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VIA EMAIL

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Our file:7614

**Re: FortisBC Energy Inc. (FEI)
Application for Approval of BERC Rate Methodology**

1. We make the following submissions on behalf of our clients, the British Columbia Old Age Pensioners' Organization, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre, known collectively in regulatory processes as "BCOAPO *et al.*" The constituent groups of BCOAPO *et al.* represent the interests of low and fixed income energy consumers within BC and more specifically in this process, the interests of FortisBC's (FBC) low and fixed income residential ratepayers.

Background

2. In this application, FEI seeks approval for changes relating to the Biomethane Energy Recovery Charge (BERC), the Biomethane Variance Account (BVA) and to reporting related to FEI's biomethane program.
3. Most significantly, FEI seeks to change from a model in which the BERC is determined by cost of service to a model in which the BERC is set at a premium to the cost of non-renewable natural gas. FEI proposes a two-tier BERC pricing system according to which customers who contract for a large volume of biomethane over a long period of time pay a BERC that is \$1/GJ less than the rate paid by short term, small volume customers. The proposed premium is the Commodity Cost Recovery Charge (CCRA) plus the current carbon tax of \$1.49/GJ applicable to non-renewable natural gas customers, plus a premium of \$7/GJ for small volume, short term customers and \$6/GJ for large volume, long term customers.
4. FEI also proposes to discontinue the quarterly BERC and BVA report, replacing it with a single annual report to be filed in conjunction with the CCRA and MCRA report.
5. Finally, FEI notes that it 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 of each year, and seeks approval to amortize the forecast December 31 balance in the BVA, net of the transfer of unsold inventory and remaining supply costs, through the deliver rates of all non-bypass customers effective January 1 of the following year.

Impetus for Change

6. BCOAPO accepts that the increased cost of biomethane has resulted in reduced uptake in the voluntary program and that this has increased inventory in the BVA.
7. In the Reasons for Decision accompanying Order G-210-13, the Commission directed that unsold biomethane could be transferred to the MCRA with the dollar balance transferred to be calculated using the prevailing CCRA at the time of the transfer. The difference between the commodity value of the balance to be transferred to the MCRA and the selling price of that balance at the BERC was to be recovered from all non-bypass customers through the CCRA. As a result, unsold volumes of biomethane ultimately fall to the account of all non-bypass customers. Reduced participation in the voluntary program increases the risk of this occurring. Accordingly, BCOAPO supports cost-effective efforts to increase voluntary uptake of biomethane.
8. BCOAPO submits that the cause of the decrease in voluntary uptake is likely to be a combination of the increased premium for biomethane over non-renewable natural gas and the reduction in customer education spending. This is particularly true in light of the fact that many potential institutional customers require their constituents political support to incur the higher cost associated with biomethane. Customer education may, therefore, result not just in sales to the targeted customer, but increased pressure on potential institutional customers either to adopt or maintain voluntary participation.
9. BCOAPO does not view it as unreasonable for FEI to have reduced customer education spending in an effort to reduce the increase in the biomethane premium. Further increases in premium may well result in a further decrease in voluntary uptake. In fact, this appears likely based on evidence provided by FEI regarding customer price sensitivity. Among the low income residential customers represented by BCOAPO, keeping utility services affordable is the top priority and it is unlikely most of our clients would opt for biomethane because of the increased cost regardless of how informed and supportive of the program they may be.
10. We also note however, that FEI has not made it easy for small volume customers to enter into the biomethane program. Customers interested in purchasing a biomethane blend must not only become aware of the program, but must make some considerable effort to join it (e.g., locate an FEI bill, call the customer service line, wait on hold, and speak to a representative). BCOAPO suggests that among small volume customers voluntary uptake would likely increase if this “convenience” barrier to participation was removed.
11. BCOAPO accepts that FEI’s proposed premium is “in the right range” to increase voluntary uptake. It appears from the evidence provided that voluntary uptake increases much more significantly when the premium is in the \$6/GJ range. However, this is the premium that will be offered to the large volume, long term customers whose participation in the program is critical to its success. Accordingly, BCOAPO does not object to FEI’s proposed premiums.

Long Term Contracts

12. FEI proposes to adopt a long term contract rate for large volume customers that is set at a discount of \$1/GJ under the BERC in place when the contract is entered into. The

long term contract rate would not fluctuate with changes to the underlying CCRA, but would be subject to inflation over the term of the contract.

13. At the Streamlined Review Process (SRP) hearing held February 3, 2016, it came to light that the long term contract terms described at page 2 of the Application (for a minimum term of 10 years and a fixed volume commitment of 500GJ per month) were intended to be merely indicative and not to represent the actual minimum contract terms proposed by FEI. FEI has confirmed this at paragraph 25 of in its Final Argument, where it says:

...FEI is only seeking approval of the long-term contract rate, and not seeking approval of the other potential terms of the long-term contract discussed in the proceeding.

