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February 16, 2016

VIA ELECTRONIC MAIL

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Ms. Erica Hamilton, Commission Secretary

Dear Sirs/Mesdames:

Re: FortisBC Energy Inc. ("FEI") Application for Approval of Biomethane Recovery Charge ("BERC") Rate Methodology

We are counsel to the Commercial Energy Consumers Association of British Columbia ("CEC"). Enclosed please find the CEC's Final Argument with respect to the above-noted matter.

A copy of this letter and attached Final Argument have also been forwarded to FEI and registered interveners by e-mail.

If you have any questions regarding the foregoing, please do not hesitate to contact the undersigned.

Yours truly,

OWEN BIRD LAW CORPORATION



Christopher P. Weafer
CPW/jlb
cc: CEC
cc: FEI
cc: Registered Intervenors

**COMMERCIAL ENERGY CONSUMERS ASSOCIATION
OF BRITISH COLUMBIA**

FINAL ARGUMENT

**FortisBC Energy Inc. Application for Approval of
Biomethane Recovery Charge (BERC) Rate Methodology
Project No. 3698850**

February 16, 2016

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(c) 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 Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA) report;	27
(d) 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;	27
(e) Approval to amortize the forecast December 31 balance in the BVA, net of the transfer of unsold inventory and remaining supply costs, through the delivery rates of all non-bypass customers effective January 1 of the subsequent year.....	28

**COMMERCIAL ENERGY CONSUMERS ASSOCIATION OF BRITISH
COLUMBIA**

FINAL ARGUMENT

**FortisBC Energy Inc. Application for Approval of Biomethane
Recovery Charge (BERC) Rate Methodology ~ Project No. 3698850
February 16, 2016**

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1. The Commercial Energy Consumers Association of BC (CEC) represents the interests of those customers and future customers consuming energy under commercial tariffs in applications before the BC Utilities Commission (BCUC or the Commission). The CEC has participated in the FortisBC Energy Inc. (FEI) Application for Approval of Biomethane Energy Recovery Charge (BERC) Methodology proceeding and provides the following Final Submissions for Commission consideration.

Summary of Recommendations

2. The CEC recommends that the Commission consider more appropriate sales and rate design opportunities for cost mitigation in its evaluation of the Application.
3. The CEC recommends that the Commission require FEI to pilot alternative rate design concepts with small groups of customers prior to adopting a final BERC rate methodology approach. Specifically, the CEC recommends that the existing BERC rate be maintained for customers wishing to continue taking service on a month to month basis.
4. The CEC recommends that the Commission consider price discounts as being potentially appropriate for customers prepared to take service for longer periods of time and for higher blends.
5. The CEC recommends that the Commission decision on BERC rate methodology approve a market-based rate connected to sales and retention strategies which enables FEI to set the market-based rates for the pilots and confirm back to the Commission with a compliance filing its preferred rate design connected to sales and retention strategies.
6. The CEC recommends that the Commission require the investigation, rate design, and pilot testing to be carried out in the most regulatory efficient fashion available.
7. The CEC recommends that the Commission require FEI to be accountable for marketing costs per customer and other metrics in its annual review regulatory process.
8. The CEC recommends a formulaic approach for larger customers with price discounts for term and volume which should be based on a value for the magnitude of revenue certainty.

9. The CEC recommends that the Commission require FEI, when it files an application for transfer of inventory from BVA to MCRA, to provide a fulsome analysis of methods and approaches to preserving the opportunity for cost-recovery benefit to FEI's other customers.
10. The CEC recommends that to the extent the Commission approves such further work that the transfers to delivery rates of non-bypass customers be deferred until more appropriate rate designs have been established.

Submissions

11. FEI is seeking the following approvals:
 - a. Approval of a Short Term Contract Biomethane Energy Recovery Charge (BERC) rate at the Commission approved January 1st Commodity Cost Recovery Charge (CCRA rate) per GJ, plus the current Carbon Tax applicable to natural gas customers, plus a premium of \$7.00 per GJ, applicable to all affected biomethane rate schedules within the Mainland, Vancouver Island and Whistler Service Areas;
 - b. Approval that the Long Term Contract BERC rate be set at a \$1.00 per GJ discount to the Short Term Contract rate;
 - c. 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 Commodity Cost Reconciliation Account (CCRA) & Midstream Cost Reconciliation Account (MCRA) report;
 - d. 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; and
 - e. Approval to amortize the forecast December 31 balance in the BVA, net of the transfer of unsold inventory and remaining supply costs, through the delivery rates of all non-bypass customers effective January 1 of the subsequent year.
12. FEI is seeking approval of the changes to its General Terms and Conditions (GT&Cs) filed as Attachment 4.1.1 of Exhibit B-5, subject to changes necessary to include reference to Rate Schedule 11B and to specify that the CCRA rate will be as determined on January 1 of the year consistent with the approvals sought above. If the Application is approved, FEI proposes to file revised GT&Cs in compliance with the Commission's directions in its decision (Transcript, pp. 177, 198-199).¹

¹ FEI Final Argument, Page 1

Rationale for Biomethane Program

13. The CEC submits that programs which are aligned with government objectives provides some increased security in the viability of the natural gas service offering as noted in Transcript Volume 2, pages 103-105.
14. The Biomethane program with its price cap cost of \$15.28 per GJ equates to an electricity rate of approximately \$50-\$60 per megawatt hour, well below electricity long run marginal costs. The CEC submits that RNG is a cost-effective clean energy solution and should be considered as such by the Commission.

Key Biomethane Methodology Issues

15. The FEI application assesses the biomethane program as needing a substantial discount to the premium over the cost of natural gas in the BERC rate. FEI explicitly disconnects the biomethane pricing from its marketing context, preferring the simplicity of their initial design. FEI anticipates that a discount price will optimize the value of the biomethane program in mitigating its cost to non-bypass customers.
16. The CEC submits that the evidence on the record is that marketing is a far more important variable than FEI has accounted for. Further, a discount to price of the biomethane disconnected from sales and retention rate design strategies will subject non-bypass customers to an immediate loss of revenue of approximately \$55 per year, for each average residential customer in the program, indefinitely into the future. This applies to the existing customer base. In the future FEI anticipates acquiring additional supply and selling large volumes at even greater discounts. The CEC estimate of the present value cost impact on non-bypass customers of FEI's proposed immediate discount, disconnected from sales and retention rate design strategies, is approximately \$1.4 million just for the existing customer base. The CEC submits that for non-bypass customers this represents an inadequate rate design.
17. The CEC provides an overview of the relevant evidence in the following submissions.

Biomethane Variance Account

18. The Biomethane Variance Account (BVA) captures the costs for procuring biogas, cost of upgrading, biomethane program overhead costs and a portion of interconnection costs, less the revenues collected from BERC rate.² The BVA balance has grown from \$59.6 thousand in 2010 to \$1,843.6 thousand in 2014.³
19. The CEC notes that the annual BVA costs incurred are increasing significantly every year. The CEC further notes that FEI is able to recover an increasing portion of its annual costs and recovered approximately 75% of these costs in 2014.

