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Via Electronic Filing

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, BC V6Z 2N3

**Attention: Ms. Erica Hamilton,
Commission Secretary**

Dear Ms. Hamilton:

**Re: FortisBC Energy Inc. - Application for Reconsideration of British Columbia
Utilities Commission G-29-13 in the Matter of Biomethane Service Offering:
Post Implementation Report and Application for Approval of the
Continuation and Modification of the Biomethane Program on a Permanent
Basis**

We enclose for filing in the above proceeding, the electronic version of the Reply Submissions of FortisBC Energy Inc.

Twelve hard copies of the Reply Submissions will follow by courier.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[Original signed by Christopher Bystrom]

Christopher R. Bystrom

CRB/ccm
Encl.

BRITISH COLUMBIA UTILITIES COMMISSION

**IN THE MATTER OF
THE UTILITIES COMMISSION ACT, R.S.B.C. 1996, CHAPTER 473**

AND

**FORTISBC ENERGY INC.
APPLICATION FOR RECONSIDERATION OF BCUC ORDER G-29-13
IN THE MATTER OF BIOMETHANE SERVICE OFFERING:
POST IMPLEMENTATION REPORT AND APPLICATION FOR APPROVAL
OF THE CONTINUATION AND MODIFICATION OF THE BIOMETHANE PROGRAM ON A
PERMANENT BASIS**

REPLY SUBMISSIONS

OF

FORTISBC ENERGY INC.

March 26, 2013

1 INTRODUCTION

On March 15, 2013, FortisBC Energy Inc. (“FEI”) submitted an application to the British Columbia Utilities Commission (the “Commission”) for reconsideration of certain aspects of Order G-29-13 (the “Reconsideration Application”).¹ Order G-39-13, dated March 18, 2013, determined that the Reconsideration Application should proceed to Phase 2 and established a timetable for the Phase 2 submissions.²

On March 21, 2013, the following interveners filed their submissions in this proceeding: Dicklands Farms,³ Seabreeze Farms,⁴ B.C. Sustainable Energy Association (“BCSEA”),⁵ Commercial Energy Consumers Association of British Columbia (“CEC”),⁶ British Columbia Pensioners’ and Seniors’ Organization (“BCPSO”),⁷ EarthRenu Energy Corp (“EarthRenu”),⁸ and Paradigm Environmental Technologies Inc. (“Paradigm”).⁹

Dicklands Farms, Seabreeze Farms, BCSEA, CEC, EarthRenu, and Paradigm all support FEI’s request for reconsideration and variation of Order G-29-13. FEI appreciates this support and does not have any comments in reply except in response to Paradigm’s requested clarification as to why FEI is not in a position to pursue approval of the supply agreement with the Greater Vancouver Sewage and Drainage District (“GVS&DD”).

The submissions below respond to Paradigm’s request, address the comments made by BCPSO and provides further data, at the request of Commission Staff, on the supply and demand of biomethane presented in FEI’s Reconsideration Application.

2 CLARIFICATION OF POSITION REGARDING GVS&DD

As explained in FEI’s letter of March 6, 2013,¹⁰ since Order G-18-13 determined that the GVS&DD requires a CPCN for its supply project and that consideration of the supply agreement cannot precede the CPCN approval, FEI’s understanding is that consideration of the supply agreement would occur after either the GVS&DD has been granted a CPCN or an exemption from regulation. While this means that the GVS&DD supply contract is on a different regulatory path than the other three supply contracts, which do not require a CPCN and have related applications for approval as a rate, this does not mean that FEI is less committed to seeking approval of its supply contract with the GVS&DD. As FEI has submitted, the GVS&DD supply contract is required to meet FEI’s forecast demand for biomethane. Specifically the City of Richmond demand of approximately 10,000 GJ annually is contingent on FEI receiving approval of the GVS&DD contract. FEI, therefore, reiterates that it is still seeking an increase in the supply cap to accommodate the GVS&DD’s supply contract.

¹ Ex. B-1.

² Ex. A-1.

³ Ex. C1-1.

⁴ Ex. C2-1.

⁵ Ex. C3-1.

⁶ Ex. C4-1.

⁷ Ex. C5-1.

⁸ Ex. C6-1.

⁹ Ex. D-1.

¹⁰ Ex. B1-2 in the FortisBC Energy Biomethane Third-Party Suppliers Regulatory Process, online at: http://www.bcuc.com/Documents/Proceedings/2013/DOC_33875_B1-2_FEI_Response-to-Order-G-30-13.pdf

3 REPLY TO BCPSO

FEI submits that BCPSO has not provided any reason to deny the orders sought by FEI in its Reconsideration Application.

BCPSO characterizes FEI's position as a *refusal* to assume any economic risk for unsold biomethane, suggesting that FEI is being obstinate regarding this issue. This is not the case. FEI's Reconsideration Application provides a reasoned and coherent explanation for its position in this proceeding based on well-established regulatory principles. FEI's position also represents the status quo in terms of the risk it bears on biomethane supply.

