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January 26, 2016

British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary and Director

Dear Ms. Hamilton:

Re: Project No. 3698858

FortisBC Energy Inc. (FEI)

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

Response to the British Columbia Utilities Commission (BCUC or the Commission) Information Request (IR) No. 2

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 BCUC IR No. 2.

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 (email only): Registered Parties

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)	Submission Date: January 26, 2016
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10.0 Reference: FEI-CITY OF SURREY BIOMETHANE PURCHASE AGREEMENT

Exhibit B-3, Attachment 4.1a; Exhibit B-4, BCUC Confidential IR 1.1, 1.2 and 1.2.1; Exhibit B-5, BCOAPO IR 1.4; Exhibit B-7, CEC IR 12.2.2;

FEI Application for Approval of Biomethane Energy Recovery Charge (BERC) Rate Methodology (BERC Rate Methodology Application), Exhibit B-5, BCUC IR 12.1, Attachment 12.1; Exhibit B-8, CEC IR 11.3, Attachment 11.3

Environmental attribute

In Exhibit B-8 of the FortisBC Energy Inc. (FEI) BERC Rate Methodology Application, in response to CEC IR 11.3, the Carbon Tax Notice from the Ministry of Finance in Attachment 11.3 states:

The Biomethane Credit Program provides a benefit to purchasers of biomethane blended with natural gas if the purchase occurs under a qualifying biomethane contract.

You must provide a biomethane credit to your purchaser if you:

- sell natural gas or a blend of natural gas and biomethane if you cannot determine the proportions of biomethane and natural gas, and
- sell the natural gas or blend under a biomethane contract.

... The credit is equal to the carbon tax payable on the specified volume or percentage of biomethane. You must provide purchasers with the biomethane credit at the time of purchase on their natural gas bills.

In Exhibit B-4, in FEI's response to BCUC Confidential IRs 1.1, 1.2 and 1.2.1, FEI described how the Greenhouse Gas benefits relate to Designated Customers, as noted in Exhibit B-7, CEC IR 12.2.2.

In Exhibit B-3, in Attachment 4.1a, clause 7.2(f) in the Amending Agreement to the Biomethane Purchase Agreement (Amending Agreement) states that Designated Customers has:

- (i) acknowledged in writing the Owner has retained the Environmental Attributes arising in connection with the Re-Purchased Biomethane, and
- (ii) agreed with the Owner in writing not to claim, report or otherwise benefit from (and has not claimed, reported or otherwise benefited from) any Environmental

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Attributes arising in connection with the Re-Purchased Biomethane except to the extent such Environmental Attributes have been transferred to it by the Owner.

In Exhibit B-5, FEI's response to BCOAPO IR 1.4 stated that "FEI clarifies that in fact all of the RNG produced by the Surrey Facility goes to the RNG pool and that all biomethane sold from the RNG pool, including to Surrey and its Designated Customers, will be at the applicable BERC."

In Exhibit B-5 of the BERC Rate Methodology Application, FEI shows sample customer bills for Rate Schedules 1B, 2B, 3B and 11B in Attachment 12.1. All of the sample customer bills show a Biomethane Credit attributed to the amount of renewable natural gas (RNG) consumed by each customer.

10.1 Please file BCUC Confidential IRs 1.1, 1.2 and 1.2.1 on the public record. If these IR responses are confidential, please explain why and provide a public response related to environmental attributes and the Designated Customer.

Response:

Attachment 10.1a contains the responses to BCUC Confidential IRs 1.1, 1.2 and 1.2.1, as well as the responses to BCUC Confidential IRs 1.3 series, 1.4.1, and 1.5 series for the public record as these responses do not contain confidential information.

The responses to BCUC Confidential IR 1.1.1 and 1.1.2 were based in part on a misinterpretation of the wording and intent of the Agreement regarding the transfer of environmental attributes associated with the displacement of natural gas. FEI is providing Attachment 10.1b containing revised responses to BCUC Confidential IR 1.1.1 and 1.1.2 for the public record.