² Exhibit B-1, Page 8-9

³ Exhibit B-1, Page 10

Table 3-3: BVA Balance (Pre-Tax), as at December 31, \$ Thousands¹⁰

	2010	2011	2012	2013	2014
Opening Balance ²⁰	\$0	\$59.6	\$463.1	\$948.8	\$1,300.4
Adjustment to Restate Pre-tax Balance ²¹	-	(1.6)	(9.3)	9.6	-
BVA Costs Incurred	59.6	451.9	767.7	1,217.4	2,187.9
BVA Costs Recovered	0	(46.7)	(272.7)	(875.4)	(1,644.7)
Closing Balance ²⁰	\$59.6	\$463.1	\$948.8	\$1,300.4	\$1,843.6

20. FEI provides its forecast of the five year outlook for the BVA under status quo.

Table 4-2: Status Quo BERC Rate and BVA Five Year Outlook²⁴

	2016	2017	2018	2019	2020
BVA Balance (\$000)	3,288	8,002	17,409	29,068	42,532
BERC Rate (\$/GJ)	15.73	14.88	15.61	16.31	16.61

Table 4-2⁴

21. The CEC notes that there is considerable variance between the forecast (pre-tax) balance and actual BVA balances as outlined in CEC 1.1.1

BVA Balance After Adjustment for Unsold Biomethane Actual vs. Forecast (Pre-Tax and \$000)

	2010	2011	2012	2013	2014	2015
Actual Before Adj.	\$ 59.6	\$ 463.1	\$ 948.8	\$ 1,300.4	\$ 1,843.6	\$ 1,637.0
Actual Unsold Supply (T)	6.0	41.4	79.6	94.0	79.9	108.0
Effective BERC	\$ 11,696	\$ 11,696	\$ 11,696	\$ 11,696	\$ 14,065	\$ 14,414
Value of Unsold Supply	\$ 70.2	\$ 494.7	\$ 931.0	\$ 1,157.9	\$ 1,123.8	\$ 1,556.7
Application Cost Adjustment					\$ 452.6	
Actual After Adj.	\$ (10.6)	\$ (31.6)	\$ 17.8	\$ 142.5	\$ 267.2	\$ 88.3
Forecast Before Adj.	\$ (114.9)	\$ (127.1)	\$ 480.7	\$ 660.8	\$ 1,386.7	\$ 1,850.5
Forecast Unsold Supply (T)	-	-	55.7	62.2	101.3	158.4
Effective BERC	\$ 9,904	\$ 11,696	\$ 11,696	\$ 11,696	\$ 14,065	\$ 14,414
Value of Unsold Supply	\$ -	\$ -	\$ 652.0	\$ 727.7	\$ 1,452.7	\$ 2,283.7
Forecast After Adj.	\$ (114.9)	\$ (127.1)	\$ (171.3)	\$ (66.9)	\$ (66.0)	\$ (433.2)
Variance	\$ 104.3	\$ 95.5	\$ 189.1	\$ 209.4	\$ 331.2	\$ 513.5

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22. The CEC submits that FEI has not demonstrated much accuracy in its forecasts of the Biomethane Variance Account and recommends that the Commission weight this in its consideration of the evidence.

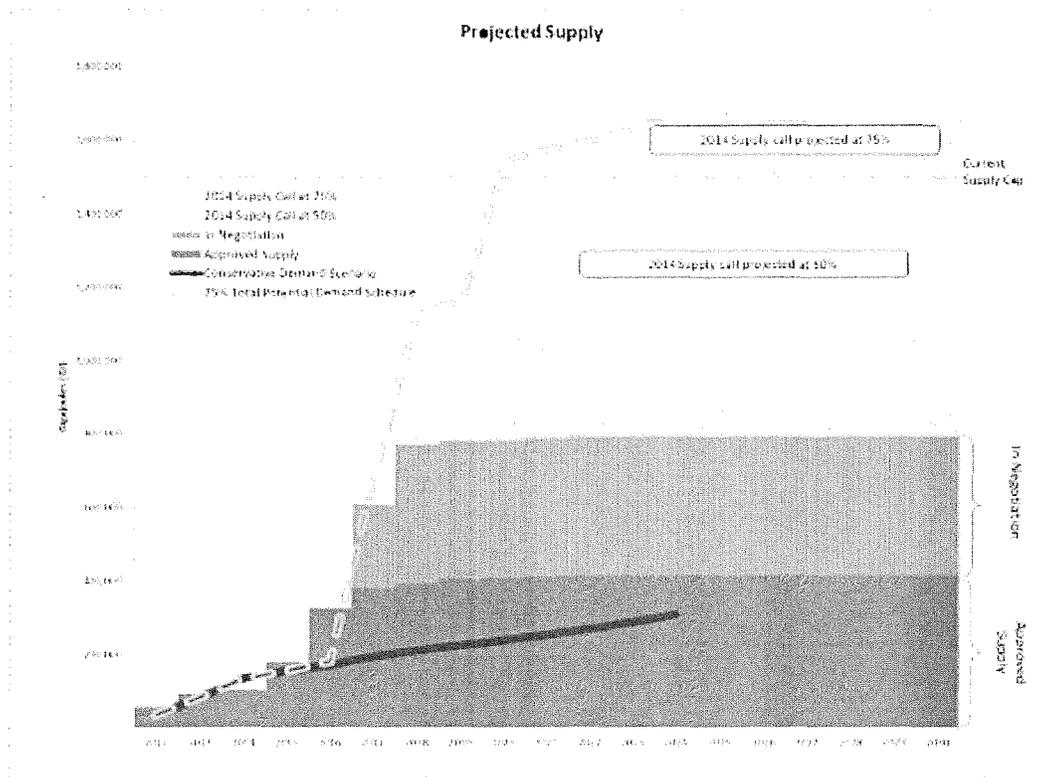
⁴ Exhibit B-1-1, Page 29

⁵ Exhibit B-8, CEC 1.1.1.1

23. The CEC submits that the evidence shows significant increased cost recovery from the existing customer base at the full BEREC rate through 2014, up to a year after the significant price increase to the BEREC rate and after a significant decrease in FEI's marketing efforts. The CEC submits that such evidence is inadequate support for leaping to a price discount strategy disconnected from sales and retention rate design strategies.

Supply/Demand Gap

24. FEI provides its forecast demand as plotted against its supply in CEC 1.3.1. The conservative demand curve excludes certain large customers and the 75% Total Potential Demand Scenario includes a 75% weighting against total known potential demand from large volume projects.



25. The CEC submits that there are essentially three components which are contributing to the increasing biomethane variance account including supply, customer acquisition and sales, and customer retention.
26. The CEC submits that it is quite clear from the above evidence that the difference in the demand scenarios between the 75% Potential and the Conservative demand will be crucial in determining the future success of the biomethane program if the 1.5 PJ of supply is established. The CEC submits that until the demand is more clearly established it may be worthwhile to temper the pace of new supply development.

27. The CEC submits that the majority of the present application is primarily directed to price discounting and does not significantly address the supply side, the marketing or the retention side of the demand.
28. The CEC further submits price is typically not the only variable that is instrumental in acquiring and retaining customers, but that this has been the primary target of this application. The CEC submits that optimization of the biomethane program mitigation of costs to non-bypass customers should be based on more appropriate sales and retention rate design strategies than FEI has proposed.
29. The CEC recommends that the Commission consider more appropriate sales and rate design opportunities for cost mitigation in its evaluation of the present application.
30. The application includes some information on the supply side of the equation, but FEI does not adequately deal with management of the supply/demand balance. The FEI biomethane supply cap is set at 1.5 PJ and FEI intends to continue on developing this supply.⁶ FEI expects to add both the Vancouver Landfill and the Surrey biofuel facility as new supply projects in the next two to three years, and will continue to develop supply to reach its annual supply cap⁷. Vancouver and Surrey will account for 375 FJ of the potential future supply.⁸ FEI anticipates that the City of Surrey will use a significant portion of its supply for its own use.⁹ FEI does not believe it is appropriate to defer or abandon the current supply projects in negotiation.¹⁰
31. 1.5 PJ equates to approximately 0.7% of FEI's total annual throughput of 208 PJ or 0.86% of the 175 PJ related to non-bypass customers.¹¹
32. FEI does not appear to accept that it could be reasonable to attempt to match supply and demand more closely because the supply portfolio is lumpy and the supply market needs to stay engaged.¹² FEI anticipates that by 2020 they will have supply at 1.1 PJ.¹³
33. The BCUC inquired as to the different impacts if a) the service were to continue with the 1.5 PJ supply cap and the price cap of \$15.28 per GJ or b) if the supply were limited.¹⁴ FEI provides a comparison in BCUC 2.51.2.3 which indicates a decrease in the BVA of \$6 million and a reduction in the transfer of costs of \$18 million if the supply were limited.¹⁵ FEI expects that it would be even more challenging to sign up long term larger customer and as such, the reduction in supply may not result in a lower BVA balance as shown in the evidence.

