

William J. Andrews

Barrister & Solicitor

1958 Parkside Lane, North Vancouver, BC, Canada, V7G 1X5
Phone: 604-924-0921, Fax: 604-924-0918, Email: wjandrews@shaw.ca

February 16, 2016

British Columbia Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC, V6Z 2N3
Attn: Erica Hamilton, Commission Secretary
By Web Posting

Dear Madam:

Re: FortisBC Energy Inc. (FEI) Application for Approval of Biomethane Recovery Charge (BERC) Rate Methodology, Project No. 3698850, Order G-147-15, BCSEA-SCBC Final Argument

This is the final argument of the interveners B.C. Sustainable Energy Association and Sierra Club B.C., pursuant to the timetable established by the Panel during the streamlined review process (SRP) on February 3, 2016.¹

Summary

BCSEA-SCBC support Commission approval of the orders requested by FEI. In the 2013 Biomethane Decision, the Panel anticipated the possibility that the BERC rate might prove to be too high to allow FEI to maximize the recovery of the BVA from biomethane customers. That potentiality has come to pass. As directed in the 2013 Biomethane Decision, FEI is making this application for approval of a lower BERC rate. In BCSEA-SCBC's view, FEI has provided an analysis of the full circumstances and sufficient supporting evidence, as required by the Panel in the 2013 Biomethane Decision. The BERC is too high and should be made lower. FEI's proposal, involving two BERC rates, with a \$7/GJ premium for regular RNG purchases and a \$1/GJ discount for large volume fixed term purchases, is a reasonable and effective approach. FEI's proposed mechanisms for transferring aged unsold biomethane to the MCRA account and amortizing the balance in the BVA for recovery in the delivery rates of non-bypass customers provides the necessary flexibility as well as transparency and Commission review and approval.

BCSEA-SCBC strongly support the RNG program and its objectives to reduce GHG emissions, utilize biogas and biomass and displace the use of traditional natural gas. BCSEA-SCBC are optimistic that implementation of the proposed reduction in the BERC rate and the \$1/GJ discount for RNG purchases under large volume, long term contracts will successfully revitalize growth in RNG sales.

BCSEA and SCBC

BCSEA-SCBC's interests in this proceeding are as non-profit public interest environmental and energy policy organizations, and as representatives of their members' interests as ratepayers of FEI. BCSEA-SCBC's members and supporters who are FEI ratepayers are particularly likely to be present or future participants in FEI's Renewable Natural Gas (Biomethane) Program. Their goals include reducing their consumption of traditional natural gas in order to reduce GHG

¹ T2:219, lines 5-6.

emissions and other environmental problems associated with traditional natural gas production, transportation and consumption.

Biomethane has two substantial environmental benefits over traditional natural gas:

- creating biomethane prevents the methane and other greenhouse gases with high global warming potential from entering the atmosphere as they otherwise would upon the breakdown of the organic waste, and
- using biomethane (burning it as natural gas) displaces the use of traditional natural gas with its upstream GHG remissions and environmental issues.

Representatives of BCSEA-SCBC participated in the streamlined review process held at the Commission's hearing room in Vancouver on February 3, 2016. At the conclusion of the SRP, the Panel determined that FEI would provide its final argument in writing, to be followed by written arguments by interveners, and a written reply by FEI. FEI filed its final written argument on February 4, 2016.

Renewable Natural Gas Program

FEI's Renewable Natural Gas Program began as a pilot project approved by the Commission in 2010. The gist of the RNG Program is that FEI acquires pipeline quality biomethane, injects it into the FEI pipeline system, and sells a corresponding notional product it calls Renewable Natural Gas to FEI customers on a voluntary basis. Both the quantities (GJs) and value (\$) of the biomethane acquired by FEI and the RNG sold to program participants are tracked in the Biomethane Variance Account (BVA).

On the supply side, the Commission has approved a supply cap of 1,500,000 GJ/year (1.5 PJ/year),² and a maximum purchase price of \$15.28 per GJ. These are not at issue in the current proceeding, and properly so, in BCSEA-SCBC's view.

On the demand side, RNG program participants purchase a customer-specified percentage blend (from 5% to 100%) of the customer's consumption. The price an FEI customer pays for RNG is referred to as the Biomethane Energy Recovery Charge (BERC), defined in terms of \$/GJ. The BERC, and the methodology for determining the BERC, is at the centre of the current proceeding.