BCPSO agrees with FEI that biomethane supply should be dealt with in the same manner as other gas supply. This is what FEI is proposing and why it is seeking reconsideration of Order G-29-13. FEI's submission is that it is well established that gas supply costs are treated as a flow-through cost and that biomethane supply should be treated in the same manner.

BCPSO goes on to comment that FEI's proposal is equivalent to a "take or pay" requirement for non-bypass customers. With respect, this analogy is not appropriate. FEI will only be paying for biomethane that is actually supplied, and will not be under a take or pay arrangement with suppliers as evidenced in the supply contracts. Once acquired, biomethane supply is comingled with FEI's regular natural gas supply and consumed by customers. Any balance in the Biomethane Variance Account ("BVA") is purely notional since the product is a notional delivery of biomethane rather than the actual physical supply of the product. The BVA is used to capture the costs incurred to procure and process consumable biomethane as well as the revenues collected through the Biomethane Energy Recovery Charge ("BERC").¹¹ The balance in the BVA represents the accumulated costs, net of revenues, but does not represent the actual accumulation of biomethane that has not been consumed.

BCPSO's final submission appears to be that if FEI does not take on the risk of oversupply then FEI should not be permitted to earn a return on equity ("ROE") for biomethane supply. BCPSO states:

"BCPSO's position is that with risk goes reward. Should the Commission put the risk of oversupply on non-bypass ratepayers, it is BCPSO's view that the appropriate ROE to be charged to non-bypass customers, who largely are not expected to request this new service is 0%. We base this position on the assumption that the suppliers have included a return on invested capital in their business cases for biomethane production, and FEI's refusal to accept the risk associated with this excess supply."

This submission appears to be based on a misunderstanding about what FEI earns a return on in relation to its gas distribution business. FEI has a statutory right to earn a fair return on its invested capital.¹² However, FEI does not earn a return on commodity costs, or on the suppliers' invested capital. Further, in the case of the four new suppliers, FEI does not own any of the upgrading equipment and the supply costs under the supply agreements will not include any ROE for FEI. Accordingly, there is nothing to consider with respect to BCPSO's proposal regarding ROE.

Overall, BCPSO says little, if anything, in response to the substance of FEI's Application. BCPSO does not address FEI's submissions regarding the regulatory compact, FEI's right to

¹¹ Exhibit B-1, Biomethane Post Implementation Report and Application for Approval of the Continuation and Modification of the Biomethane Program on a Permanent Basis, pp. 2, 112-113 and 123.

¹² Exhibit B-1, Reconsideration Application, section 6.3.

recover prudently incurred costs, the strong customer demand for biomethane, or the fact that biomethane service advances public policy. BCPSO expresses agreement with FEI that biomethane supply should be treated in the same manner as other gas supply. The only position that BCPSO expressly takes with respect to the Application is a position regarding FEI's return on equity that, with respect, appears to be based on a fundamental misunderstanding about *what* FEI earns a return on.

FEI submits that BCPSO has provided no basis for denying the Application.

4 CLARIFICATION OF DEMAND AND SUPPLY DATA

Pursuant to a request from Commission staff, FEI is providing in Attachment A to this Reply Submission, background data on the updated demand and supply forecasts presented in the Reconsideration Application. In the moderate case scenario, the changes described in the Reconsideration Application result in a total increase in demand of 20,600 GJ for the years 2013 and 2014, and a total decrease of 20,582 GJ for 2015 through 2017, resulting in a net increase of 18 GJ for the 5 year period. This change does not include the potential 100,000 GJ demand from UBC for 2013 and 2014 as referenced in their most recent submission. On the supply side, the changes in the Reconsideration Application result in a decrease of 676,298 GJ for the five year period compared to the Application.

5 CONCLUSION AND ORDER SOUGHT

For the reasons described in the Reconsideration Application, FEI submits that in principle the risk of biomethane not being sold at the BERC rate should be borne by FEI's non-bypass customers and that it is prudent to proceed with the increase in the supply cap. FEI's Reconsideration Application is supported by all of the interveners, except for BCPSO, whose position is not clear, and whose submissions do not address the substance of FEI's position.

FEI submits that the order requested on page 17 of FEI's Reconsideration Application is supported by regulatory principles and the evidence in this proceeding and should be granted.¹³ FEI notes that the order requested by BCSEA and Earth Renu¹⁴ would achieve the same result as the order requested by FEI and would be acceptable to FEI.

ALL OF WHICH IS RESPECTFULLY SUBMITTED,

Dated: March 26, 2013

[original signed by Christopher Bystrom]

Christopher Bystrom
Fasken Martineau DuMoulin LLP
Counsel for the FortisBC Energy Inc.

