this file, monetary penalties
10 arising 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.

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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.

4 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.

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

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

1 the recovery or remittance of price differences, based on a principle that is similar to that applied
2 in the monthly calculation of the system gas price.³

4.2 CONDITIONS OF SERVICE AND TARIFF

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

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

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

18 Table 2 shows the differences and similarities for all of the DEAs proposed for RNG in this file
19 compared to what is currently planned for system gas and direct purchase with or without transfer
20 of ownership. As the RNG market has different characteristics from conventional natural gas,
21 such as limited available quantities, Énergir has thought about the DEAs applicable to RNG so
22

³ See section 5.1 for more details.

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- 1 that they can be adapted to its reality. For this reason, it is sometimes difficult to compare the
 2 arrangements for RNG with those for other types of supply (system gas or direct purchase).

Table 2

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.

5 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).

5.1 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 3 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.

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Table 3

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.
Similarities	Valuation of inventory according to the current rate specific to each type of supply. The difference between the valuation based on the actual acquisition cost and the current rate is recorded in the goodwill account specific to each type of supply.	Revaluation according to the current rate specific to each type of supply. Inventory revaluation pertaining to a type of supply is remitted or recovered by customers who consume that type of supply.	N/A
Differences	N/A	Monthly revaluation for natural gas supply compared to an annual revaluation for RNG. Separate rate for the recovery/remittance of natural gas supply inventory revaluation, while the recovery/remittance of RNG inventory revaluation is calculated from the RNG rate through the accumulated RNG price difference deferred expense account.	The maintenance of the natural gas supply inventory is recovered from customers who consume this type of supply, while the maintenance of the RNG inventory is not recovered from customers who consume RNG.

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 system gas
6 inventory revaluation, which is included in the adjustment rate pertaining to natural gas supply
7 inventories, the revaluation of the RNG inventory is included in the RNG price difference. This
8 method is used to recover sums from customers who consume RNG or to remit to them all
9 differences between the actual acquisition cost and the amounts received. Thus, the full
10 acquisition costs are recovered through the RNG supply rate.

11 For the reasons mentioned in section 6.2 of the revised exhibit, Gaz Métro-5, Document 3, Énergir
12 proposes to functionalize the cost of maintaining RNG inventories to the adjustment service
13 related to existing system gas inventories.

14 Valuing RNG inventory on an alternative basis (e.g. at average cost) would generate a margin
15 since the revenues from the sale of RNG would not be equivalent to the cost of RNG sold. In
16 order to recover all acquisition costs, an adjusting entry should then be recorded to reduce the
17 cost of RNG sold equivalent to the RNG revenue for the period. The counterpart of this adjustment
18 should be recorded in a DEA, such as the RNG price difference. The average cost method
19 therefore involves more steps than the method proposed by Énergir, whereas the objective and
20 result of the two methods are the same: to recover the full acquisition cost through the RNG rate.

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

5.2 DEA REMUNERATION

26 The Régie asks for [translation] “justification of the remuneration of the RNG price difference DEA
27 at the current weighted average cost of capital (WACC), based on the principle of equitable

1 treatment of distributors by the Régie, taking into account decision D-2020-005 of Phase 1 of
2 file R-4113-2019, p. 12.

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

8 It should also be noted that, without wishing to presume the Régie's basis for decision D-2020-
9 005, the remuneration authorized to Gazifère for this DEA seems to stem from the fact that all of
10 this distributor's difference and deferral accounts also bear interest based on the cost of its short-
11 term debt since decision D-2016-092. This treatment, for the RNG price difference account, thus
12 seems consistent with the remuneration applied to other difference accounts at Gazière, such as
13 temperature stabilization, for example.

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

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

19 [495] **Considering that [Énergir] maintains a capital structure similar to that presumed and
20 authorized, the Régie maintains the remuneration of the DEAs at the weighted average cost
21 of capital rate."**

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

27 Even today, the foundations on which the Régie authorized remuneration for Énergir's DEAs that
28 differs from that authorized for its Québec peers are maintained. Whether it is the financing of an

⁴ D-2015-018.

⁵ D-2016-092.

1 RNG price difference deferred expense account, a system gas price difference DEA or any other
2 DEA, the same financing structure that led to D-2015-181 has been applied to date. Under these
3 conditions, Énergir does not see how it would be justified to treat the remuneration of the RNG
4 price difference deferred expense account differently from the method used for its other DEAs.
5 To the extent that the Régie wanted to review the remuneration of price difference deferred
6 expense accounts, Énergir submits that this file does not present an appropriate framework for
7 the in-depth study of the remuneration of all its DEAs.

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

CONCLUSION

1 **Énergir asks the Régie to:**

- | | |
|---|--|
| 2 | <ul style="list-style-type: none">• take note of and be satisfied with the additional evidence produced in response to decision D-2020-111;• approve the use of factor FB07F-GNR to allocate RNG supply revenues. |
| 3 | |
| 4 | |
| | |