14. FEI argues that approving only the long term contract rate is a beneficial way to proceed because it provides flexibility for FEI to negotiate terms with potential customers. FEI expresses concern that being prescriptive about the terms of a long term contract could exclude potential customers prematurely.
15. BCOAPO submits this is not a feasible way to proceed and that the Commission should the specify minimums for duration and monthly volumes that will be required to constitute a “long term contract”. As raised by Commissioner Harowitz at the SRP, ratemaking principles require that the treatment of ratepayers not be unduly discriminatory. While it is acceptable to treat different types of customers differently based on relevant characteristics, it is necessary that the relevant characteristic be identified and found to justify the discriminatory treatment. This is what determines whether or not the discriminatory treatment is “undue”. In the present case, FEI is proposing to give a better rate to a certain type of customer without defining what criteria that customer must meet. To define the criteria as being a “long term, large volume” customer is meaningless when there is no definition of what constitutes “long term” or “large volume”.
16. BCOAPO does not object to setting the minimum long term contract requirements below the “indicative” minimums described in the application, and suggests that FEI propose minimum requirements for consideration.

Alternatives

17. As indicated in the Application and Responses to Information Requests, there are several ways to design a biomethane program, and FEI’s existing biomethane program could be redesigned in accordance with a number of different models. However, BCOAPO notes that a lot of regulatory process has gone into designing the current program and that a lot of valuable data and experience has been gained within the current model. Accordingly, BCOAPO agrees with FEI that the best starting point to address the decline in voluntary uptake is to adjust the existing program rather than to undertake a wholesale redesign. If the changes sought by FEI are approved, and the expected increases in voluntary uptake do not materialize, the parties can consider whether it is necessary to adopt an alternative model.
18. BCOAPO also agrees that the role of the Commission Panel is to evaluate the application put forward by the proponent and determine whether the proposals are in the public interest. This evaluation necessarily includes consideration of whether there are

alternative ways to meet the desired objective. Where there is plainly a superior way to proceed, it cannot be in the public interest to proceed as suggested by the proponent. However, in the present case, it is not clear that any of the alternatives identified are superior to that put forward by the proponent. Accordingly, BCOAPO does not support a wholesale program redesign at this time.

Transfer Mechanisms

19. BCOAPO agrees that if FEI begins selling biomethane at a price below the full cost of service, it will be necessary to have a mechanism to clear the balance in the BVA. BCOAPO also agrees that it is important that the transfer mechanism preserve the benefits associated with biomethane to the greatest extent possible. Accordingly, BCOAPO supports FEI's proposal to, if necessary, apply to transfer unsold biomethane greater than 18 months of age to the MCRA for FEI to consume as its "own use" gas at the prevailing commodity cost rate.
20. With respect to the amortization of the premium balance held in the BVA, BCOAPO notes that the 2013 Biomethane Decision directs FEI to recover any balance in the unsold biomethane premium deferral account from all non-bypass customers through a rate rider. This was in recognition of the fact that setting the biomethane price at the full cost of service could result in the accumulation of unsold biomethane premiums, which would not be recovered through the transfer of inventory to the MCRA at the commodity cost rate. The Commission determined that it was appropriate for FEI to be able to recover these premium amounts from all non-bypass customers.
21. In light of this, BCOAPO does not object to the general method proposed by FEI to amortize these amounts directly from the BVA into delivery rates of non-bypass customers. The process discussed at the SRP, whereby FEI would provide forecasts at the Annual Review of Rates which would be adjusted to actuals in subsequent years, eliminates the need for the Unsold Biomethane Premium Account and the rate rider, and allows the approval process to be carried out in conjunction with the Annual Review of Rates. However, as pointed out by Commission staff member Cathy Marr at the SRP, approving the automatic amortization of biomethane premiums in rates as part of the annual review process does potentially put ratepayers at risk because the amounts to be amortized are not currently known. At the SRP, FEI appeared to be open to delaying transfer of premiums until 2018 in association with an application for approval to transfer aged inventory to MCRA. BCOAPO submits that this delay is a reasonable. It provides a small safeguard to the interests of non-biomethane customers and does not appear to harm the interests of FEI. Any transfer prior to 2018 should be permitted only if FEI presents a compelling rationale for its need.

Other

22. If the change in BEREC is approved, BCOAPO does not object to FEI's proposal to replace that quarterly BEREC and BVA report with a single annual report in conjunction with the Fourth Quarter CCRA and MCRA report. A simplified reporting structure is appropriate to reflect the simplified rate setting methodology.
23. BCOAPO does not object to the resumption of spending on customer education and awareness at the previously set level of \$300,000 per annum. However, as noted earlier in these submissions, our view is that there are "convenience" barriers to entering the program that are not related to customer awareness and that could be eliminated. For

example, FEI could send a “click here to become a biomethane customer” web link to customers receiving their bills electronically.

24. Finally, although we acknowledge that it may be out of scope for this proceeding, BCOAPO submits that as long as FEI’s biomethane program is based on voluntary uptake, it should be designed in a way that (at least roughly) matches supply with demand. At present, FEI is planning to obtain supply up to the supply cap set by the Commission in the 2013 Biomethane Decision. However, if voluntary uptake does not increase with the change to the pricing model, surplus supply will continue to build and eventually be transferred to the account of non-biomethane customers. BCOAPO submits this essentially creates a universal green portfolio, a model which has already been rejected by the Commission.

All of which is respectfully submitted.

BC Public Interest Advocacy Centre

Tannis Braithwaite
Executive Director | Lawyer

- c. FortisBC Energy Inc.
Registered Intervenors