In the 2013 Biomethane Decision (G-210-13), the Commission approved the RNG Program on a permanent basis and determined the parameters of the program that are now in place. The principle reason for making the RNG Program permanent was the importance of BC government policy and the BC energy objectives in the *Clean Energy Act*, in particular:

- "Encouraging the switching from one energy source to another that decreases GHG emissions in the province.
- Reduces waste by encouraging the use of waste heat, biogas and biomass.
- Encourages communities to reduce GHG emissions and use energy efficiently."³

² The supply of biomethane is forecasted to continue to grow, potentially reaching the 1.5PJ/year supply cap by approximately 2023. Exhibit B-1, Figure 3-3.

The Commission Panel added:

“Moreover, the program benefits all British Columbians as the burning of Biomethane is carbon neutral. Therefore, providing FEI’s customers with a voluntary program that enables them to contribute to the development of Biomethane in BC is in the public interest.”⁴

BERC Methodology

In the proceeding that led to the 2013 Biomethane Decision, FEI had proposed (and BCSEA-SCBC had supported) that the BERC would be based on only the cost of the Biomethane itself and that all customers would pay for the costs of making the Biomethane program available. However, the Commission Panel determined that “Generally speaking, cost allocation principles require costs to be recovered from the program, class or group that caused the expenditure to be incurred.”⁵

Nevertheless, the Panel determined that it would consider cost recovery methodologies for the RNG Program that “may not be strictly consistent with these cost allocation principles” because “the Panel’s approval of the program was not based on the economic merits of the program, but on contribution to the energy objectives outlined in the *CEA*.” The Panel determined that “transparency requires the true cost of the supply of biomethane along with all Biomethane Program costs be known.”⁶ The Panel separated this transparency objective from cost recovery principles that should be applied to the RNG Program. The Panel states:

“The Panel considers it important that the allocation of expenditures incurred in the Biomethane Program is treated in as transparent a manner as possible, even if the recovery principles are not strictly followed.”⁷

The Panel in the 2013 Biomethane Decision acknowledged that “including the fully allocated costs, as opposed to only those costs approved in the pilot will, all else equal, increase the BERC rate beyond that anticipated by FEI in this Application.”⁸ Further, the Panel acknowledged that “a higher BERC rate could result in a reduction in the adoption rates for the Biomethane Program.”⁹ For that reason, in addition to approving measures (such as variable blends) intended to boost RNG sales, the Panel directed FEI to bring an application to lower the BERC rate “in the event that the BERC rate is too high to allow FEI to maximize the recovery of the BVA from biomethane customers.”¹⁰ The Panel states:

³ Order G-210-13, Reasons for Decision, pp.25-26.

⁴ Order G-210-13, Reasons for Decision, p.26.

⁵ Order G-210-13, Reasons for Decision, p.35.

⁶ Order G-210-13, Reasons for Decision, p.35, underlined added. This was consistent with the recommendation of the Commission’s Alternative Energy Service (AES) Inquiry that regarding the biomethane program “There should be transparency in cost allocation among different customer groups,” AES Inquiry Report, p.33, cited in Order G-2010-13 Reasons at p.40.

⁷ Order G-210-13, Reasons for Decision, p.36.

⁸ Order G-210-13, Reasons for Decision, p.66.

⁹ *Ibid.*

¹⁰ Order G-210-13, Reasons for Decision, p.67.

“Therefore, in the event FEI considers it necessary to set a lower BERC rate than would be set using the BERC rate setting methodology which includes all costs FEI is directed to include in this Decision, FEI is directed to bring before the Commission an application for approval of the lower BERC rate. The application should provide an analysis of the full circumstances, and sufficient evidence to support that analysis.”¹¹

This is the genesis of the current application.

The Application

FEI applies under sections 59-61 of the *Utilities Commission Act* for approval of changes to the BERC rate and related aspects of FEI’s Renewable Natural Gas Program. The changes are aimed at increasing the number of participating RNG customers and the volume of RNG sold while also maximizing recovery of program costs from RNG participants and minimizing the exposure of other customers to unrecovered RNG program costs. The specific approvals that FEI seeks are listed in paragraphs 1 and 2 of FEI’s final argument.