FEI can confirm that in fact the transfer of environmental attributes in the Agreement is consistent with previous supply agreements and FEI's existing Biomethane Program. In particular:

- As with other supply agreements, the City as supplier will retain the environmental attributes associated with the destruction of methane for all of the organic waste processed by the Surrey Facility.
- Also consistent with other supply agreements, the City will transfer to FEI the environmental attributes associated with the displacement of natural gas for all of the biomethane produced by the City and delivered to FEI.
- As with all customers of FEI's Biomethane Program, the City and its Designated Customers will receive the environmental attributes associated with the displacement of natural gas when they purchase biomethane from FEI pursuant to FEI's approved biomethane rate schedules.

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- Through its contractual arrangements with the Designated Customers, the City will obtain the right to claim the environmental attributes associated with the displacement of natural gas related to all of the Re-Purchased Biomethane purchased by the Designated Customers.

For clarity, FEI notes that Article 8.3(a) of the Agreement addresses the environmental attributes associated with the displacement of natural gas related to the “Re-Purchased Biomethane”. The second sentence of Section 8.3(a) indicates that the Owner will deliver biomethane and the corresponding Environmental Attributes (associated with the displacement of natural gas) to FEI. The first sentence of Section 8.3(a) indicates that the Owner and the Designated Customers will purchase biomethane and corresponding Environmental Attributions from FEI as contemplated in Article 7. Together, the meaning of 8.3(a) is that there will be an equal exchange of biomethane and corresponding Environmental Attributes associated with the displacement of natural gas (i.e., “a carbon neutral (or carbon negative) fuel”) between FEI and the City/Designated Customers: first FEI will buy it from the City pursuant to the Agreement; second, the City and the Designated Customer(s) will buy it back pursuant to FEI's RNG Rate Schedules.

The statement in section 8.3(a) of the Agreement that the City “retains” ownership of the environmental attributes associated with displacement of natural gas for all of the Re-Purchased Biomethane is an acknowledgement that at the end of all the RNG transactions the City of Surrey will own the environmental attributes associated with the displacement of natural gas corresponding to all of the RNG the City and its Designated Customers purchase from FEI. As noted above, through its contractual arrangements with the Designated Customers, the City will obtain the right to claim the environmental attributes associated with the displacement of natural gas related to all of the Re-Purchased Biomethane purchased by the Designated Customers. The Amendment to clause 7.2 provides the necessary assurance that the Designated Customers agree that the City has the right to claim the environmental attributes of the Re-Purchased Biomethane and that there will be no double-claiming of environmental attributes associated with the Re-Purchased Biomethane. However, the details of the contractual arrangements between the City and the Designated Customers are a private contractual matter which do not impact FEI's Biomethane Program.

As FEI wishes the Commission to be assured that the FEI and the City are in agreement on this matter, FEI has shared this response with the City for review and the City has confirmed its agreement with the substance of the response.

10.2 Based on the Carbon Tax Notice from the Ministry of Finance, it appears that FEI (the biomethane seller) must include a biomethane credit to the Designated

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Customer (the purchaser). Please explain how the Amended Agreement will work in terms of the Carbon Tax credit if the Designated Customer must not “claim, report or otherwise benefit from... any Environmental Attributes.”

Response:

Surrey and its Designated Customers will purchase RNG, including the environmental attributes associated with the displacement of natural gas, under FEI’s approved RNG rate schedules and will therefore receive the carbon tax credit on their bills from FEI.

Section 7.2(f) of the amended Agreement provides assurance that there will be no double-claiming of environmental attributes associated with the Re-Purchased Biomethane and reflects a private contractual arrangement between Surrey and the Designated Customers. If Surrey and the Designated Customers consider it necessary, the contract between them can explicitly address who receives the benefit of the carbon tax credit. However, this is a contractual matter between Surrey and the Designate Customers that does not impact FEI or the Biomethane Program.

10.2.1 Is it possible for FEI to charge the Designated Customer the Commission-approved BERC rate but not include the carbon tax credit? Please explain.

Response:

Please refer to the responses to BCUC IRs 2.10.1 and 2.10.2. FEI does not propose to charge Designated Customers the Commission-approved BERC rate but not include the carbon tax credit. FEI does not wish to speculate as to whether it would be possible to charge a customer the Commission-approved BERC rate but not include the carbon tax credit.