⁶ Transcript, Volume 2, Page 152

⁷ Exhibit B-1, Page 13

⁸ Exhibit B-8, CEC 1.3.3

⁹ Exhibit B-8, CEC 1.3.3

¹⁰ Exhibit B-8, CEC 1.3.3

¹¹ Transcript, Volume 2, Pages 101 and 102

¹² Transcript, Volume 2, Page 153

¹³ Transcript, Volume 2, Page 155

¹⁴ Exhibit B-2, BCUC 2.51.2.2 and 2.51.2.3

¹⁵ Exhibit B-2, BCUC 2.51.2.3

Non-RNG Impact - No Projects Added Beyond City of Surrey and Vancouver

Particulars	Proposed Projects	BCUC IR 2.51.2.3	Increase / (Decrease)
Supply Volume (GJ) - in 2025	1,392,942	794,010	(598,932)
Direct Capital (cumulative) (\$,000)	7,000	(7,000)	(7,000)
O&M (cumulative) (\$,000)	818	(818)	(818)
BVA balance (\$,000)	22,609	16,497	(6,112)
Transfer all costs except ending supply (\$,000)	62,308	44,075	(18,233)
Transfer all costs except ending supply -2021 (per GJ)	0.0839	0.0731	(0.0108)
Transfer all costs except ending supply -2025 (per GJ)	0.0566	0.0132	(0.0234)

34. The CEC submits that the design of the biomethane program is sufficiently developed for FEI to govern the pace of development to provide a more optimal matching of supply and demand.
35. The CEC submits that it is not unreasonable for FEI to consider slowing its additions to its supply to enable more optimal matching of supply and demand.

Price - BERC Rate

36. The calculation of the BERC rate is outlined in Exhibit B-1, page 9. The BERC rate is essentially calculated on a cost of service basis capturing historical costs of unsold biomethane and future supply for the following year. The calculation incorporates the addition of forecast balance in the BVA and a twelve month forward forecast of supply costs divided by the forecast quantity of supply produced for the same twelve month period.
37. The BERC rate has increased from \$9.09 in 2010 to \$14.414 in 2015.¹⁶ There is a maximum price of \$15.28/GJ pursuant to Order G-210-13.¹⁷
38. The CEC submits that, given the present calculation of the BERC rate and its incorporation of unsold supply costs from the BVA balance into future rates, the rate is quite likely to continuously increase. The CEC submits that to the extent supply continues to develop ahead of demand continuing increases to the BERC rate may not be optimal for the mitigation of costs to non-bypass customers.
39. The CEC submits that it is appropriate for the service to offer 'market based rates' which will recover its supply costs in the long term to the extent deemed appropriate by the Commission and consistent with provincial policy. However, the CEC submits that 'market based rates' should be clearly established on the basis of a rate design where price is connected to sales and retention strategies.

¹⁶ Exhibit B-1, Page 10

¹⁷ Exhibit B-1, Page 10

40. The CEC submits that it is appropriate to cap the BERC rate at its current level into the future for customers with no contract term and low blend rate volumes being key factors sales and retention.

Current Challenges

41. FEI identified declining enrollment and difficulty entering into large volume contracts as being issues with the status quo.¹⁸
42. FEI indicates that the current challenge to the RNG Program is the large premium for RNG compared to the Commodity Cost Recovery Rate (CCRA rate).¹⁹ They indicate that the 'price differential compared to natural gas is contributing to a decline in customer participation from the historical growth levels seen in the first two years of the RNG program. Accordingly, they have recommended a decrease in the BERC rate premium in the order of 46% off the projected BERC rate premium.
43. FEI also states that they are increasingly challenged when engaging with large customers such as UBC with the current BERC rate.²⁰
44. As Mr. Wolfe discussed with the Commission Chair, the drop in additions occurred at the same time as the increase in the BERC rate, which Mr. Wolfe agrees may have had an impact.²¹ Mr. Wolfe in discussion with Mr. Craig confirms that both price and marketing may be potential explanations for the decrease in net additions of customers.²²
45. The CEC submits that the evidence with respect to the need for such a significant price reduction in order to acquire and retain customers is not well-established and FEI does not provide evidence to rule out other opportunities that may provide a more optimal balance for mitigating costs to non-bypass customers.

Evidence for Price Change

Premium to CCRA Rate Versus Managing to Total Bill

46. FEI's evidence with respect to this application is primarily concerned with a 'pricing premium' relative to the CCRA. FEI does not appear to have information as to whether or not customers manage their RNG spending in the overall management of their total energy bill.²³ FEI focuses on the premium of the BERC rate versus the CCRA.²⁴

¹⁸ Exhibit B-1-1, Page 42

¹⁹ Exhibit B-1, Page 20

²⁰ Final Argument, Page 3

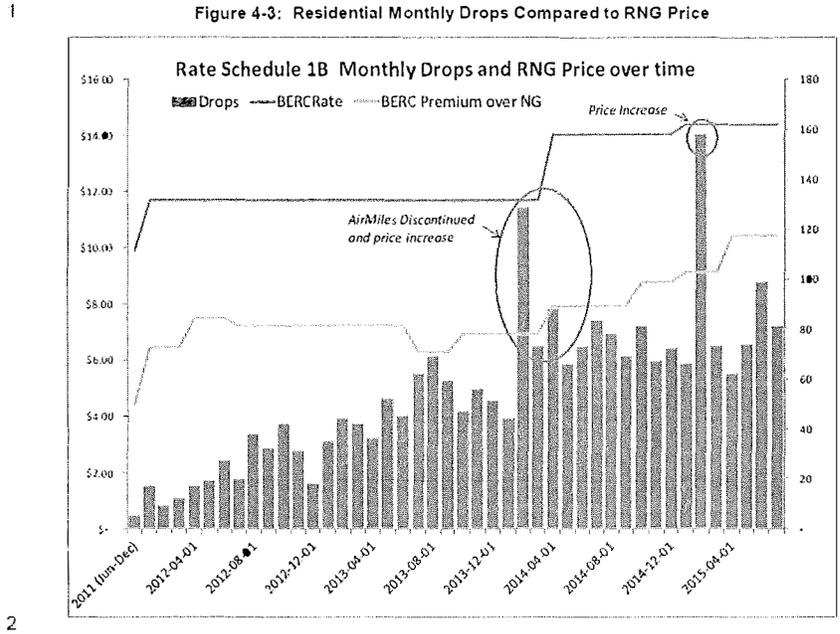
²¹ Transcript, Volume 2, Page 81

²² Transcript, Volume 2, Pages 127-128

²³ Transcript, Volume 2, Page 159

²⁴ Exhibit B-1, Page 20

47. The evidence with regard to customer response to price increases shows no sustained drop-out from the program. What is shown in the evidence is a short-term increase in drop-outs in response to FEI's marketing of the fact that it is increasing the BERC rate.²⁵



48. FEI argues that the drop rate is related to the BERC rate premium. The evidence shows that the drop-out rate inclines steadily while the BERC rate premium remains relatively flat and when the BERC rate premium is increasing, the drop-out rate has remained relatively flat apart from the two spikes related to FEI's advertising of its BERC rate price increases and/or its discontinuation of AirMiles promotions. The evidence is that the drop-out rate is much more highly correlated to the size of the customer base and a fairly stable rate of churn.

49. The CEC submits that FEI relies on speculation in this proceeding that customers are aware of the CCRA and compare their RNG rates to these rates in managing their spending. The CEC submits that FEI has not demonstrated that customers pay specific attention to the difference in cost between the CCRA and the BERC rate. The CEC submits that it is more likely that a given customer manages their total energy bill, and may only be aware of the CCRA rates if they are brought to their attention by FEI in its advertising of increased rates.

50. Mr. Wolfe acknowledges that the spikes in monthly drop-outs could be related to communications about BERC rate price changes, but states that overall the levels of drops were higher than they were before.

