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VIA EMAIL

Laurel Ross
Acting Commission Secretary
BC Utilities Commission
6th Floor 900 Howe Street
Vancouver, BC V6Z 2N3

BCPIAC
Public Interest Advocacy Centre

Reply to: Tannis Braithwaite
tbraithwaite@bcpiac.com
ph: 604.687.3034

Our file: 7614

Re: FortisBC Energy Inc. ("FEI") BERC Rate Methodology
BCOAPO et al. Submissions on Floor/Ceiling Price

1. We make the following submissions on behalf of our clients, the British Columbia Old Age Pensioners' Organization, Disability Alliance BC, Active Support Against Poverty, 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 FEI's low and fixed income residential ratepayers.

Summary of Position

2. By letter dated April 22, 2016 (Exhibit A-9), the Commission indicated that it was considering whether to require a floor and/or ceiling price for each of the two BERC rate offerings proposed by FEI in its BERC Rate Methodology Application.

3. For the reasons set out below, BCOAPO does not believe it is necessary for the Commission to set a floor or ceiling price applicable to Renewable Natural Gas (RNG). Although there are potential benefits to doing so, these benefits must be weighed against the potential detriments.

4. BCOAPO further submits that any low/high price band that is implemented should be wide enough that the BERC price as proposed by FEI would fall outside the band only in exceptional circumstances, and not during conditions of normal market volatility or moderate price changes.

5. Finally, BCOAPO submits that any floor/ceiling should be set at fixed dollar amounts and not be a function of the current BERC rate setting methodology.

Maximizing RNG Revenue

6. BCOAPO agrees that a primary objective of the BERC rate methodology is to maximize revenue from voluntary RNG customers in order to reduce the rate impact of the RNG program on non-participating core customers. Given the voluntary nature of participation in FEI's RNG program, this objective is best achieved by setting the BERC at the level that best balances purchase volumes with purchase prices to maximize revenues.

7. FEI's application was to set an RNG price that is tied to the market price of conventional natural gas rather than to FEI's cost of producing RNG or purchasing it under small-scale contracts. This allows FEI to market RNG as available at a fixed premium that

moves in lock step with changes to the market price of the conventional commodity. The proposed pricing scheme is easy for customers to understand. It also provides residential customers with a very important piece of information, namely the amount of the premium over conventional gas they will pay if they opt for RNG instead of conventional natural gas. Introducing a floor/ceiling, or any other pricing that varies from the simple formula proposed in the application, reintroduces a degree of complexity and uncertainty to the question: "How much extra will it cost me to use RNG?"

8. BCOAPO submits that providing potential RNG customers with a high degree of certainty on the cost premium associated with choosing RNG over conventional natural gas is likely to increase the uptake of RNG in the market. While adding a floor and ceiling will decrease this degree of certainty to some extent, it may be justifiable as a means of dealing with exceptional market conditions.

Short Term Price Floor/Ceiling

9. In Exhibit A-9, the Commission contemplates setting the floor for the short term contract rate at a fixed or percentage discount off the BERC rate as it is currently calculated.

10. In our submission, the existing cost of service methodology provides very little information that is relevant to the residential customer's decision making process on whether to opt for RNG.

11. Combining a variation of the cost of service methodology with a fixed dollar premium over the market price of conventional natural gas makes it even more difficult for customers to understand the relative financial implications of choosing RNG versus conventional gas service.

12. This is particularly true when one considers that the existing cost of service methodology results in changes to the BERC rate when changes are made to how the cost of service is calculated (e.g., what is included as a biomethane cost as opposed to a system cost) or when new supply contracts are approved with different commodity costs to FEI.

13. BCOAPO agrees with FEI that any floor price should be easy for customers to understand and be consistent with the pricing methodology used to calculate the BERC rate. Calculating the BERC rate as a market premium and then setting a floor price based on a fixed or percentage discount from the cost of service is unduly complex.

14. BCOAPO also submits that the benefit of including a floor/ceiling price must outweigh any associated detriments, such as loss of simplicity, understandability and certainty.

