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January 19, 2016

Via Email
Original via Mail

British Columbia Public Interest Advocacy Centre
Suite 208 – 1090 West Pender Street
Vancouver, B.C. V6E 2N7

Attention: Ms. Tannis Braithwaite, Executive Director

Dear Ms. Braithwaite:

Re: Project No. 3698858

FortisBC Energy Inc. (FEI)

Utilities Commission Act (UCA) - Section 71 Filing - Biomethane Purchase Agreement Between FEI and the City of Surrey (the Application)

Response to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre *et al.* (BCOAPO) Information Request (IR) No. 1

On November 24, 2015, FEI filed the Application referenced above. In accordance with Commission Order G-3-16 setting out the amended Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to BCOAPO IR No. 1.

FEI and the City of Surrey have entered into an Amending Agreement to the Biomethane Purchase Agreement (the Amending Agreement), a redacted version of which can be found in Attachment 4.1a, provided in response to BCUC IR 1.4.1. In accordance with Directive 2 of Order G-3-16, FEI has also provided a blacklined redacted version of the original Agreement, showing the changes reflected in the Amending Agreement also as part of Attachment 4.1a. The Amending Agreement has been filed on a confidential basis with the Commission in Confidential Attachment 4.1.

The Amending Agreement contains three changes to the Agreement:

1. The method of calculating the monthly payments for biomethane produced from the Surrey Facility and the annual true up in Schedule D of the Agreement has been amended so that it will produce the correct result if there is more than one BERC rate or if the BERC rate changes during the year. Please refer to the response to BCUC IR 1.4.1.
2. The term over which the City will pay the Facility Fee in clause 6.2 of the Agreement has been amended to reflect the intention of FEI and the City that the City would begin paying the Facility Fee after the in-service date of the facilities. Please refer to the response to BCUC Confidential IR 1.5.1.
3. Clause 7.2 of the Agreement has been amended to clarify that the Designated Customers must acknowledge that the City has retained the environmental attributes of the Re-Purchased Biomethane. Please refer to the response to BCUC Confidential IR 1.1.1.

If further information is required, please contact Scott Gramm, Manager Renewable Gas and Mid-size Commercial Accounts (604) 576-7242.

Sincerely,

FORTISBC ENERGY INC.

Original signed by: Ilva Bevacqua

For: Diane Roy

Attachments

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



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1 **1.0 Reference: Exhibit B-1, Section 4.3, pp. 11-12, Surrey Purchase Scenarios**

2 1.1 **Excluding the payment of the Facility Fee (FF) paid by the City of Surrey**
3 **(Surrey) to FEI and excluding the billings from FEI to RNG customers in**
4 **Surrey** (i.e., billings for Surrey's own use and Surrey's designated customers),
5 can FEI confirm that the following formula reflects the net amount paid by FEI to
6 Surrey (i.e., net of Surrey's true-up refund) in respect of RNG under the proposed
7 Purchase Agreement (PA):

8
$$\text{FEI to Surrey} = (\text{BERC} \times \text{U}) + \text{NSR} \times (\text{P} - \text{U})$$

9 OR, equivalently,

10
$$\text{FEI to Surrey} = \text{U} \times (\text{BERC} - \text{NSR}) + \text{P} \times \text{NSR}$$

11 where U = Surrey's RNG consumption (own use and designated customers)

12 P = Surrey's RNG production

13 BERC = BERC Rate (or Recovery Rate), and

14 NSR = Net Sale Rate

15 If unable to so confirm, please provide the correct formula.

16

17 **Response:**

18 FEI has amended its agreement with the City of Surrey. The amendments affect the payments
19 that will be made by FEI and by the City. Please refer to the response to BCUC IR 1.4.1 for a
20 complete description, along with the formula for the true-up payment.

21

22

23 1.2 Can FEI confirm that the total RNG commodity billings to Surrey (own use and
24 designated customers) are expressed by

25
$$\text{FEI RNG billings to Surrey customers} = \text{BERC} \times \text{U}.$$

26 If unable to so confirm, please provide the correct formula.

27

28 **Response:**

29 As all customers will be purchasing RNG under existing approved Rate Schedules and Tariffs, it
30 is confirmed that billings from FEI to Surrey and Designated Customers will be at the applicable
31 BERC rate.



