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April 16, 2013

British Columbia Public Interest Advocacy Centre  
Suite 209 – 1090 West Pender Street  
Vancouver, B.C.  
V6E 2N7

Attention: Ms. Leigha Worth, Executive Director

Dear Ms. Worth:

**Re: FortisBC Energy Inc. ("FEI")**

**Biomethane Third Party Suppliers – Application for Approval of Third-Party Suppliers' Rates and Acceptance of FEI Biomethane Supply Agreements with Third-Party Suppliers and FEI Capital Expenditures for Related Interconnection Facilities (the "Application")**

**Response to the British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization *et al* ("BCPSO") Information Request ("IR") No. 1**

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In accordance with Commission Order No. G-46-13 setting out the Revised Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to BCPSO IR No. 1.

If there are any questions regarding the attached, please contact Shawn Hill at (604) 592-7840.

Yours very truly,

**FORTISBC ENERGY INC.**

***Original signed:***

Diane Roy

Attachment

cc (e-mail only): Commission Secretary  
Registered Parties



FortisBC Energy Inc. ("FEI" or the "Company") Biomethane Third-Party Suppliers Regulatory Process for Approval of Third-Party Suppliers' Rates and Acceptance of FEI Biomethane Supply Agreements with Third-Party Suppliers and FEI Capital Expenditures for Related Interconnection Facilities Project	Submission Date: April 16, 2013
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1    **1.0    Reference:    Exhibit B-1, page 94, 7.1, General Approach to Supply Contracts**

2    The referenced page states:

3    *FEI is in compliance with the criteria established by the Commission (in Order No. G-*  
4    *194-10) for further Biomethane supply contracts except as discussed in Section 6*  
5    *regarding the supply cap. With the proposed supply cap of 3.0 PJ, all of existing and the*  
6    *four proposed contracts are compliant. The criteria are summarized here for reference:*

- 7    • *The supply contract is at least 10 years in length;*
- 8    • *FEI has, by agreement, retained final control over injection location;*
- 9    • *FEI is satisfied that the selected upgrader is sufficiently proven;*
- 10   • *FEI has, by agreement, reserved the right to refuse gas if customer safety or asset*  
11    *integrity is at stake;*
- 12   • *The partner is a municipality, regional district or other public authority, or is a private*  
13    *party with a track record in dealings with the Company or that posts security to*  
14    *reduce risk of stranding;*
- 15   • *The total production of Biomethane for all projects undertaken under what has been*  
16    *approved in the Decision does not exceed an annual purchase of 250,000 GJ; and*
- 17   • *The maximum price for delivered Biomethane on the system is below the proposed*  
18    *price as attached in Confidential Appendix J.*

19    1.1    In the event that FEI refuses gas from any of the subject Third-Party Suppliers  
20    pursuant to the reserved right, under what circumstances and to what extent  
21    could gas distribution customers be financially at risk?

22    **Response:**

24    There is no financial risk for gas distribution customers. In the event that Third-Party Suppliers  
25    do not meet the required specification and the gas is therefore refused, FEI does not pay for the  
26    biomethane. In an extreme case, where there is a breach of the agreement by the Third-Party  
27    Supplier, and there are unrecovered costs associated with interconnection equipment (stranded  
28    assets), the Third-Party Supplier would be required to cover the cost of any of those stranded  
29    assets.



FortisBC Energy Inc. ("FEI" or the "Company") Biomethane Third-Party Suppliers Regulatory Process for Approval of Third-Party Suppliers' Rates and Acceptance of FEI Biomethane Supply Agreements with Third-Party Suppliers and FEI Capital Expenditures for Related Interconnection Facilities Project	Submission Date: April 16, 2013
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1.2 In the event that FEI refuses gas from any of the subject Third-Party Suppliers pursuant to the reserved right, under what circumstances and to what extent could the subject Third-Party Suppliers be financially at risk?

**Response:**

Third-Party Suppliers would lose any revenue associated with the purchase of biomethane if FEI refuses to accept it. In the case of the three suppliers being reviewed (Seabreeze, Dicklands and Earth Renu), this would be a significant loss of revenue. All three suppliers are required to have a means of managing gas that is refused (typically by combustion on site). All three suppliers are expected to receive some portion of their revenues from tipping fees<sup>1</sup>, so it is unlikely that the revenue would be zero. However, the biomethane revenue is a key part of the suppliers' business plans and in fact the suppliers depend upon this revenue for their business success.