10.2.1.1 Is it possible for FEI to charge the City of Surrey the Commission-approved BERC rate but not include the carbon tax credit? Please explain.

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1 **Response:**

2 Please refer to the responses to BCUC IRs 2.10.1 and 2.10.2. FEI does not propose to charge
3 the City the Commission-approved BERC rate but not include the carbon tax credit. FEI does
4 not wish to speculate as to whether it would be possible to charge a customer the Commission-
5 approved BERC rate but not include the carbon tax credit.

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10 10.2.2 If it is not possible, does FEI intend to introduce a new rate schedules
11 for gas supplied from the RNG pool without the associated
12 environmental attributes?

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13 **Response:**

14 No, FEI does not intend to introduce a new rate schedule for gas supplied from the RNG pool
15 without the associated environmental attributes. Please refer to the responses to BCUC IRs
16 2.10.2.1 and 2.10.2.1.1.

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24 **Response:**

25 Please refer to the response to BCUC IR 2.10.2.2.

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10.3 For further clarification, please confirm that the environmental attribute that the
City of Surrey retains is only up to the repurchased biomethane amount by the
City of Surrey and its Designated Customers. For example, if the City of Surrey
supplies 100 gigajoules (GJ) of biomethane to FEI but the City of Surrey and its
Designated Customers repurchases 80 GJs, the City of Surrey only retains 80
GJs worth of environmental attributes. If not confirmed, please explain.

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1 **Response:**

2 Please refer to the response to BCUC IR 2.10.1. Every GJ of RNG sold by the City to FEI
3 includes the environmental attributes associated with the displacement of natural gas. Each GJ
4 of RNG purchased by Surrey and its Designated Customers from FEI includes the
5 environmental attributes associated with the displacement of natural gas. Therefore in the
6 example above, Surrey would provide FEI with 100 GJs of environmental attributes associated
7 with the displacement of natural gas and purchase back 80 GJs of environmental attributes
8 associated with the displacement of natural gas; Surrey would therefore retain 80 GJs of
9 environmental attributes associated with the displacement of natural gas..

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13 10.4 Using the sample customer bill for Rate Schedule 3B for large commercial
14 customers provided in Exhibit B-5 of the BERC Rate Methodology Application
15 proceeding, please compare and explain whether the sample bill for a typical
16 large commercial customer differs from the one for the City of Surrey and other
17 Designated Customers, assuming Rate Schedule 3B is the applicable BERC rate
18 schedule for the City of Surrey and Designated Customers.

19

20 **Response:**

21 The bills that Surrey and its Designated Customers will receive in respect to the purchase of
22 RNG are the exact same as the bills received by any other FEI customer purchasing RNG
23 under Rate Schedule 3B. Therefore, the sample customer bill would be the same as provided
24 in Exhibit B-5 of the BERC Rate Methodology Application proceeding.

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28 10.5 Please illustrate with a mock-up of a sample customer bill for: (i) City of Surrey;
29 and (ii) Designated Customers for the Re-Purchased Biomethane.

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31 **Response:**

32 Please refer to the response to BCUC IR 2.10.4.

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1 10.5.1 Please explain whether the Commission-approved biomethane rate
2 schedules under which the City of Surrey and Designated Customers
3 purchase Re-Purchased Biomethane from FEI is adjusted to reflect that
4 the Re-Purchased Biomethane does not contain any environmental
5 benefits.
6

7 **Response:**

8 Please refer to the response to BCUC IR 2.10.1.
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12 10.6 If a Designated Customer purchases both Re-Purchased Biomethane and
13 additional RNG from FEI (amount in excess of what the City of Surrey produces),
14 please explain how the Commission-approved biomethane rate schedule under
15 which the Designated Customer purchases RNG from FEI reflect the appropriate
16 attributable environmental benefits. If available, please illustrate in a sample
17 customer bill.
18

19 **Response:**

20 Please refer to the response to BCUC IR 2.10.1. All RNG purchased under the existing
21 Commission-approved RNG rate schedules includes the environmental attributes associated
22 with the displacement of natural gas. Therefore, all customers, including Surrey and its
23 Designated Customers, will receive these environmental attributes when they purchase RNG
24 from FEI.
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28 10.7 Please explain and estimate the costs of all system and business process
29 modifications and enhancements that are required to accommodate the
30 Amended Agreement for biomethane sold and purchased between FEI, City of
31 Surrey and its Designated Customers.
32

33 **Response:**

34 Please refer to the response to BCUC IR 2.10.1. There will be no system upgrades or business
35 process changes required for Surrey and its Designated Customers to purchase RNG from FEI.