To summarize, FEI seeks approval of the following regarding the BERC rate:

- A change from a single BERC rate to two rates: a Short Term Contract BERC rate and a Long Term Contract BERC rate.
- The Short Term Contract BERC rate would have the same terms and conditions as in the current RNG Program, notably that the RNG customer can change at any time whether and how much RNG the customer chooses to purchase.
- The Long Term Contract BERC rate would be for a new form of RNG purchases in which the customer commits to purchase a certain (large) volume of RNG (minimum 500 GJ per month) for a certain period of time (minimum 10 years¹²).
- The Short Term BERC rate would be set at a premium of \$7.00 per GJ above the Commission approved January 1st Commodity Cost Recovery Charge (CCRA rate) plus the carbon tax rate, per GJ. This differs from the current BERC rate in two ways. The \$7.00/GJ premium is designed to optimize factors such as cost recovery, sales volumes and net revenue, rather than the status quo cost-based pricing. And, the proposed \$7.00/GJ premium would result in a BERC rate that is lower than the current BERC rate.
- The Long Term Contract BERC rate would be set at a premium of \$1/GJ less than the short-term BERC rate premium.

In addition, FEI seeks Commission approval in principle that FEI may apply to transfer unsold biomethane supply that is greater than 18 months in age and/or 250,000 GJs in the BVA to the Midstream Cost Reconciliation Account (MCRA) at the prevailing CCRA rate on January 1 each year. If biomethane supply would be insufficient to meet forecast demand for RNG, then FEI would have the option not to apply to transfer unsold biomethane.

¹¹ Order G-210-13, Reasons for Decision, p.72.

¹² Or FEI may consider a five-year term provided the demand is at least 60,000 GJ in total. Exhibit B-10, p.9.

FEI also seeks approval in principle to amortize the forecast December 31 balance in the BVA, net of the transfer of unsold biomethane inventory and remaining supply costs, through the delivery rates of all non-bypass customers effective January 1 of the subsequent year.

FEI applies for approval to discontinue the quarterly BERC and Biomethane Variance Account (BVA) report and replace it with a single annual report in conjunction with the Fourth Quarter CCRA & Midstream Cost Reconciliation Account (MCRA) report.

Lastly, FEI seeks Commission approval of certain revisions to FEI's General Terms and Conditions (GT&Cs).

The Need for a Change to the BERC Rate

BCSEA-SCBC agree with FEI that the BERC rate is too high to allow FEI to maximize the recovery of the Biomethane Variance Account from biomethane customers. The circumstances contemplated in the 2013 Biomethane Decision have come to pass, and it is necessary to reduce the BERC rate.

Between October 2010 and July 2015, the BERC rate has risen from roughly \$10/GJ to over \$14/GJ at the same time as the commodity rate for traditional natural gas has dropped from about \$5/GJ to slightly over \$2/GJ. In other words, the implicit premium for RNG over traditional natural gas has risen from about \$4/GJ to over \$10/GJ over that time period.¹³

In that context, it is not surprising that RNG sales growth has stalled. This is evident in reduced and at times negative net RNG customer additions in both the residential and small commercial segments, coinciding with the increases in the BERC rate from \$11.696/GJ to \$14.065/GJ in 2014.

FEI responded by cutting its spending on program marketing in order to save money (i.e., to slow the growth of the deficit in the BVA). Frankly, BCSEA-SCBC would have preferred that FEI had responded to the 2014 BERC rate increase with more, not less, marketing. However, while the cutback in marketing spending is a confounding factor, BCSEA-SCBC believe that the evidence supports the conclusion that the BERC rate increase was the primary cause of the sagging participation in the program. On this point, BCSEA-SCBC agree with FEI in its Final Argument at paragraph 10. Furthermore, revitalizing the participation of residential and small commercial customers in the RNG program will require, in BCSEA-SCBC's view, a reduction in the BERC rate. Increased spending on marketing, alone, will not solve the RNG participation problem. And, notably, FEI is proposing to restore program marketing to the previous levels in conjunction with the proposed reduction in the BERC rate.