1.3 Given that none of the three subject Third-Party Suppliers are "a municipality, regional district or other public authority" please provide, for each Third-Party Supplier (Dicklands, Seabreeze, and Earth Renu), details with respect to (i) its "track record in dealings with the Company" or (ii) the security posted in lieu of its track record in dealings with the Company.

**Response:**

Each of the Third-Party Suppliers has agreed to post security in the form of a letter of credit that is sufficient to cover the capital costs associated with any potential stranded assets.

1.4 Please confirm that any security posted by a subject Third-Party Supplier is not being financed by FEI.

**Response:**

FEI can confirm that it is not financing any of the posted security.

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<sup>1</sup> Tipping fees are charges that the Third-Party Suppliers invoice to the parties that supply organic waste streams to their facilities for disposal and processing into biogas streams. FEI is not involved in these agreements.



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1.5 To assist BCPSO in its understanding, please provide a full and non-confidential explanation of the following statement: *"The maximum price for delivered Biomethane on the system is below the proposed price ..."* Please define the terms and indicate how and where "proposed price" and "maximum price" are defined and how these prices are related.

**Response:**

The "maximum price" is the greatest price that FEI could pay during the contract term for any of the new Third-Party Supply Agreements. The maximum price is derived by adding a yearly inflation factor to each of initial purchase prices. Each contract has a different initial price and, therefore, a different maximum price.

In each contract, FEI has stipulated that at no time will it pay more than the current BCUC approved rate for biomethane. This will limit each of the contracts to the *current approved maximum price* of \$15.28/GJ.

The "proposed price" referenced in the IR is a reference to FEI's proposed modification to the maximum biomethane purchase price. This proposal is not within the scope of the current proceeding, but will be a topic in the FEI Biomethane Post Implementation and Program Modification (2012 Biomethane Application) proceeding.



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1   **2.0   Reference:   Exhibit B-1, pages 96-07, 7.4.1, Potential for Stranded Assets**

2  
3           2.1    Please confirm that all the subject Third-Party Supplier contracts have a term of  
4                   at least 10 years.

5  
6    **Response:**

7    Confirmed - each of the Third-Party Supplier contracts have at least a 10-year term.

8  
9  
10           2.2    How has the risk of potential insolvency of any Third-Party Supplier during the  
11                   first ten years of its contract been mitigated by FEI.

12  
13   **Response:**

14    There are two primary effects on the biomethane program in the event of Third-Party  
15    insolvency.

16    First, if the Third-Party Suppliers are insolvent, and therefore unable to deliver biomethane, FEI  
17    may have a shortage of supply for its customers. The primary mitigation tool for this scenario is  
18    built into the RNG program. FEI is able to both curtail supply to its customers if required and/or  
19    purchase carbon offsets up to an amount equal to the RNG that it sells to its customers.

20    Secondly, in the event of insolvency, FEI may have stranded assets (such as new pipe)  
21    connecting the supplier to its system, known as interconnecting costs. In this case, FEI has  
22    contract provisions requiring the Third-Party Suppliers to pay for the cost of the stranded assets.  
23    Please also refer to the response to BCPSO IR 1.1.1.

24  
25  
26           2.3    Has FEI provided any credit assistance, in any form, in respect of any of the  
27                   Third-Party Suppliers with respect to (i) receiving initial financing or (ii) in the  
28                   event that the Supplier experiences financial distress? If so, please provide  
29                   details of any such assistance in addition to the costs of providing such  
30                   assistance.

31  
32   **Response:**

33    FEI has not provided any credit assistance to the Third-Party Suppliers.



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1   **3.0   Reference:   Exhibit B-1, pages 98, 105, and 108, Tables 7-2, 7-4, and 7-5, Project**  
 2                                   **Highlights**

3  
 4           3.1   Please explain why Dicklands "Total Capital" (Estimated) is not confidential while  
 5                   the comparable figures for Earth Renu and Seabreeze are confidential.  
 6

7   **Response:**

8   FEI mistakenly included this figure in its Application.

9  
 10  
 11           3.2   Please explain why there is no row for "Contract Term" in Table 7-5 for  
 12                   Dicklands.  
 13