MR. WOLFE: Yes and no. The two spikes that you saw there are at times when prices increased. The first one was also at a time when marketing spend dropped. So

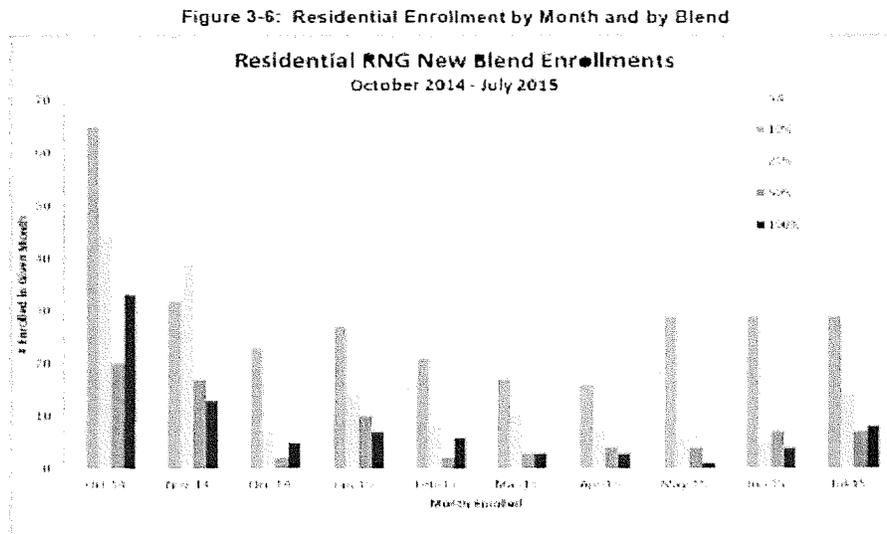
²⁵ Exhibit B-1, Page 23, Figure 4-3

the spikes could be because of that communication ahead of time about price changes, and we try to communicate to our customers ahead of time so they're not surprised on their bill. And there is a spike in drop-offs. But I wouldn't say that it returns to normal levels. Overall it returns to levels of drops that were higher than what they were before. So that yes, there is a spike in the drops when the price changes and perhaps the communication to those customers, but then the drops are higher than they were before, after that point in time.²⁶

51. The CEC submits that Mr. Wolfe is incorrectly interpreting the evidence. Independent of the price spikes related to FEI's communications, the drop-out rate is nearly flat for almost a year. The primary reason that the level is higher than previous years is related to the growing customer base and a fairly consistent churn rate applicable to the size of the customer base. The CEC submits there is no evidence supporting a customer response to the BERC rate premium which FEI proposes to discount.

FEI Blend Options

52. FEI offers a series of different blend options for its RNG service. Originally FEI provided a 10% option only, and added 5%, 25%, 50% and 100% in 2014 for rate schedules 1B, 2B and 3B.²⁷ Although 10% remains the most widely adopted percentage, all the options have seen consumer uptake.²⁸



²⁶ Transcript, Volume 2, Page 130

²⁷ Exhibit B-1, Page 17

²⁸ Exhibit B-1, Page 16

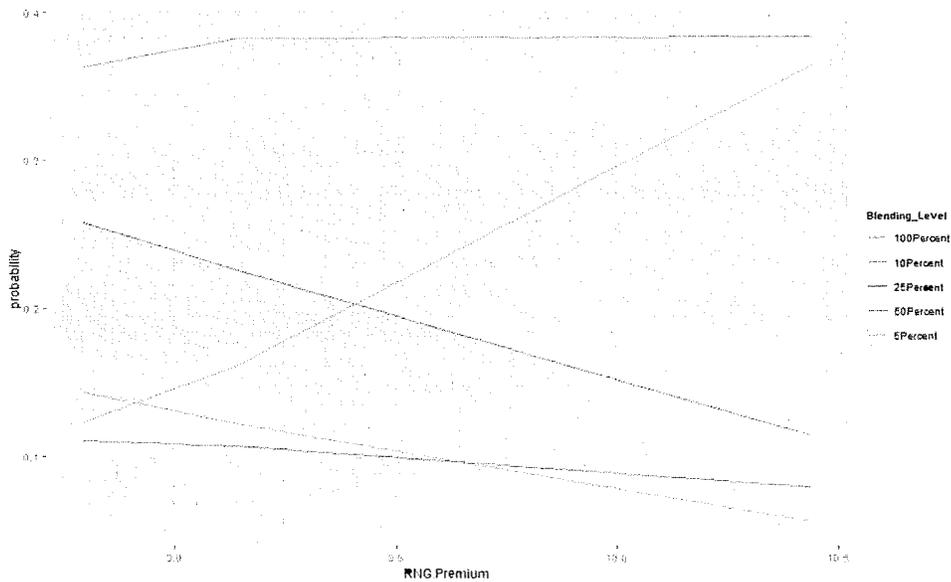
53. FEI implies that the up-take in the 5% blend occurring simultaneously with an increase in RNG prices in absolute terms and relative to natural gas is evidence of the BERC rate discouraging uptake in higher blends.²⁹
54. The CEC submits that the evidence with respect to the correlation between the BERC rate and customer uptake is not compelling, and further it is more illustrative of increasing enrollment in the last several months.
55. The CEC notes that there has been ongoing customer uptake in all the different blend options, and that the 5% blend option has only exceeded the 10% blend option in two of the 10 months illustrated. Also, the change in the 5% blend numbers represents a relatively small numbers of customers.
56. It would further appear that the for the most part, the 25%, 50% and 100% blend options would, when added together, exceed or equal the 5% blend.
57. Additionally, the average weighted blend of all usage is 11%.³⁰
58. The CEC submits that FEI has not demonstrated that there is a significant issue with respect to the uptake of 5% blends versus other blends other than that there is some modest increase in the 5% blend uptake.
59. The CEC submits that it is of far greater importance to focus on the higher blend options as these represent significantly greater sales of biomethane than the 5% blend. A 100% blend customer provides as much benefits as 20 5% blend customers, and is likely more committed to the concept in the program. The CEC submits that the Commission should not accept number of customers as the key measure for this program. Rather, the Commission should focus on the total volumes of sales added. In fact, the value of the addition of 5% blend customers is potentially so low relative to the cost of customer acquisition that FEI and the Commission should be considering as part of optimizing the rate design dropping the 5% blend from the product offered to customers.
60. The BERC rate price change which occurred in February or March of 2015 appears to have no effect on the continuing enrollment in the RNG program. In fact, it appears that the numbers of customers added per month has increased despite the price change, and despite the continued drop in marketing spend.

Price Elasticity

61. Price elasticity is discussed in BCUC 1.23.1 and shows a correlation to preference for 5% blend versus 10% blend related to BERC premium over CCRA.

²⁹ Exhibit B-1, Page 17

³⁰ Exhibit B-1, Page 19



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62. The CEC submits that this evidence is not evidence of price elasticities. Price elasticities would require evidence of a change in price and a customer response in terms of reduced total volumes from customer additions or increased drop-outs. The CEC submits that this evidence is simply a correlation between historical customer additions (not volumes) and a BERG rate premium increase. The CEC submits that the Commission should not assign significant weight to this evidence.
63. BCUC 2.47.0 series reviews the elasticity of demand anticipated with different blend levels. BCUC staff provided a table showing average elasticity of demand by blending level in BCUC 2.47.0.³²

Blending Level	Average Elasticity
5%	10.48
10%	0.31
25%	(2.98)
50%	(1.50)
100%	(3.27)

64. FEI provides an interpretation of the elasticity in BCUC 2.47.4 and an analysis of the likelihood of different blending options at various premiums in BCUC 2.47.9. Although

³¹ Exhibit B-5, BCUC 1.23.1

³² Exhibit B-9, BCUC 2.47.0

not linear, the overall trend indicates an increasing proportion of lower blending options, and a decreasing proportion of higher blending options as the premium increases.³³

- 65. The CEC submits that this evidence has little to do with elasticity of demand and is more likely related to a drop off in marketing efforts.
- 66. FEI extends the price elasticity graph in BCUC 2.47.8 and provides a table in 2.47.9



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		Blend Level				
Premium		100Percent	10Percent	25Percent	50Percent	5Percent
\$	3	43.4%	3.2%	49.5%	3.8%	0.0%
\$	4	40.0%	5.5%	49.3%	5.1%	0.1%
\$	5	35.9%	9.1%	48.0%	6.7%	0.3%
\$	6	31.2%	14.4%	45.1%	8.5%	0.9%
\$	7	25.6%	21.8%	40.0%	10.1%	2.4%
\$	8	19.4%	30.4%	32.8%	11.1%	6.3%
\$	9	13.1%	37.6%	23.9%	10.9%	14.5%
\$	10	7.5%	39.8%	14.9%	9.1%	28.7%
\$	11	3.6%	35.0%	7.7%	6.3%	47.3%
\$	12	1.5%	25.9%	3.4%	3.7%	65.5%

35

³³ Exhibit B-9, BCUC 2.47.9

³⁴ Exhibit B-9, BCUC 2.47.8

³⁵ Exhibit B-9, BCUC 2.47.9

67. The CEC has reviewed the information with respect to elasticity of demand and submits that it is intuitively appealing that a higher premium can result in selections of lower blend levels.
68. However, the CEC submits that FEI has not shown any elasticities of price but instead simple correlations of historical experience. The CEC submits that this ‘price elasticity’ information is not sufficient to justify FEI’s claims as to the importance of substantial price discounts in managing demand.
69. Additionally, the CEC submits that a correlation between blend rate and price provides no evidence as to the appropriate price with respect to maximizing uptake or optimizing the program.