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- 1 There are costs incurred to manage the supply and to true up at the end of the year. These
- 2 costs are recovered through the Facilities Fee.

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11.0 Reference: SURREY PURCHASE SCENARIOS

Exhibit B-3, BCUC IR 4.1

Sales and purchase of biomethane between FEI and Surrey

In response to BCUC IR 4.1, FEI and the City of Surrey have agreed in the Amending Agreement to adjust how the monthly payments are calculated so that they will achieve the intended result regardless of the BERC rate at which the City of Surrey and its Designated Customers may purchase biomethane during the year.

FEI shows six scenarios for which the BERC is greater than the Net Sale Rate (NSR) and another six scenarios for which the NSR is greater than the BERC. The Annualized Repurchase Rate (ARR) is the annual weighted average rate at which the City of Surrey and its Designated Customers purchased RNG.

11.1 Please expand the twelve scenarios shown in BCUC IR 4.1 to include the monthly carbon tax. Provide the working excel spreadsheet.

Response:

The carbon tax does not affect the outcome of the scenarios provided in BCUC IR 1.4.1 and, as such, FEI has not updated the 12 scenarios to include the monthly carbon tax. This is because, in the case of qualifying RNG purchases, the carbon tax is offset by a carbon tax credit. Thus, for each scenario and in each month, for the amount of RNG purchased the carbon tax calculated will be equally offset by the carbon tax credit that is calculated.

FEI provides Scenario 1 below as an example:

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Assumptions:

Contract Year: November 1 to October 31
Net Sale Rate (NSR) \$ 11.00
True-up = Lower of P or U x (BERC - NSR) If positive, FEI pays Surrey; if negative, Surrey pays FEI
Note: If P = U then use either one.
Carbon Tax Rate \$1.498

Scenario 1: P = U and same BERC throughout year

BERC (short-term)	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00
BERC (long-term)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Flows of Gas:

	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Total
Surrey produces biomethane (P)	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000 GJ
Surrey (Designated Customers) use biomethane (U) at s/t BERC rate	5,000	15,000	5,000	15,000	5,000	15,000	5,000	15,000	5,000	15,000	5,000	15,000	120,000 GJ
Difference	5,000	-5,000	5,000	-5,000	5,000	-5,000	5,000	-5,000	5,000	-5,000	5,000	-5,000	0 GJ

Financial Transactions:

FEI pays Surrey for P at NSR	\$ 110,000	\$ 110,000	\$ 110,000	\$ 110,000	\$ 110,000	\$ 110,000	\$ 110,000	\$ 110,000	\$ 110,000	\$ 110,000	\$ 110,000	\$ 110,000	\$ 1,320,000
Surrey (Designated Customers) pay FEI for U at BERC tariff rate	\$ 75,000	\$ 225,000	\$ 75,000	\$ 225,000	\$ 75,000	\$ 225,000	\$ 75,000	\$ 225,000	\$ 75,000	\$ 225,000	\$ 75,000	\$ 225,000	\$ 1,800,000
Carbon Tax on U	\$ 7,490	\$ 22,470	\$ 7,490	\$ 22,470	\$ 7,490	\$ 22,470	\$ 7,490	\$ 22,470	\$ 7,490	\$ 22,470	\$ 7,490	\$ 22,470	\$ 179,760
Carbon Tax Credit on U	-\$ 7,490	-\$ 22,470	-\$ 7,490	-\$ 22,470	-\$ 7,490	-\$ 22,470	-\$ 7,490	-\$ 22,470	-\$ 7,490	-\$ 22,470	-\$ 7,490	-\$ 22,470	-\$ (179,760)
Difference	\$ 35,000	-\$ 115,000	\$ 35,000	-\$ 115,000	\$ 35,000	-\$ 115,000	\$ 35,000	-\$ 115,000	\$ 35,000	-\$ 115,000	\$ 35,000	-\$ 115,000	-\$ 480,000

Year-end Financial True-up:

Avg BERC Rate	\$ 15.00
Positive so FEI pays Surrey	\$ 480,000

Result:

FEI pays Surrey 120,000 GJ @ BERC of \$15 (first at \$11.00 then at \$4.00), Surrey purchases 120,000 GJ @ BERC of \$15

11.2 Presumably, the billing cycles of the City of Surrey and its Designated Customers could be different. How do the monthly transactions and annual true-up transactions (if applicable) capture the difference in carbon tax?