14   **Response:**

15   FEI mistakenly omitted this line from the Table 7-5. It should read:

Item	Amount	Comment
Contract Term	Meets Criteria	Confidential



FortisBC Energy Inc. ("FEI" or the "Company") Biomethane Third-Party Suppliers Regulatory Process for Approval of Third-Party Suppliers' Rates and Acceptance of FEI Biomethane Supply Agreements with Third-Party Suppliers and FEI Capital Expenditures for Related Interconnection Facilities Project	Submission Date: April 16, 2013
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1 **4.0 Reference: Exhibit B-1, page 110, 7.8.5, Compliance with Biomethane Supply**  
2 **Criteria**

3 The referenced page states:

4 *"The Contract with Seabreeze satisfies all of the approved criteria ..."* (Emphasis added.)

5 4.1 Please confirm that this should read *"The Contract with Dicklands satisfies all of*  
6 *the approved criteria ..."* (Emphasis added.)

7  
8 **Response:**

9 Confirmed. The sentence should read:

10 *"The Contract with Dicklands satisfies all of the approved criteria ..."*

11



FortisBC Energy Inc. ("FEI" or the "Company") Biomethane Third-Party Suppliers Regulatory Process for Approval of Third-Party Suppliers' Rates and Acceptance of FEI Biomethane Supply Agreements with Third-Party Suppliers and FEI Capital Expenditures for Related Interconnection Facilities Project	Submission Date: April 16, 2013
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1 **5.0 Reference: Exhibit B-1, page 108, Table 7-5, Dicklands Farms Project Highlights,**  
2 **Exhibit B2-1, page 2, Dicklands Farms Capital Cost**

3 Table 7-5 indicates that "Total Capital (Dicklands)" is estimated to be \$5M whereas page  
4 2 of Exhibit B2-1 states that

5 *"The upgrading assets to be owned and operated by Dicklands Farms have a capital*  
6 *cost of approximately \$1.2 million."*

7 5.1 Please reconcile the \$5M and the \$1.2M figures.  
8

9 **Response:**

10 The Total Capital figure includes *all of the costs* of the Dicklands Project, whereas the \$1.2  
11 million figure represents the approximate capital cost of the *upgrading assets only*. Dicklands  
12 will also be constructing other assets such as waste-receiving, pasteurizing equipment,  
13 digesters and associated connecting and monitoring equipment.

14





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1    **6.0    Reference:    Exhibit B2-1, Dicklands Farms**

2    Page 2 states:

3    *To effectively manage their nutrient load and minimize their environmental impact the*  
4    *farm will anaerobically digest their dairy manure in order to increase its nutrient value*  
5    *and mitigate the GHG production. The sale of gas is not the primary motivator behind*  
6    *this project, but the economic viability of this system only exists if they are able to gain*  
7    *addition revenue through biomethane sales.*

8

9            6.1    Please confirm that revenues from biomethane sales are expected to cover all  
10            O&M costs, capital costs (return on capital and return of capital), taxes, and  
11            regulatory costs (current and future) associated with the biogas upgrading  
12            facilities to be constructed. If unable to so confirm, please explain.

13

14    **Response:**

15    CH FOUR provided the following response on behalf of Dicklands and FEI is including it here for  
16    convenience.

17            *"Confirmed."*

18

19

20            6.2    Can Dicklands confirm that the impact of costs paid to CH4 are not expected to  
21            materially impact biomethane commodity rates?

22

23    **Response:**

24    CH FOUR provided the following response on behalf of Dicklands and FEI is including it here for  
25    convenience.

26            *"Confirmed. Dicklands is not an engineering firm nor are they project developers. CH*  
27            *FOUR BIOGAS and the farm have a long relationship and all costs are built into the*  
28            *project budget, including BCUC support and representation."*

29

30

31            6.3    Please state the primary motivator(s) behind "this project."

32



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1 **Response:**

2 CH FOUR provided the following response on behalf of Dicklands and FEI is including it here for  
3 convenience.

4 *"This project is intended to enhance the existing farm and provide a means to keep the*  
5 *family employed on a farm located in an area with prohibitively high land costs. The farm*  
6 *is unable to buy more land or expand their operation through traditional methods, so*  
7 *they have chosen to diversify revenue streams while preserving the health of their land*  
8 *and reducing their environmental impact."*

9

10

11 6.4 Are there any positive externalities, e.g., positive financial impacts on core farm  
12 operations, associated with the increase in nutrient value? If so, have any such  
13 potential "revenue offsets" been accounted for in the contracted price for biogas?