Marketing

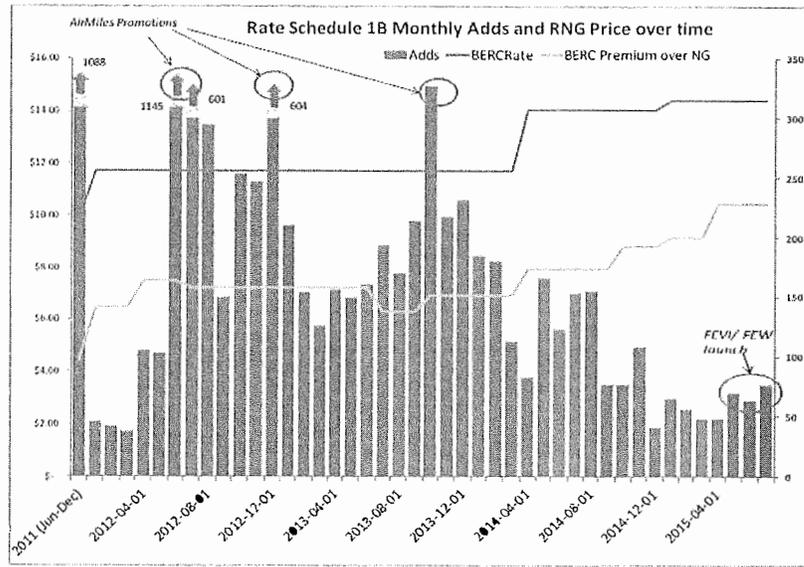
70. FEI indicates that, concurrently with the BERC rate increases, FEI scaled back its marketing efforts to reduce upwards pressure on the BERC rate.³⁶ FEI concluded that the RNG premium had reached a level that any further upward movement of the BERC rate would be more harmful than the benefits of marketing.³⁷
71. The CEC submits that the reduction in marketing efforts represents a significant confounding factor in understanding the linkage between price and sales. The CEC submits that in fact the evidence shows that marketing efforts have been extremely successful in generating sales.
72. As illustrated in Exhibit B-1, Figure 4-2, the marketing promotions using Air Miles produced significant customer additions.³⁸
73. The CEC submits that the absence of FEI efforts to establish and/or test alternative marketing promotions similar to AirMiles is indicative of inadequate rate design for sales and retention.

³⁶ Exhibit B-1, Page 20

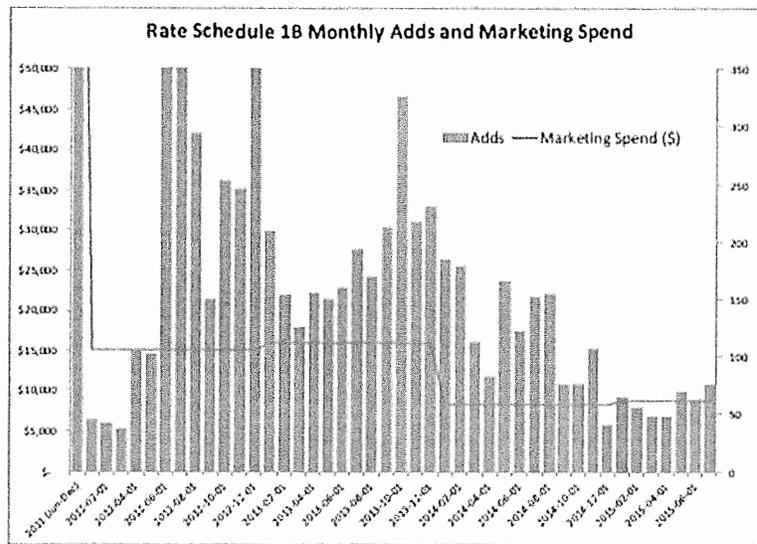
³⁷ Exhibit B-1, Page 20

³⁸ Exhibit B-1, Page 22

Figure 4-2: Residential Monthly Additions Compared to RNG Price



74. The following chart provides the residential monthly additions as compared to an allocation of 60% of the total marketing spend for each year.⁴⁰

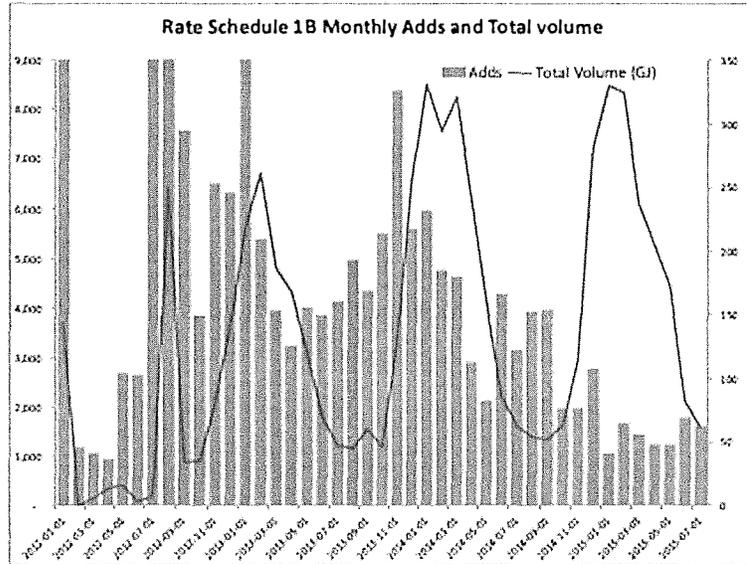


75. The CEC submits that the decrease in marketing related to the drop-off in monthly additions is significant evidence to which the Commission should provide significant weight.