When one turns to the larger customers for potential large volume RNG sales there is no doubt on the evidence that the status quo BERC rate is too high to attract sales. UBC, for example, has been known since the beginning of the pilot program to be a potential purchaser of large volumes of RNG. However, FEI's evidence is clear that its discussions with UBC about purchases of large volumes of RNG are faltering because the status quo BERC rate is too high.

¹³ Exhibit B-1, Figure 3-1.

BCSEA-SCBC agree with FEI in paragraph 15 of its argument that “the evidence is clear that the BERC rate is now higher than the market can bear and that it should be reduced as contemplated in the 2013 Biomethane Decision.”

The Proposal for a Short Term Contract and a Long Term Contract BERC Rate

BCSEA-SCBC believe that FEI’s proposal, involving two BERC rates, with a \$7/GJ premium for regular RNG purchases and a \$1/GJ discount for large volume fixed term purchases, is a reasonable and effective approach.

BCSEA-SCBC agree with FEI that for the existing residential and small commercial RNG customers and potential RNG customers it is important to make no changes to the terms and conditions except for the reduction in the BERC rate. In BCSEA-SCBC’s view, the RNG product, with a customer-defined blend, is already a difficult concept to explain to potential customers. It would be counterproductive to have to explain to potential RNG customers any changes to the program other than a reduced price.

As to whether \$7/GJ is the appropriate size for the RNG premium, BCSEA-SCBC are satisfied that it is. It is recognized that there is no definitive quantitative methodology that can be used to set the optimal premium. If the premium is too high then it won’t attract sufficient incremental participation. If the premium is too low then it won’t result in sufficient revenue recovery. FEI has provided various valid reasons in support of the \$7/GJ figure. These include reference to the RNG BERC price prior to the 2014 BERC rate increase, customer survey information, and the pricing of green energy programs in other jurisdictions.

FEI concludes in paragraph 20 that “a \$7/GJ premium appears to be the highest premium that FEI can charge while maintaining stable growth.” BCSEA-SCBC support that conclusion. Put another way, there is no evidence that a different size of premium would produce better results.

BCSEA-SCBC see the concept of a slightly discounted BERC rate for large volume long term contracts as a useful model. It has several advantages. The resulting \$6/GJ premium ($\$7/\text{GJ} - \$1/\text{GJ} = \$6/\text{GJ}$) apparently meets the financial needs of potential large volume purchasers. This is essential, obviously, because if the price is not feasible then the large volume sales will be zero. In addition, the fact that the large-volume price is less than the residential/small commercial price is defensible because the large-volume purchaser makes a long-term commitment whereas the residential/small commercial purchaser can join and leave the program at will. Both in reality and in public perception, the somewhat lower BERC rate for the large volume purchasers is easily understandable and justifiable. A third advantage is that FEI does receive value from having the long term commitment to a volume, a price and a term. This will be of considerable benefit to the RNG program in terms of FEI managing the biomethane supply and locking in sales commitments. And presumably the large volume purchasers are not unwilling to make such long term firm commitments because they too can benefit from the increased level of certainty.

Alternatives

With reference to the alternative BERC rate structures mooted in BCUC 1.19, BCSEA-SCBC are of the view that the proposed BERC rate structure is superior at this time. For residential and small commercial customers the RNG program will remain the same except with a more

attractive BERC rate. For the small number of potential large volume RNG customers, the proposed \$1/GJ discount on a \$7/GJ premium and the long term contract terms and conditions are relatively simple and feasible.

BCSEA-SCBC agree with FEI in paragraph 31 to the effect that the idea of a discount for long term purchases of low volumes of RNG is not something that should stand in the way of approval of the present application. In BCSEA-SCBC's view, it would be more beneficial at the present time to focus on encouraging residential and small commercial RNG customers who have an especially strong commitment to RNG to boost the percentage blend that they purchase.

To be clear, BCSEA-SCBC support the concept of a "renewable portfolio standard" requirement being applied to natural gas distribution companies in B.C. However, that would have to be a government initiative, and it is certainly beyond the scope of the present proceeding.

Transfer Mechanisms

FEI acknowledges in paragraph 34 that: "As FEI is proposing to sell biomethane at below the full cost of service, it is necessary that there be some mechanism to clear the balance in the BVA."

BCSEA-SCBC agree with FEI that "In addition, it is beneficial to have a set approach to managing the balance in the BVA, rather than having a large balance build up which could have a larger impact on rates."