¹³ Part 2 of FEI's requested Order should reference Order No. G-194-10, rather than Order No. G-193-10.

¹⁴ BCSEA (Ex. C3-1) and Earth Renu (Ex. C6-1) submit that G-29-13 should be varied by removing the condition that 'natural gas non-bypass customers bear no actual or potential risk for unsold biomethane pending the outcome of the 2012 Biomethane Application,' leaving in place the approval of the increase in the supply cap set in Order G-194-10 by an amount sufficient to accommodate the supply from the four new biomethane suppliers.

Residential (Rate 1)

Reconsideration Application	2013	2014	2015	2016	2017
Moderate/High	51,560	72,923	91,139	108,109	128,549
Low	40,833	47,535	54,365	59,682	63,451
2012 Biomethane Application	2013	2014	2015	2016	2017
Moderate/High	51,560	72,923	93,233	114,498	139,445
Low	40,833	47,535	55,412	63,306	68,888
Impact of FEVI Removal					
Moderate/High	-	-	(2,095)	(6,390)	(10,896)
Low	-	-	(1,047)	(3,624)	(5,437)

Commercial (Rate 2 & 3)

Reconsideration Application	2013	2014	2015	2016	2017
Moderate/High	7,032	9,912	12,346	14,593	17,298
Low	5,570	6,462	7,364	8,057	8,539
2012 Biomethane Application	2013	2014	2015	2016	2017
Moderate/High	7,032	9,912	12,478	14,992	17,968
Low	5,570	6,462	7,430	8,283	8,874
Impact of FEVI Removal					
Moderate/High	-	-	(132)	(399)	(670)
Low	-	-	(66)	(226)	(335)

On System Sales (Rate 11B)

No Changes	2013	2014	2015	2016	2017
High	12,500	18,750	28,125	42,188	63,281
Moderate	11,500	14,950	19,435	25,266	32,845
Low	10,500	11,550	12,705	13,976	15,373

Transportation Sector

No Changes	2013	2014	2015	2016	2017
High	-	45,858	70,805	101,619	144,119
Moderate	-	9,172	14,161	20,324	28,824
Low	-	4,586	7,080	10,162	14,412

Emerging Markets

Reconsideration Application	2013	2014	2015	2016	2017
High	12,600	20,000	467,500	817,500	967,500
Moderate	12,600	20,000	280,500	490,500	580,500
Low	12,600	20,000	93,500	163,500	193,500
2012 Biomethane Application	2013	2014	2015	2016	2017
High	10,000	10,000	467,500	817,500	967,500
Moderate	6,000	6,000	280,500	490,500	580,500
Low	2,000	2,000	93,500	163,500	193,500
Impact of UBC Firm Contract for 20,000					
High	2,600	10,000	-	-	-
Moderate	6,600	14,000	-	-	-
Low	10,600	18,000	-	-	-

Overall Impact of Changes

	2013	2014	2015	2016	2017
High	2,600	10,000	(2,227)	(6,789)	(11,565)
Moderate	6,600	14,000	(2,227)	(6,789)	(11,565)
Low	10,600	18,000	(1,114)	(3,851)	(5,772)

Reconsideration Application	2013	2014	2015	2016	2017
Fraser Valley Biogas	63,875	82,125	82,125	82,125	82,125
Salmon Arm Landfill	25,000	25,000	24,375	24,375	23,750
Kelowna Landfill	15,956	68,457	72,559	77,483	81,841
Earth Renu	0	5,000	45,000	50,000	50,000
GVS & DD (MetroVan)	0	10,160	30,000	40,000	40,000
Seabreeze Farm	0	18,000	27,000	42,000	42,000
Dicklands Farm	0	9,000	30,000	46,000	46,000

2012 Biomethane Application	2013	2014	2015	2016	2017
Fraser Valley Biogas	63,875	82,125	82,125	82,125	82,125
Salmon Arm Landfill	25,000	25,000	24,375	24,375	23,750
Kelowna Landfill	15,956	68,457	72,559	77,483	81,841
Earth Renu	28,333	170,000	180,000	200,000	200,000
GVS & DD (MetroVan)	-	8,500	34,000	36,000	40,000
Seabreeze Farm		25,500	40,500	45,000	47,000
Dicklands Farm		19,125	40,500	45,000	47,000

Impact of Supply Changes	2013	2014	2015	2016	2017
Fraser Valley Biogas	-	-	-	-	-
Salmon Arm Landfill	-	-	-	-	-
Kelowna Landfill	-	-	-	-	-
Earth Renu	(28,333)	(165,000)	(135,000)	(150,000)	(150,000)
GVS & DD (MetroVan)	-	1,660	(4,000)	4,000	-
Seabreeze Farm	-	(7,500)	(13,500)	(3,000)	(5,000)
Dicklands Farm	-	(10,125)	(10,500)	1,000	(1,000)