³⁹ Exhibit B-1, Page 22

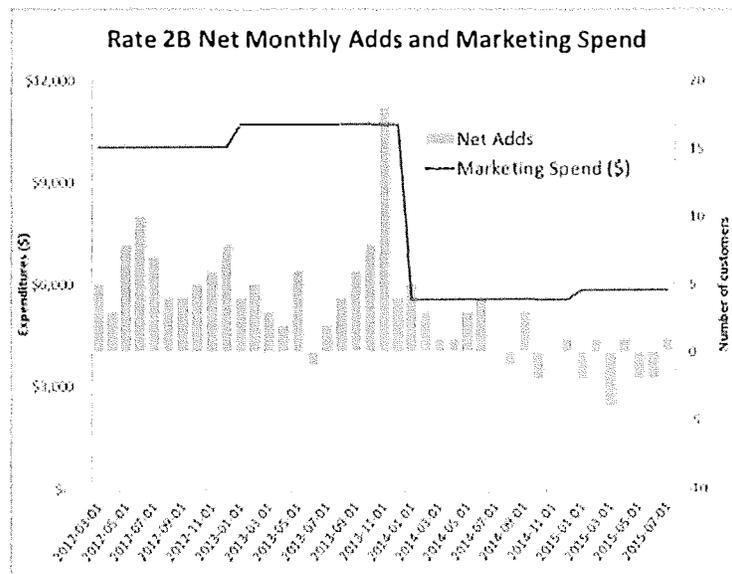
⁴⁰ Exhibit B-8, CEC 1.8.2

76. The following charts illustrate the monthly additions and total volumes for Rate Schedules 1B and 2B.



41

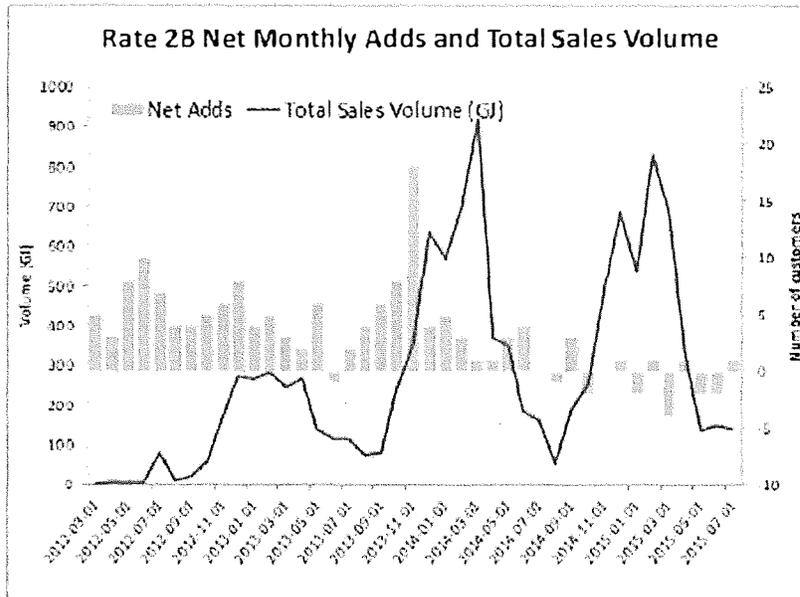
77. The CEC notes that despite BERC rate price increases, and the drop in marketing spending the volume of sales in GJ has been sustained. The CEC submits that this evidence does not support significant price discounts disconnected from sales and retention rate design.



42

⁴¹ Exhibit B-8, CEC 1.8.3

78. The CEC notes that a Commercial marketing effort in late 2013 resulted in significant additions and a subsequent 50% decline in marketing effort is followed by significantly lower net monthly additions.



43

79. Despite significantly reduced marketing efforts the sales volumes for the Commercial sector have continued to be sustained at levels which mitigate cost impacts on non-bypass customers.
80. FEI's explanation for dropping its marketing spend was related to its perception that BEREC price premium was the all-important key factor for customers' decisions with respect to the biomethane program.

The marketing – it was dropped once, and it just stayed. Sorry, Jason Wolfe speaking. It was dropped, or lowered at the time when the price went up, and our concern was there was a fairly big jump in the price of the BEREC for the customers. And that if we could do things to reduce a further increase in the price of the BEREC, that we should do those, so that we are keeping the price as low as possible for customers to sign up. And so one of the decisions we made at that time was to reduce the marketing spend. And we did it at the time that the price did drop, at the same time.⁴⁴

⁴² Exhibit B-8, CEC 1.9.5

⁴³ Exhibit B-8, CEC 1.9.1

⁴⁴ Transcript, Volume 2, Page 134

81. The CEC submits that FEI has under-rated the value of marketing and more particularly has under-rated the importance of rate-design for sales to and retention of customers, and more particularly volumes of sales to those customers.

Churn

82. FEI provides evidence of customer churn in Exhibit B-12. FEI states there is a statistically significant relationship between an increase in price and decrease in participation.⁴⁵

Rate 1B Customer Quarterly Churn Rate

Quarter	Number of starting customers last quarter	Net Adds (Gross Adds - Number of customers lost current quarter)	Number of customers lost last quarter	Churn Rate (%)	Churn Rate (%)	Annual Churn Rate (%)
2011 (Jun-Dec)		1,088	5			
2012 (Jan-Mar)	1,088	87	38	3%	3.4%	
2012 (Apr-Jun)	1,175	1,290	63	5%	5.4%	
2012 (July-Sep)	2,465	959	90	4%	3.7%	
2012 (Oct-Dec)	3,424	1,011	91	3%	2.7%	8.2%
2013 (Jan-Mar)	4,435	369	121	3%	2.7%	
2013 (Apr-Jun)	4,804	334	133	3%	2.8%	
2013 (Jul-Sep)	5,138	388	190	4%	3.7%	
2013 (Oct-Dec)	5,526	623	154	3%	2.8%	10.8%
2014 (Jan-Mar)	6,149	232	246	4%	4.0%	
2014 (Apr-Jun)	6,381	145	227	4%	3.6%	
2014 (Jul-Sep)	6,526	155	230	4%	3.5%	
2014 (Oct-Dec)	6,681	6	220	3%	3.3%	13.8%
2015 (Jan-Mar)	6,687	(128)	297	4%	4.4%	

83. FEI produced this evidence at the end of the SRP and the CEC had no opportunity to evaluate the evidence and the CEC submits that FEI has apparently misinterpreted its own information which results in a misrepresentation of the churn rate evidence in Exhibit B-12, where FEI has calculated annual churn rates and asserted that the churn rates are increasing and reflective of customer response to price. The CEC submits that it is inappropriate to add up the churn by quarter and divide by the end quarter customer base. The CEC submits that the appropriate interpretation of the evidence would be to average the quarterly churn rates. The CEC submits that the average churn rate per quarter for 2012 is 3.8%, for 2013 is 3.0% and for 2014 is 3.6%, and therefore the annual churn rates would be 15.2% for 2012, 12% for 2013 and 14.4% for 2014. The CEC submits that the evidence is more indicative of a reasonably consistent churn rate, and is not evidence of a customer response to price and particularly not a response to a change in the BERCC rate premium.

84. FEI conducted an exit survey and indicated that 86% dropped out due to price.⁴⁶

⁴⁵ FEI Final Argument, Page 4

Figure 5-1: Excerpt from Dropped Customer Survey

Question 3

Why did you unsubscribe from the renewable natural gas program?

Response	Chart	Percentage
I wasn't aware I unsubscribed		0%
the extra cost on my bill		57%
I didn't see any benefit		0%
AIR MILES® reward miles were discount		29%
I signed up for the program by accident		0%
other (please explain):		14%

47

85. The CEC submits that the most significant part of this evidence is that 57% of the drop out customers dropped out because of the cost on the 'bill'. The critical evidence in response to the question is that they did not mention the price and particularly did not mention the BERC rate premium. This is consistent with the long held understanding that customers are most responsive to the total on the bill and any changes to that that they may notice or may be brought to their attention. The CEC submits that FEI's characterization of AirMiles rewards as a response to price is an inaccurate interpretation of the evidence. The AirMiles program is more appropriately characterized as a marketing promotion initiative despite the fact that it has economic value.
86. The CEC submits that the relatively consistent churn rate would be consistent with customers identifying a reason for leaving the program as a cost on their bill. Further, the CEC submits that sales and retention rate design can appropriately address countering the reasons for the customer churn.
87. The CEC recommends that the Commission provide little weight to the FEI assertion that 86% of the drop out is due to price.

(a) Approval of a Short Term Contract Biomethane Energy Recovery Charge (BERC) rate at the Commission approved January 1st Commodity Cost Recovery Charge (CCRA rate) per GJ, plus the current Carbon Tax applicable to natural gas customers, plus a premium of \$7.00 per GJ, applicable to all affected biomethane rate schedules within the Mainland, Vancouver Island and Whistler Service Areas;

88. FEI proposes a Short Term Contract is for customers in residential, commercial and industrial rate classes that have, or wish to have, the flexibility to adjust their participation in the RNG Program (i.e., term, volume, blend, etc.) on a monthly basis.