FEI sets out the following principles that it says guide its proposal for transferring unsold biomethane inventory:

- "FEI should seek to keep the potential volume and value of inventory at a level that minimizes the annual impact on natural gas delivery and commodity rates;
- FEI should seek to have sufficient biomethane to meet future commitments to supply biomethane to Long Term customers;
- FEI should seek to keep rate impacts stable on a year to year basis; and
- FEI should recognize the generally accepted industry practice that the vintage of "green energy" has a limit of approximately 2 years before it is considered stale."

BCSEA-SCBC agree that these principles are appropriate. It is understood that these principles incorporate FEI's commitment to maximize any possible revenue from the sale of biomethane with an environmental premium (e.g., GHG offset, RPS or carbon tax credit) where it has not been possible to sell the biomethane under the RNG program.

BCSEA-SCBC believe that FEI's proposals include appropriate flexibility for FEI to deal with unsold biomethane balances according to the circumstances at the time, along with an opportunity for the Commission to review and approve (or reject) a proposed disposition of unsold biomethane based on the conditions that apply at the time.

BCSEA-SCBC agree with FEI that it should have flexibility to determine whether the vintage of unsold biomethane warrants transfer to the MCRA. BCSEA-SCBC accept FEI's explanation in paragraphs 36 to 39 of the factors applicable to the "vintage" of unsold biomethane. In BCSEA-SCBC's view it would be best to leave flexibility in this regard, as opposed to, say, defining a

two-year age limit for unsold biomethane. There may be a need to retain aged unsold biomethane in order to meet anticipated future demand. And, there may be opportunities to recover some of the value of the environmental attributes of the aged biomethane stock.

Specifically, BCSEA-SCBC support FEI's request for approval in principle that FEI may apply to transfer unsold biomethane supply that is greater than 18 months in age and/or 250,000 GJs in the BVA to the MCRA at the prevailing CCRA rate on January 1 each year.

In addition, BCSEA-SCBC support FEI's request for approval in principle to amortize the forecast December 31 balance in the BVA, net of the transfer of unsold biomethane inventory and remaining supply costs, through the delivery rates of all non-bypass customers effective January 1 of the subsequent year. FEI confirms in paragraph 40 that "these amortization amounts would be forecast at FEI's annual review or revenue requirement proceedings, subject to trueup to the actual amortization set each year." BCSEA-SCBC agree with FEI that "This provides a simple and transparent way to recover these costs from customers, that is consistent with FEI's revenue requirements process."

Reporting

BCSEA-SCBC support FEI's proposal to replace the quarterly BERC and BVA report with an annual report. The annual report would be filed in conjunction with the Fourth Quarter CCRA & MCRA report. Based on FEI's responses to information requests and the discussion at the SRP, BCSEA-SCBC are not aware of a particular need for the BERC and BVA figures to be provided quarterly.

In paragraph 45, FEI states that "FEI proposes to continue with its annual biomethane report and there will be other proceedings in which the Commission will still maintain oversight over the program, including FEI's annual review or revenue requirement proceedings, approvals of supply agreements and so on." BCSEA-SCBC agree with FEI that this proposed reporting structure "will maintain the necessary transparency and oversight over the biomethane program and should be approved."

Education and Marketing

FEI says that if the application is approved it will return to the previous level of customer education and awareness spending of approximately \$300,000 per year. It is understood that FEI is not seeking specific approval of this proposed spending.

BCSEA-SCBC certainly support FEI's intention to restore the education spending to pre-cutback levels. BCSEA-SCBC agree with FEI that this level of spending is reasonable for the voluntary RNG program. As FEI states in paragraph 50, "a voluntary program can only function properly if customers are made aware of the program and are provided the information they need to decide to participate." BCSEA-SCBC agree with FEI in paragraphs 49 and 50 that awareness spending per customer addition to the RNG program is not a valid or appropriate metric.

Conclusion

For the reasons set out above, BCSEA-SCBC support Commission approval of the orders requested by FEI in this proceeding.

Yours truly,

William J. Andrews

A handwritten signature in black ink, appearing to be 'WJ Andrews', written over a horizontal line.

Barrister & Solicitor

cc. Distribution List by email