14

15 **Response:**

16 CH FOUR provided the following response on behalf of Dicklands and FEI is including it here for  
17 convenience.

18 *"Yes, bedding sales and potential miscellaneous revenue have been accounted for in*  
19 *the revenue."*

20

21

22

23 Page 3 states:

24 *In order to gain financing approval Dicklands was required by their lender to have a*  
25 *payback period no longer than 10 years, and preferably closer to 5, while securing 100%*  
26 *of the necessary collateral against the current dairy farm. The capital cost of the project*  
27 *is high due to the fact Dicklands will own and operate the biogas upgrading unit*  
28 *themselves. Given this high capital cost and the need for a reasonable return on equity,*  
29 *Dicklands and FEI engaged in open-book negotiations to facilitate a rate structure.*

30 *Based on the need for a payback period in line with the lender's requirements and a*  
31 *reasonable rate of return Dicklands and FEI were able to agree on a rate that is within*  
32 *the maximum allowed by the BCUC.*



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1           6.5     Does the lender's insistence on a relatively short payback period for long-lived  
2                     capital assets reflect the lender's view that the Dicklands project is of relatively  
3                     high risk?

4  
5     **Response:**

6     CH FOUR provided the following response on behalf of Dicklands and FEI is including it here for  
7     convenience.

8                     *"This payback period is considered quite long by private business standards, but*  
9                     *because the farm has a long history and has the ancillary benefits to the existing*  
10                    *operation the bank has been reasonable."*

11  
12

13           6.6     Did Dicklands have to pay a premium in terms of a debt rate significantly above  
14                     prime or a debt rate significantly in excess of FEI's embedded cost of long-term  
15                     debt in order to secure debt financing?

16  
17     **Response:**

18     CH FOUR provided the following response on behalf of Dicklands and FEI is including it here for  
19     convenience.

20                     *"No."*

21  
22

23           6.7     Can Dicklands confirm that it obtained all of its debt financing from a third party?

24  
25     **Response:**

26     CH FOUR provided the following response on behalf of Dicklands and FEI is including it here for  
27     convenience.

28                     *"Confirmed."*

29  
30

31           6.8     Is the "reasonable return on equity" materially in excess of FEI's approved RoE  
32                     for its regulated gas distribution business?

33



FortisBC Energy Inc. ("FEI" or the "Company") Biomethane Third-Party Suppliers Regulatory Process for Approval of Third-Party Suppliers' Rates and Acceptance of FEI Biomethane Supply Agreements with Third-Party Suppliers and FEI Capital Expenditures for Related Interconnection Facilities Project	Submission Date: April 16, 2013
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1 **Response:**

2 CH FOUR provided the following response on behalf of Dicklands and FEI is including it here for  
3 convenience.

4 "No."

5

6

7 6.9 Please describe the methodology used by Dicklands to determine an appropriate  
8 RoE.

9

10 **Response:**

11 CH FOUR, on behalf of Dicklands, provided FEI with project budgets, and indicated that  
12 Dicklands wanted a reasonable rate of return. In particular, Dicklands wanted a reasonable  
13 payback period. Using the project budgets and projected biomethane production, CH FOUR  
14 was able to estimate revenue versus project costs. Based on the price offered by FEI,  
15 Dicklands was then able to calculate the projected simple payback. The working payback  
16 period was 10 years or less. The ROE was derived from the budget numbers once the price  
17 was finalized.

18

19

20 6.10 Please provide the capital structure, i.e., % of debt and % of equity, underpinning  
21 the proposed project.

22

23 **Response:**

24 CH FOUR provided the following response on behalf of Dicklands and FEI is including it here for  
25 convenience.

26 "70% debt, 30% Equity."

27

28

29 6.11 Please confirm that the equity component of the capital costs of this project is  
30 actual equity investment by the owner and not deemed equity or funds supplied  
31 by some other party.

32



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1 **Response:**

2 CH FOUR provided the following response on behalf of Dicklands and FEI is including it here for  
3 convenience.

4 *"Confirmed."*

5

6

7 6.12 Was Dicklands required to post any security to FEI? If so, please provide details.