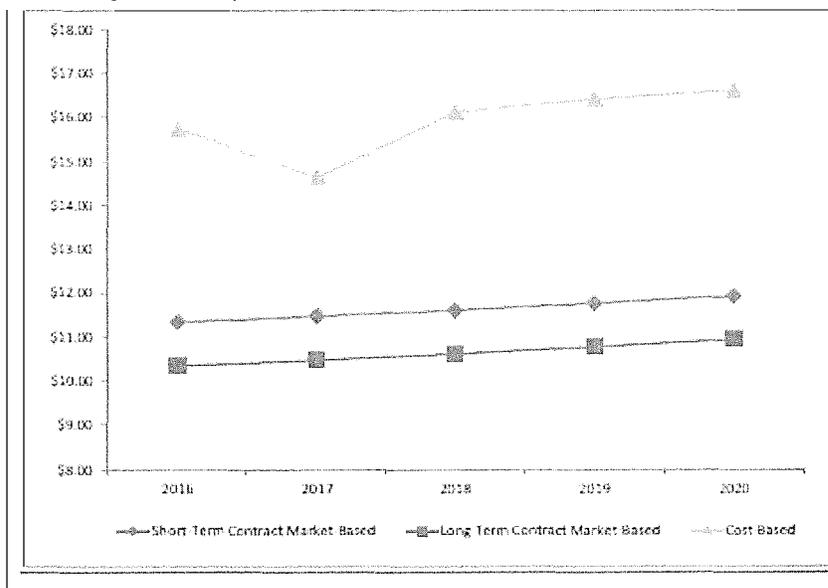
⁴⁶ Exhibit B-1, Page 31

⁴⁷ Exhibit B-1, Page 31

BERC Rate Discount and Potential Marketing

- 89. FEI proposes that the BERC rate for Short Term Contract customers be equal to the Commission approved January 1st Commodity Cost Recovery Charge (CCRA rate) charged per GJ, plus the current British Columbia Carbon Tax applicable to natural gas customers (Carbon Tax), plus a premium of \$7.00 per GJ.⁴⁸ FEI expects it would require about six weeks for communications and billing activities after a decision for the pricing to come into effect.⁴⁹
- 90. The BERC premium as of January 1, 2016 is \$11.205/GJ⁵⁰ and FEI’s adjustment represents a decrease of \$4.205 or 38% off the BERC premium. The indicative rate calculated as of January 1, 2016 as filed in the Fourth Quarter Report on the Biomethane Variance Account (BVA) and BERC dated November 13, 2015 is \$12.863/GJ.⁵¹ Accordingly, FEI’s proposed adjustment represents a decrease of approximately \$5.863/GJ or 46% off the indicative rate.
- 91. FEI outlines its rationale for changing the BERC rate at pages 2-6 of its Final Argument.
- 92. FEI considers the premium of \$7 to be a ‘market-based’ rate which will recover costs from voluntary customers to the extent possible in order to minimize the rate impact to non-biomethane customers.⁵²
- 93. Figure 8-2 in the evidentiary update illustrates the difference between the proposed rates and the forecast cost-based rates.

Figure 8-2: Comparison of Market and Cost Based BERC Rates (2016-2020), \$/GJ



⁴⁸ Exhibit B-1, Page 2
⁴⁹ Transcript, Volume 2, Page 169
⁵⁰ Exhibit B-9, BCUC 2.45.2
⁵¹ Exhibit B-9, BCUC 2.45.2
⁵² FEI Final Argument, Page 6

94. Fortis is recommending against anything above \$7 a GJ because of the negative impact on participation in the program.⁵³ They consider \$7 to be the 'sweet spot'⁵⁴ between customer retention and revenues to maximize recoveries.
95. At a \$7 BERC premium the discount to the BERC rate is approximately \$5. Implementing this rate discount will result in the residential customer base (which in early 2015 was 6,687) decreasing revenue by approximately 120 GJ/year per customer * 11% average blend * \$5/GJ = approximate \$440,000 per year. Projected out into the future over 15 years with a churn decline rate of 15% annually results in a PV of approximately \$2 million. This does not include commercial rate volumes which would add to the revenue loss. Furthermore, the loss would be compounded by the discount to new customer additions each year.
96. The CEC submits that non-bypass customers are being asked to absorb a bill for FEI's approach to rate design which is unnecessarily expensive.
97. The CEC recommends that the Commission require FEI to pilot alternative rate design concepts with small groups of customers prior to adopting a final BERC rate methodology approach. Specifically, the CEC recommends that the existing BERC rate be maintained for customers wishing to continue taking service on a month to month basis. The CEC recommends that the Commission consider price discounts as being potentially appropriate for customers prepared to take service for longer periods of time and for higher blends. The CEC characterizes this as rate design pricing connected to sales and retention strategies.
98. The CEC recommends that the Commission decision on BERC rate methodology approve a market-based rate connected to sales and retention strategies which enables FEI to set the market-based rates for the pilots and confirm back to the Commission with a compliance filing its preferred rate design connected to sales and retention strategies.
99. FEI has countered the CEC recommendation suggesting that they prefer simplicity of their approach.

MR. CRAIG: Fair enough. Simplicity is one side. But would you at least agree that it's potentially a tool that could be looked at because length of contract can help you with the retention issue? If it can be done in a modestly simple way, in terms of how you relate to the market.

MR. WOLFE: I think we've -- Jason Wolfe here. We've acknowledged that because we've put in place a proposal for a long-term -- or for larger customers to do that. So certainly that retention. We haven't done the analysis to determine from a cost perspective implementation systems, all that cost, whether that would be -- whether we would get that many more customers that would offset that, so we haven't

⁵³ Transcript, Volume 2, Page 97

⁵⁴ Transcript, Volume 2, Page 98

investigated it. It could be something we'd look at in the future, we just aren't proposing that right now.⁵⁵

100. The CEC submits that substantial price discounts cannot be reversed and the cost impact to non-bypass customers cannot be recovered once the discount is in the market. Given the magnitude of the revenue loss caused by the discount the CEC submits that it is not adequate rate design or marketing to have not investigated such concepts and that it is inappropriate to leave such investigation to the future where the revenue losses and cost impacts to non-bypass customers cannot be reversed.
101. The CEC recommends that the Commission require the investigation, rate design, pilot testing to be carried out now in the most efficient regulatory fashion available.

Alternatives

102. FEI's goal is to 'Encourage voluntary participation in the program, and moderate the financial impact'.⁵⁶ FEI confirms that they intend to minimize the impact to non-RNG customers from optimizing the quantity and price,⁵⁷ by optimizing some quantity at some price.⁵⁸
103. FEI presents 7 alternative options in BCUC 1.19.1. FEI states that they 'didn't have a lot of time to thoroughly analyze those options' but does expect their proposal performs better.⁵⁹
104. FEI is not recommending any of the options.⁶⁰ With respect to Option 1 FEI states that based on customer experience to date, a premium of \$8.50 would not offer sufficiently lower premiums to lower volume customers, and would discourage participation from residential and small commercial customers. Additionally, customers would need to make a significant commitment equivalent to a \$15,000 bill impact. However if the Commission were to consider this option, FEI believes 2000 GJ to be a possible threshold as it is the existing dividing line between Rate Schedule 2B and Rate Schedule 3B.⁶¹
105. FEI does not believe that providing a discount based on volume without a long-term commitment is appropriate or necessary at this time as FEI would have no assurance that the higher volume purchases would continue.⁶²
106. The CEC submits FEI's assessment of the alternatives proposed in BCUC 1.19.1 is not adequate given the cost impact on non-bypass customers of the FEI proposals.
107. The CEC submits that the concept of offering a discount in exchange for a long-term commitment and higher volumes is appropriate for a full range of larger customers and

⁵⁵ Transcript, Volume 2, Pages 144-145

⁵⁶ Exhibit B-10, Slide 3

⁵⁷ Transcript, Volume 2, Pages 160-161

⁵⁸ Transcript, Volume 2, Page 161

⁵⁹ Transcript, Volume 2, Page 161

⁶⁰ Exhibit B-9, BCUC 2.46.2

⁶¹ Exhibit B-9, BCUC 2.46.2

⁶² Exhibit B-9, BCUC 2.46.2

- does not need a specific threshold for implementation. The CEC submits that the concepts are equally applicable to residential and commercial customers.
108. The CEC submits that a rate which considers market uptake is appropriate for a 'voluntary' service.
109. FEI submits that it would be preferable to see how the market responds to a lower BERC rate as proposed before pursuing any additional changes to the program (Draft Transcript, p. 73-74).⁶³ FEI is cautious about increasing the complexity of the program and would prefer to minimize change to address the primary challenge of a BERC rate that is too high and focus available dollars towards increasing awareness and uptake of the existing system.⁶⁴
110. The CEC submits that FEI's proposed reduction is sub-optimal because it does not provide any opportunities to mitigate the impact through other means such as connecting discounts to term and volume.
111. The CEC submits it is preferable to consider a price reduction of such significance as a solution of last resort rather than a first option because:
- a. It results in an immediate reduction in revenues; and
 - b. Price increases are not as acceptable as price decreases.⁶⁵

