

Summary of Decision D-2022-061 rendered in case R-4169-2021 concerning Support Measures for the Decarbonization of Building Heating

On May 19, 2022, the Régie de l'énergie (the Régie) rendered Decision D-2022-061 (the Decision) concerning the Application Respecting Support Measures for the Decarbonization of Building Heating (the Application) submitted jointly by Énergir and Hydro-Québec in its electric power distribution activities (HQD) (the Distributors).

Background and content of the Application

In November 2020, the Government published its 2030 Plan for a Green Economy (GEP 2030), its framework policy for electrification and the fight against climate change. This plan details the means to be deployed in order to achieve the greenhouse gas GHG emission reduction targets that the Government has set and is in line with its 2030 Energy Policy. At the same time, the Government launched its 2021-2026 Implementation Plan (PMO 2021-2026), which promotes the electrification of the economy wherever desirable and optimal.

The Government is committed to reducing GHG emissions in Québec to 37.5% below 1990 levels by 2030 and achieving carbon neutrality by 2050. A key component of this plan is a 50% reduction in GHG emissions from heating in residential, commercial and institutional buildings.

The Application is also in line with Order in Council 874-2021 (the Order) issued on June 23, 2021, which provides guidance to the Régie respecting the Government's economic, social and environmental concerns with regard to the means to be implemented to reduce GHG emissions from heating of buildings by converting their heating systems to dual-energy electricity/natural gas.

This was the context in which Énergir and HQD reached a partnership agreement on a project to promote the decarbonization of building heating over a period of 20 years through their Dual Energy Offer (electricity and natural gas). They filed their Application with the Régie to implement the offer (the Dual Energy Offer) and to ensure its success.

The deployment of the Dual Energy Offer will entail a loss of revenue for Énergir and an increase in supply costs for HQD, which will have an impact on the rates paid by the customers of both distributors. The cumulative impact on rates in 2030, not taking into account any contribution or compensation, is estimated at 4.5% for Énergir customers and 0.9% for HQD customers.

Under the partnership agreement, in order to balance the impact of these rate increases between their respective customer bases, HQD will pay Énergir an annual contribution based on actual volumes of natural gas converted to electricity. This contribution toward reducing GHG emissions (the GHG Contribution) is estimated at \$85 million in 2030.

The aim of HQD and Energir's Application is to establish a general principle for factoring the GHG Contribution and its method of determination into the calculation of the Distributors' revenue requirements for rate-setting purposes.

The first phase of the Application is aimed at Énergir's residential customers, who will be encouraged to convert their natural gas water heaters to electric water heaters. In order to qualify for HQD's dual energy rate, they will also be encouraged to install an electric system to complement their natural gas space heating system. The second phase of the project, to be undertaken at a later date, will be directed at Energir's commercial and institutional customers.

The Régie's decision

In its Decision, the Régie grants Énergir and HQD's Application.

First, considering that the use of electricity to heat buildings contributes to the reduction of GHG emissions when it replaces natural gas, the Régie believes that it is relevant to compare the dual-energy scenario to the all-electric scenario, in which natural gas is replaced completely by electricity. The Régie concludes from this comparison that the dual-energy scenario will have markedly less impact on the rates of HQD customers than the all-electric scenario.

Second, the Régie concludes that it is in the public interest for Energir and HQD to assume their social responsibilities by contributing to the decarbonization of building heating in view of the climate crisis. Reducing GHG emissions is at the heart of the energy transition and consistent with the goals of sustainable development. It in fact constitutes a non-energy benefit for the entire community. Each conversion made will help Quebec move towards a low carbon economy.

The Régie also concludes that the GHG Contribution is necessary to ensure the rapid deployment of the Dual Energy Offer, accelerate the reduction of GHG emissions, and ensure the success of the collaboration between the Distributors.

As a result, the Distributors will be able to continue their collaboration and proceed with the deployment of the Dual Energy Offer, which will accelerate the decarbonization of building heating and reduce GHG emissions by 2.7 million tonnes by 2030.

Rate impacts of the Dual Energy Offer

For Energir's customers, the GHG Contribution will cover 80% of the shortfall, resulting in an estimated cumulative impact on rates of around 0.9% by 2030.

For HQD customers, the Dual Energy Offer will have no impact on rates until 2025. By 2030, the estimated cumulative rate impact will be around 1.43%. For instance, a customer in a 5½ apartment

will see an increase on their annual electricity bill of about \$2.84 as of 2025 and an estimated \$12.71 in 2030.

For major customers with an annual bill of \$40 million, the estimated annual rate impact will be about \$128,000 in 2025, compared with \$572,000 in 2030.

These rate impacts are only estimates and may be lower if the volumes of natural gas converted to electricity are smaller than expected. The Régie will distribute the costs of the Dual Energy Offer among the customer categories in the Distributors' rate cases.

The Régie considers the estimated rate impacts of the Dual Energy Offer for the customers of each Distributor to be balanced and reasonable in view of the 2.7 million-tonne reduction in GHG emissions by 2030.

Monitoring

To monitor the Dual Energy Offer, the Régie asks the Distributors to file certain information on its deployment annually.

Also, the Distributors will be required to file the results of the planned Dual Energy Offer review in five years' time. A review of the major principles of the GHG Contribution and its method of determination could be required if the Régie deems it appropriate.

Dissenting opinion of Régie Commissioner François Émond

Despite his support for the energy transition principles set forth in GEP 2030, the 2021-2026 implementation plan and the *2030 Energy Policy*, the dissenting Commissioner considers that the Régie does not have the authority to recognize the general principle requested by HQD for the reasons stated in Section 14 of the Decision. Furthermore, he submits two solutions that would have allowed the Distributors to implement their Partnership Agreement without requiring the Régie to recognize the general principle submitted to it at this time.