8

9 **Response:**

10 CH FOUR provided the following response on behalf of Dicklands and FEI is including it here for  
11 convenience. "LC" refers to a "Letter of Credit."

12 *"Yes, LC or Bond as per contract."*

13 Please also refer to the response to BCPSO IR 1.1.3 and Section 3.4 of the Biomethane  
14 Purchase Agreement between FEI and Dicklands.

15



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1 **7.0 Reference: Exhibit B3-1, Seabreeze Farm**

2 Page 1 states:

3 *As a party to the Supply Agreement, Seabreeze plan to own and operate the upgrading*  
4 *facilities that will produce the biomethane to be sold to FEI.*

5 7.1 Please confirm that revenues from biomethane sales are expected to cover all  
6 O&M costs, capital costs (return on capital and return of capital), taxes, and  
7 regulatory costs (current and future) associated with the biogas upgrading  
8 facilities to be constructed. If unable to so confirm, please explain.  
9

10 **Response:**

11 CH FOUR provided the following response on behalf of Seabreeze and FEI is including it here  
12 for convenience.

13 *"Revenues from biomethane sales and tipping fees are expected to cover all O&M costs,*  
14 *capital costs (return on capital and return of capital), taxes, and regulatory costs (current*  
15 *and future) associated with the biogas upgrading facilities to be constructed."*

16  
17

18 7.2 Can Seabreeze confirm that the impact of amounts paid to CH4 are not expected  
19 to materially impact biomethane commodity rates?  
20

21 **Response:**

22 CH FOUR provided the following response on behalf of Seabreeze and FEI is including it here  
23 for convenience.

24 *"Confirmed. Seabreeze is not an engineering firm nor are they project developers. CH*  
25 *FOUR BIOGAS and the farm have a long relationship and all costs are built into the*  
26 *project budget, including BCUC support and representation."*

27  
28

29  
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Pages 2-3 state:

31 *In order to gain financing approval Seabreeze was required by their lender to have a*  
32 *payback period no longer than 10 years, and preferably closer to 5, while securing 100%*



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1            *of the necessary collateral against the current dairy farm. The capital cost of the project*  
2            *is high due to the fact Seabreeze will own and operate the biogas upgrading unit*  
3            *themselves. Given this high capital cost and the need for a reasonable return on the*  
4            *investment, Seabreeze and FEI engaged in open-book negotiations to facilitate a rate*  
5            *structure.*

6            *Based on the need for a payback period in line with the lender's requirements and a*  
7            *reasonable rate of return Seabreeze and FEI were able to agree on a rate that is within*  
8            *the maximum allowed by the BCUC.*

9            7.3        Does the lender's insistence on a relatively short payback period for long-lived  
10            capital assets reflect the lender's view that the Seabreeze project is of relatively  
11            high risk?  
12

13        **Response:**

14        CH FOUR provided the following response on behalf of Seabreeze and FEI is including it here  
15        for convenience.

16            *"This payback period is considered quite long by private business standards, but*  
17            *because the farm has a long history and has the ancillary benefits to the existing*  
18            *operation the bank has been reasonable."*

19

20

21            7.4        Did Seabreeze have to pay a premium in terms of a debt rate significantly above  
22            prime or a debt rate significantly in excess of FEI's embedded cost of long-term  
23            debt in order to secure debt financing?  
24

25        **Response:**

26        CH FOUR provided the following response on behalf of Seabreeze and FEI is including it here  
27        for convenience.

28            *"No."*

29

30

31            7.5        Can Seabreeze confirm that it obtained all of its debt financing from a third party?  
32



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1 **Response:**

2 CH FOUR provided the following response on behalf of Seabreeze and FEI is including it here  
3 for convenience.

4 "Yes."

5

6

7 7.6 Is the "reasonable return on equity" materially in excess of FEI's approved RoE  
8 for its regulated gas distribution business?

9

10 **Response:**

11 Though the ROE is not as high as FEI's approved ROE, Seabreeze has indicated that this  
12 project has more value than simply the economic return. The other benefits that Seabreeze  
13 sees are related to its commitment to the environment, its commitment to local employment  
14 (specifically employing family members), its commitment to sustainable farming and a means to  
15 diversify income on the farm.