Future Marketing Expenditures

112. FEI believes that a return to higher marketing spend levels are required to increase awareness of the RNG program.⁶⁶ FEI is proposing to accompany its premium discounts with an increase in marketing spending to approximately \$300,000 per year. FEI provides a breakdown of its proposed spending in BCUC 1.43.1. FEI indicates it does not need approval for the marketing spend however the Commission may provide direction with respect to the marketing spending and its approval.⁶⁷ Under the status quo FEI would not necessarily resume marketing spend to \$300,000.⁶⁸
113. The CEC reviewed the cost of customer acquisitions in the Streamlined Review Process.⁶⁹ The CEC calculates that the average cost per acquisition for the 2015 projection is \$118 which will be increasing to \$238 per acquisition.⁷⁰ On the commercial side, the acquisition costs for 17 customers at \$70,000 would be \$4,117 per customer. And the acquisition for new customers absent the jump to 30, but then going back to the 20, is \$17,000 per customer.⁷¹

⁶³ FEI Final Argument, Page 11

⁶⁴ Exhibit B-9, BCUC 2.46.2

⁶⁵ Transcript, Volume 2, Page 100

⁶⁶ Exhibit B-1, Page 20

⁶⁷ Exhibit B-5, BCUC 1.3.1 (from David's evidence)

⁶⁸ Exhibit B-9, BCUC 2.46.1.1

⁶⁹ Transcript, Volume 2, Pages 134 to 138

⁷⁰ Transcript, Volume 2, Page 136

⁷¹ Transcript, Volume 2, Page 137

114. The CEC submits that at these costs per customer for marketing lower levels of blend, specifically 5% would not provide sufficient revenues to justify the cost per customer. The CEC submits that FEI should drop the 5% blend option, for new customers, as a cost-ineffective option. Current 5% blend customers should be grandfathered. The CEC submits that at the level of cost for commercial customers, particularly smaller commercial customers, the service is cost-prohibitive.
115. The CEC recommends that the Commission require FEI to be accountable for these and other metrics in its annual review regulatory process.

(b) Approval that the Long Term Contract BERC rate be set at a \$1.00 per GJ discount to the Short Term Contract rate;

116. FEI proposes a Long Term Contract for larger commercial and industrial customers who wish to be able to lock in their RNG service for a fixed length term. This offering has a minimum term of 10 years and a fixed volume commitment of 500 GJs per month. FEI proposes that the BERC rate for the Long Term Contract customer be set at a \$1.00 per GJ discount to the Short Term Contract BERC rate that is in place at the time the Long Term Contract is entered into.⁷² The purpose of the Long Term Contract offering is to provide price certainty for the customer and demand certainty for FEI. The price would be set at a \$1 discount to the Short Term Contract rate applicable at the time, which would be subject to inflation but would not vary with changes to the CCRA rate or the BERC rate. The price would therefore be stable over the life of the contract, providing the certainty required for customers making a long-term commitment (BCUC IR 1.26.2).⁷³
117. FEI is only seeking approval of the long term contract rate, and is not seeking approval of the other potential terms and conditions of the long term contract. FEI sees this as beneficial in providing flexibility to negotiate terms with potential customers, while providing consistency for the key issue of price.⁷⁴
118. The CEC submits that rate design for the RNG option to larger customers which is connected to term and volume is appropriate, and supports FEI in this approach. The CEC submits that a single threshold is inappropriate for the price trade-off versus the certainty for the full potential ranges for contract term and volume.
119. The CEC recommends a formulaic approach to price discounts for term and volume which should be based on a value for the magnitude of revenue certainty.

Rate Impact

120. FEI estimates that the rate impact to non-RNG customers of the proposed approach is approximately \$9 million recovered through Storage and Transportation rates over the

⁷² Exhibit B-1, Page 2

⁷³ FEI Final Argument, Page 8

⁷⁴ FEI Final Argument, Page 9

next five years, or an average of \$0.015 per GJ, and approximately \$13 million recovered through delivery rates over the next five years, or an average of \$0.015 per GJ. For a Mainland Residential customer consuming approximately 90 GJs per year, these two impacts equate to an annual bill impact of less than \$3 per year (approximately \$15 over five years). This proposal compares to a forecast accumulated balance in the BVA of \$43 million in 2020 if the status quo is maintained, which could be left for recovery from all customers in the event the Program continues to see a decline in voluntary participation. Although it is unlikely that such a large balance would be recovered over a single year, this balance equates to an estimated delivery rate impact of \$0.243 per GJ or an approximate annual bill impact of \$22.5.⁷⁵

121. The CEC submits that these rate impacts may be unnecessary if FEI connects its rate design to sales and retention strategies, and manages its supply demand balance. The CEC submits that non-bypass customers should have a more optimal approach to BERC rate methodology than FEI has proposed.

FEI Alternatives

122. FEI identifies four alternatives including status quo, automatic yearly clearing, universal green portfolio and market based rates.⁷⁶
123. The CEC submits that the FEI's identification of alternatives represents an inadequate approach to rate design and marketing for optimizing the biomethane BERC rate methodology for the benefit of non-bypass customers.

(c) 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 Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA) report;

124. The CEC supports FEI's proposal for a single annual report on BERC and BVA.

(d) 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;

125. The transfer of aged inventory from the BVA to the MCRA at the prevailing CCRA rate has effectively the same dollar impact on the MCRA balance.⁷⁷ FEI confirms that at the time this aged inventory biomethane was originally delivered onto the FEI system it would have displaced conventional gas purchases. I.e., FEI would have required a lesser

⁷⁵ Exhibit B-1-1, Page 2-3

⁷⁶ Exhibit B-1-1, Pages 42-44

⁷⁷ Exhibit B-2, BCUC 2.49.1

volume of conventional gas supply on that day to balance the system and meet the daily load requirement of its non-RNG customers.⁷⁸

126. The forecast recoveries from demand and valuation of the ending inventory result in a forecast net benefit transfer to delivery rates in 2017⁷⁹ of \$114,000.⁸⁰
127. FEI will transfer the resulting net cost or net benefit from the BVA to be recovered from or provided to customers. The symmetrical treatment will moderate the impacts to non-RNG customers.⁸¹
128. The CEC is concerned that transfers of inventory from the BVA account to the MCRA could result in a lost opportunity for cost-recovery through sale to potential future customers. The CEC recommends that the Commission require FEI, when it files an application for transfer of inventory from BVA to MCRA, to provide a fulsome analysis of methods and approaches to preserving the opportunity for cost-recovery benefit to FEI's other customers.

(e) Approval to amortize the forecast December 31 balance in the BVA, net of the transfer of unsold inventory and remaining supply costs, through the delivery rates of all non-bypass customers effective January 1 of the subsequent year.

129. The CEC submits that to the extent the Commission approves the FEI proposal the proposed transfer to the delivery rates of all non-bypass customers would be appropriate. The CEC recommends that the Commission require FEI to complete further rate design work on its BEREC methodology proposals, and therefore recommends that to the extent the Commission approves such further work that the transfers to delivery rates of non-bypass customers be deferred until more appropriate rate designs have been established.

FEI is seeking approval of the changes to its General Terms and Conditions (GT&Cs) filed as Attachment 4.1.1 of Exhibit B-5, subject to changes necessary to include reference to Rate Schedule 11B and to specify that the CCRA rate will be as determined on January 1 of the year consistent with the approvals sought above. If the Application is approved, FEI proposes to file revised GT&Cs in compliance with the Commission's directions in its decision (Transcript, pp. 177, 198-199).⁸²

130. The CEC agrees with the proposal to specify the CCRA rate as determined on January 1 of the year and supports FEI's proposal to revise its GT&Cs in a compliance filing following the Commission's directions in its decision.

⁷⁸ Exhibit B-2, BCUC 2.49.2

⁷⁹ Exhibit B-8, CEC 1.20.1

⁸⁰ Exhibit B-9, BCUC 2.52.1

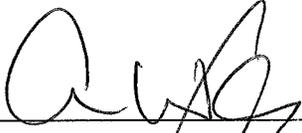
⁸¹ Exhibit B-9, BCUC 2.52.2

⁸² FEI Final Argument page 1

ALL OF WHICH IS RESPECTFULLY SUBMITTED

David Craig

David Craig, Consultant for the Commercial Energy
Consumers Association of British Columbia



Christopher P. Weaver, Counsel for the Commercial
Energy Consumers Association of British Columbia