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1 In addition, billings to Surrey or Designated Customers will also include applicable carbon tax
2 and carbon tax credits.

3
4

5

6 1.3 **Excluding the payment of the Facility Fee (FF)** paid by the City of Surrey
7 (Surrey) to FEI **but taking into account the billings from FEI to RNG**
8 **customers in Surrey**, can FEI confirm that the following formula reflects the net
9 amount paid by FEI to Surrey in respect of RNG:

10 FEI to Surrey (net of RNG billings to Surrey) = $NSR \times (P - U)$, where $(P - U)$ is
11 the excess of Surrey RNG production above Surrey RNG consumption?

12 If unable to so confirm, please provide the correct formula.

13

14 **Response:**

15 Please refer to the response to BCUC IR 1.4.1.

16

17

18

19

20 1.4 Can FEI confirm that the quantity of Surrey- produced RNG going to the RNG
21 pool is $(P - U)$, that FEI's net payment for this gas is at the NSR, and that this
22 volume is sold at (the presumably higher) BERC?

23

24 If confirmed, please further confirm that FEI does not benefit from the $(BERC -$
25 $NSR)$ differential. If unable to provide this further confirmation, please explain.

26

27 **Response:**

28 Confirmed that the quantity of Surrey-produced RNG equal to $(P - U)$ goes to the RNG pool,
29 that FEI's net payment for this gas is at the NSR, and that this volume is sold at the BERC.
30 However, FEI clarifies that in fact all of the RNG produced by the Surrey Facility goes to the
31 RNG pool and that all biomethane sold from the RNG pool, including to Surrey and its
32 Designated Customers, will be at the applicable BERC.

33



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1 FEI does not benefit from the BERC-NSR differential. In those years when Surrey's biomethane
2 production is greater than its use, the difference will be recorded in the BVA at the NSR.

3
4

5

6 1.5 Please confirm that there are no issues with respect to the proposed PA should a
7 scenario occur in which Surrey's RNG consumption exceeds Surrey's RNG
8 production. If unable to so confirm, please discuss.

9

10 **Response:**

11 Confirmed.

12

13

14

15 1.6 Can FEI confirm that the NSR will always less than BERC? If unable to so
16 confirm, please explain or discuss.

17

18 **Response:**

19 The Net-Sale Rate is confidential and it is therefore confidential whether the Net-Sale Rate is
20 now or will at some time be greater or less than the BERC.

21 However, as the Net-Sale Rate is a fixed rate with an annual fixed percentage increase, and the
22 BERC is approved separately by the Commission, the BERC may be either higher or lower than
23 the Net-Sale Rate.

24

25

26

27 1.7 Can FEI confirm that FEI and its shareholder and its ratepayers are indifferent,
28 with respect to financial consequences, to each of the three scenarios outlined in
29 the referenced section? If unable to so confirm, please explain.

30

31 **Response:**

32 FEI has interpreted financial consequences to mean equity earnings for the shareholder and
33 rate impacts to FEI's RNG and non-RNG customers.



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- 1 With respect to the shareholder of FEI, it is confirmed that each scenario has the same impact
- 2 on equity earnings and the shareholder is indifferent in this regard.

- 3 The amount of RNG purchased by Surrey or their Designated Customers will affect the balance
- 4 in the Biomethane Variance Account (BVA), thus each of the scenarios will have a different
- 5 impact on the BVA and in that regard the potential rate impact to both RNG customers and all
- 6 other FEI customers may be different in each scenario and is dependent on the BERC
- 7 methodology in place.

- 8 However, since the supply from this Agreement meets the approved RNG supply criteria and
- 9 the supply from the Surrey Facility will form part of the RNG supply portfolio, any purchase of
- 10 RNG from Surrey or their Designated Customers is seen as a benefit as it also provides
- 11 additional RNG demand that will result in a lower BVA balance, and lower RNG rates, all else
- 12 equal.