16

17

18 7.7 Please describe the methodology used by Seabreeze to determine an  
19 appropriate RoE.

20

21 **Response:**

22 CH FOUR, on behalf of Seabreeze, provided FEI with project budgets, and indicated that  
23 Seabreeze wanted a reasonable rate of return. In particular, Seabreeze wanted a reasonable  
24 payback period. Using the project budgets and projected biomethane production, CH FOUR  
25 was able to estimate revenue versus project costs. Based on the price offered by FEI,  
26 Seabreeze was then able to calculate the projected simple payback. The working payback  
27 period was 10 years or less. The ROE was derived from budget numbers once the price for  
28 biomethane was finalized.

29

30

31 7.8 Please provide the capital structure, i.e., % of debt and % of equity, underpinning  
32 the proposed project.

33





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1 **Response:**

2 CH FOUR provided the following response on behalf of Seabreeze and FEI is including it here  
3 for convenience.

4 *"70% debt, 30% Equity."*

5  
6

7 7.9 Please confirm that the equity component of the capital costs of this project is  
8 actual equity investment by the owner and not deemed equity or funds supplied  
9 by some other party.

10

11 **Response:**

12 CH FOUR provided the following response on behalf of Seabreeze and FEI is including it here  
13 for convenience.

14 *"Confirmed."*

15  
16

17 7.10 Was Seabreeze required to post any security to FEI? If so, please provide  
18 details.

19

20 **Response:**

21 CH FOUR provided the following response on behalf of Seabreeze and FEI is including it here  
22 for convenience. "LC" refers to "Letter of Credit."

23 *"Yes, LC or Bond as per the contract."*

24 Please also refer to the response to BCPSO IR 1.1.3 and Section 3.3 of the Biomethane  
25 Purchase Agreement between FEI and Seabreeze.

26

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1    **8.0    Reference:    Exhibit B4-1, Earth Renu**

2    Page 2 states:

3    *As a party to the Supply Agreement, Earth Renu plans to own and operate the*  
4    *upgrading facilities that will produce the biomethane to be sold to FEI.*

5    8.1    Please confirm that revenues from biomethane sales are expected to cover all  
6    O&M costs, capital costs (return on capital and return of capital), taxes, and  
7    regulatory costs (current and future) associated with the biogas upgrading  
8    facilities to be constructed. If unable to so confirm, please explain.

9  
10    **Response:**

11    This response was provided by Earth Renu – FEI has included it here for convenience.

12    *“Revenues from biomethane sales will NOT cover all O&M costs, capital costs (return on*  
13    *capital and return of capital), taxes, and regulatory costs (current and future) associated*  
14    *with the biogas upgrading facilities to be constructed.*

15    *It is only with the addition of tipping fees for organics accepted by the facility that an urban*  
16    *based digester can be profitable. This is due to the additional capital and operating*  
17    *costs that an urban digester must incur for pre-treatment (separating packaging from*  
18    *urban organics), odour reduction, and effluent treatment as well as the transportation*  
19    *costs of removing the solid undigested fraction of the organics off site.”*

20    FEI adds that these tipping fees are specific to the Earth Renu contract.

21  
22  
23  
24

Page 4 states:

25    *The cost of these three additional components of urban based digesters must be*  
26    *recovered through an acceptable rate of return on the project.*

27    8.2    Does Earth Renu believe that the presence of extra costs, on its own, justifies a  
28    higher RoE for the project?

29  
30    **Response:**

31    This response was provided by Earth Renu – FEI has included it here for convenience.

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1           *"No. We do not believe that the presence of extra costs justify a higher ROE for our*  
2           *project. We are incurring major risk in assuming we can achieve a tip fee of \$60 per*  
3           *tonne as the average tip fee for accepting organics at our facility. We do not have the*  
4           *luxury of guaranteed supply of feedstocks as do farm based digesters (which generate*  
5           *most of their own feedstock using their own waste). Urban organic waste will be directly*  
6           *to the facilities that offer the lowest tip fees. It is very difficult to lock in long term*  
7           *contracts with commercial businesses and municipalities will only consider long term*  
8           *contracts for source separated organics after a facility is built.*

9           *As a result, Earth Renu believes that a higher ROE is justified to compensate for the*  
10          *risks associated with tip fee pricing uncertainly and feedstock supply risk."*

11

12

13

14

Page 4 also states:

15          *A reasonable rate of return for the level of project risk was determined based on the fact*  
16          *that much of the project is financed with private equity.*

17          8.3     Can Earth Renu confirm that the expected RoE for the private equity exceeds  
18                FEI's approved RoE for its regulated gas distribution operations?