15. With respect to short term contracts, we think it is unlikely that the cost of conventional commodity will fall materially below the current CCRA rate of $1.14/GJ. Accordingly, it appears to us that the proposed RNG floor price is *de facto* in the range of $9.60/GJ.

16. BCOAPO submits that it is not necessary to set a floor price of $10/GJ as proposed in the alternative by FEI.[1] This is because:

[1] FEI Supplemental Argument, May 9, 2016, p.2

a. There is a relatively small number of RNG program participants, and consequently a $0.40/GJ discrepancy in the commodity cost of RNG relative to conventional gas has a relatively small dollar impact on core customer rates; and

b. The voluntary participation in the RNG program by some FEI customers creates indirect benefits for all FEI customers.

17. That said, we also believe that a fixed floor price of $10/GJ is justifiable on the basis that it is easy for customers to understand and has very little associated downside.

18. With respect to a price ceiling, the Commission notes in Exhibit A-9 that if the CCRA rate for the conventional commodity rises sharply, the BERC rate, calculated as a premium over the CCRA, rate could move above the RNG cost of service. This could also occur if the RNG cost of service falls substantially due to economies of scale or technological developments.

19. BCOAPO submits that such an occurrence is not inherently unfair. RNG service relies on voluntary opt-ins and is marketed as a premium service which provides indirect benefits. The premium paid for RNG service over conventional service would remain consistent regardless of the RNG cost of service. Because we believe a more important cost comparison for residential customers is between conventional and renewable gas service, not between RNG cost of service and the BERC rate, we do not believe a price ceiling is necessary.

20. In the event the CCRA rate rises sharply or RNG cost of service drops significantly, FEI could seek to vary the amount of the RNG premium in order to bring it back into better alignment with RNG cost of service. Alternatively, and perhaps preferably, the Commission could order FEI to bring such an application in the event there are significant changes either in the CCRA rate or in the RNG cost of service.

Long Term Price Floor/Ceiling

21. With respect to long term contracts, we agree with FEI that once key contract terms are negotiated they must remain in place for the duration of the contract. However, it is possible to insert “triggers” into the long term contracts which would allow defined changes to the long term contract rate in the event certain events occurred. For example, a trigger could be that if the CCRA rate exceeds the long term contract rate, the long term contract rate will be increased to match the CCRA rate. Another example is that if the RNG cost of service falls below the long term contract rate, the long term contract rate will be adjusted to match the RNG cost of service.

22. That said, BCOAPO accepts FEI’s evidence that for long term contract customers, the key issue is price certainty over the long term. In our view, this distinguishes long term contract customers from customers who opt to take RNG service month-by-month.

23. Introducing “triggers” for changes to the BERC rate for long term contracts, introduces an element of long term price uncertainty. A question the Commission must address, then, is whether the potential benefits of requiring such triggers outweigh the potential detriments associated with requiring them. For example, will FEI be unable to negotiate long term contracts with large volume RNG customers precisely because they are unable to negotiate a fixed price that is not subject to variation over the term of the contract?

24. One factor BCOAPO submits is relevant to this question is the likelihood that the trigger would become effective. For example, it is unlikely the CCRA rate will rise by more than $7.50/GJ over the next several years, as would be required for the CCRA rate to exceed the proposed long term contract rate under current market conditions. Accordingly, requiring a term to be inserted into a long term RNG contract that the contract price will be raised to match the CCRA rate if this does occur may not be a significant deterrent to potential long term contract customers. However, at the same time, if the triggering event is unlikely to occur, there is also less benefit to insisting on its insertion in the contract.

25. An alternative to requiring triggers or a price floor/ceiling in a long term contract is to constrain the duration of the contract. That is, BCOAPO previously argued that the Commission should specify the key terms for long term contracts that qualify for the $1.00/GJ discount. One such key term be that the duration of the long term contract be no more than 5 years, for example. This would allow the long term contract rate to be adjusted on a somewhat regular basis, thereby mitigating the impact of major market price changes.

All of which is respectfully submitted.
BC Public Interest Advocacy Centre

Tannis Braithwaite
Executive Director | Lawyer

c. FortisBC Energy Inc.
Registered Intervenors