- 13



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1 **2.0 Reference: Exhibit B-1, Section 6.1, pp. 15-16, Facility Fee Components**

2 2.1 Excluding the fifth component of the FF – the negotiated incremental fee to
3 provide incremental benefits to other RNG customers – can FEI confirm that, **at a**
4 **high level**, the sum of the other four FF components would be calculated by
5 equating:

6 (i) the present discounted value of the capital costs, operating costs,
7 maintenance costs, administration costs, taxes, etc., to

8 (ii) the present discounted value of the stream of FFs

9 over the expected life of the facilities?

10
11 If able to so confirm, please provide the discount rate used in the calculation. If
12 unable to so confirm, please provide a high level explanation of the calculation.

13
14 **Response:**

15 The levelized Facilities Fee equates the present value of the forecast cost of service as
16 provided on Schedule 1 of Appendix B, in addition to the forecast remaining net book value of
17 the assets at the end of the contract, to the revenue stream of the Facilities Fee for each year,
18 over a 25 year period and using a discount rate reflecting FEI's after-tax weighted average cost
19 of capital.

20 Please also refer to Schedule 10 of Appendix B as provided non-confidentially in the response
21 to BCUC IR 1.2.1.2.

22



<p style="text-align: center;">FortisBC Energy Inc. (FEI or the Company) <i>Utilities Commission Act</i> Section 71 Filing – Biomethane Purchase Agreement Between FEI and City of Surrey (the City or Surrey) (the Application)</p>	<p style="text-align: right;">Submission Date: January 19, 2016</p>
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1 **3.0 Reference: Exhibit B-1, Section 3.3, Interconnect Facility, Potential Stranded**
2 **Costs**

3 3.1 Please provide the estimated net book value of the FEI subject facilities at the
4 end of 25 years.

5
6 **Response:**

7 The estimated net book value of the Interconnection Facilities is \$240 thousand at the end of 25
8 years.

9 As noted in the response to BCUC Confidential IR 1.7.1, FEI will update the financial schedules
10 and Facilities Fee to reflect the actual capital and application costs and then-applicable
11 depreciation and salvage rates once the project is completed.

12
13

14
15 3.2 At what future time does FEI expect that these facilities will be completely
16 depreciated?

17
18 **Response:**

19 The assets forming the Interconnecting Facilities will be depreciated based on 2016 approved
20 depreciation rates for Bio Gas assets, with the following expected remaining life. Please refer to
21 the response to BCUC Confidential IR 1.7.1.

<u>Asset group</u>	<u>Depreciation Rate</u>	<u>Expected Remaining Life (Yrs) *</u>
Structures & Improvement 472-20	3.78%	26.5
Distribution Mains 475	1.25%	80.0
Distribution Meas. & Reg. Equipment 477-10	4.72%	21.2
Meters - 478-30	10%	10.0

22 * Expected remaining life is calculated by taking 1 / depreciation rate

23 As noted in the response to BCOAPO IR 1.2.1, the Facilities Fee includes a provision to recover
24 the forecast net book value at the end of the Agreement term, which means that the capital



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1 costs of the Interconnect Facilities are expected to be recovered from Surrey over the term of
2 the Agreement.¹

3
4

5

6 3.3 Please consider a hypothetical scenario under which the PA is approved and
7 then, subsequently, a legal dispute between Surrey and Orgaworld ensues and
8 there is subsequent, drawn-out litigation between Surrey and Orgaworld.

9

10 Under this hypothetical scenario, is there any possible stranded asset risk
11 exposure to ratepayers? Please discuss.

12

13 **Response:**

14 FEI believes that the terms of the Agreement mitigate any stranded asset risk flowing from the
15 scenario described in the preamble. As explained in the Application, Surrey is obligated to pay
16 the Facilities Fee independent of the volume of RNG produced and sold to FEI. The Facilities
17 Fee, as explained in section 6 of the Application, is designed so that FEI will recover the costs
18 associated with the design, construction, operation and maintenance of the Interconnection
19 Facilities over the term of the Agreement. Article 10 of the Agreement mitigates potential
20 stranded asset risk in the case of the City defaulting on or terminating the Agreement.

21 As described in section 7.1 of the Application, FEI will maintain control of and access to the
22 interconnection facilities. The portion of the interconnection facilities that is above ground will be
23 designed to maximize the ability of FEI to remove it and use it for other projects if circumstances
24 require.

25

¹ Subject to changes in group depreciation rates which may result in a variance from forecast, which FEI expects to be minor.