19

20          **Response:**

21          This response was provided by Earth Renu – FEI has included it here for convenience.

22                *"We find this question to contain inferences. FEI is a large public utility which has*  
23                *safeguards for its revenue stream by way of its "approved RoE" which is regulated by*  
24                *the BCUC. FEI acts as a gateway between producers of natural gas and end*  
25                *consumers. For the provision of this service, it gets the opportunity to earn a rate of*  
26                *return on the assets which it maintains to provide the transportation of natural gas from*  
27                *suppliers to end users.*

28                *Earth Renu has no guarantee whatsoever on its revenue stream which comes from*  
29                *tipping fees and from the sale of biomethane which it must produce. The tip fees are not*  
30                *guaranteed by the BCUC. The production of biomethane is a business which requires a*  
31                *steady supply of organic waste which is used to biologically produce biogas which is*  
32                *then upgraded into biomethane. A sufficient supply of feedstocks is not guaranteed.*

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1 *Earth Renu projects to receive about 1/3 of its revenue from the supply of biomethane to*  
2 *FEI. The purchase price of the biomethane is approved by the BCUC, but Earth Renu*  
3 *still has to incur the risk of being able to supply this biomethane which makes this a*  
4 *completely different business than that of FEI.*

5 *Earth Renu confirms that its expected RoE exceeds FEI's approved RoE. Earth Renu*  
6 *further states that it is our opinion that no urban based digester would be able to raise*  
7 *capital to build and operate an Urban Anaerobic Digestion Facility by offering a rate*  
8 *equivalent to FEI's approved RoE to its investors."*

9  
10

11 8.4 Given that there is no mention of debt financing, is it correct to assume that the  
12 capital structure underpinning the project is 100% equity? If not, please provide  
13 the capital structure, i.e., % debt and % equity underpinning the proposed  
14 project.

15  
16

**Response:**

17 This response was provided by Earth Renu – FEI has included it here for convenience.

18 *"The debt vs. equity structure has not yet been finalized. However, the percentage of*  
19 *debt could range from 0% to 20%."*

20  
21

22 8.5 Does the reference to "private equity" mean that the owners of Earth Renu are  
23 not supplying the equity financing through either the use of retained earnings or a  
24 new injection of owner-provided capital but rather are using venture capital  
25 provided by a third party?

26  
27

**Response:**

28 This response was provided by Earth Renu – FEI has included it here for convenience.

29 *"Earth Renu defines "private equity" as new cash supplied by the shareholders of Earth*  
30 *Renu in the form of a private placement purchase of treasury shares by these*  
31 *shareholders."*

32  
33

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1           8.6     If the response to 8.5 is in the affirmative, does this imply that third-party equity is  
2                   less costly than owner-provided equity? If not, please explain.

3  
4     **Response:**

5     This response was provided by Earth Renu – FEI has included it here for convenience.

6                   *"There is no implication that any equity would cost more or less. Equity rates of return*  
7                   *are defined in an open market where investors determine the return they require to*  
8                   *compensate for the risk profile of the given investment."*

9

10

11           8.7     If the response to 8.5 is in the affirmative, how was the equity financing "priced,"  
12                   i.e., how was the expected RoE determined?

13

14     **Response:**

15     This response was provided by Earth Renu – FEI has included it here for convenience.

16                   *"RoE's are determined by the lowest cost at which an equity investor will make the*  
17                   *investment. This is market driven as capital is mobile."*

18

19

20           8.8     Please confirm that the equity component of the capital costs of this project is  
21                   actual equity investment and not deemed equity.

22

23     **Response:**

24     This response was provided by Earth Renu – FEI has included it here for convenience.

25                   *"The equity component is actual equity. There is no deemed equity. "*

26

27

28           8.9     Was Earth Renu required to post any security to FEI? If so, please provide  
29                   details.

30



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1 **Response:**

2 Not at this time. However, there is a clause in the contract which requires Earth Renu to post a  
3 Letter of Credit at FEI's request.

4