Response:

There is no net impact of the carbon tax on the monthly billings or on the annual true-up calculation.

FEI does not levy carbon tax on the biomethane that it purchases from Surrey. Therefore, with respect to the monthly transactions, carbon tax only applies to the purchase of RNG from FEI by Surrey or Designated Customers under existing FEI Rate Schedules. As described in the response to BCUC IR 2.11.1, any carbon tax calculated for the consumption of RNG by Surrey or Designated Customers is equally offset by the carbon tax credit that is applied.

Thus, because carbon tax does not apply to the biomethane that FEI purchases from Surrey and because the monthly bills for Surrey or Designated Customers for the RNG purchased from FEI include equally offsetting amounts, there is no carbon tax impact to be considered in the annual true up calculation.

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4 11.3 In the Amended Agreement under clause 2.2(a)(i), it shows the calculation of the
5 ARR. Please confirm that the ARR is essentially the weighted average of the
6 BERC rate throughout the contract year. If not confirmed, please explain.
7

8 **Response:**

9 Confirmed.
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13 11.4 In some of the scenarios in BCUC IR 4.1, FEI was asked to illustrate the financial
14 transactions based on a long-term and short-term BERC rate, consistent with the
15 proposals in the BERC Rate Methodology Application. Please confirm that the
16 formula associated with the scenarios shown in BCUC IR 4.1 will be compatible
17 with any BERC rate structure (e.g. multi-tiered BERC rates, BERC rates based
18 on rate class, BERC rates based on biomethane blends, etc.). If not confirmed,
19 please explain what type of rate structure will be compatible. Refer to the BERC
20 Rate Methodology Application, Exhibit B-5, Attachment 19.1 to BCUC IR 19.1 for
21 possible BERC rate structures.
22

23 **Response:**

24 FEI confirms that the formula associated with the scenarios in BCUC IR 4.1 would be
25 compatible with rate structures where the revenues and volumes of biomethane purchased by
26 Surrey or Designated Customers are clearly identifiable. This is because an average
27 repurchase rate (ARR) can be readily calculated by taking the revenues from Surrey or
28 Designated Customers divided by the corresponding volumes.

29 In the scenario where a customer-determined flat fee contribution is used, calculating the ARR
30 would be problematic because there would not be a specific volume to use to calculate the
31 annual weighted average rate for purchases by the City of Surrey and its Designated
32 Customers.
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11.5 Please confirm that the Commission, when considering this Amended Agreement for approval and acceptance, should make its determination based on the current BERC rate structure which is a single BERC rate currently at \$14.414/GJ. If not confirmed, please explain why not, and what should the Commission consider.

Response:

FEI believes that, when considering the Amended Agreement, the Commission should consider the current BERC rate structure and the BERC rate structure proposed by FEI in the BERC Rate Methodology Application.

If the BERC rate structure is approved as FEI has proposed in the BERC Rate Methodology Application, FEI has demonstrated in its response to BCUC IR 1.4.1 that the purchase rates and adjustments in Schedule D of the Agreement, as amended, will work appropriately. Further, as noted in response BCUC IR 2.11.4, the purchase rates and adjustments in Schedule D of the Agreement, as amended, would still function appropriately so long as the revenues and volumes of biomethane purchased by Surrey or Designated Customers are clearly identifiable. Therefore, the purchase rates and adjustments in Schedule D of the Agreement, as amended, will work in almost all possible variations of the BERC rate.

In the event that the BERC rate structure is approved that does not allow the revenues and volumes of biomethane purchased by Surrey or Designated Customers to be clearly identifiable, FEI and Surrey would have to amend the Agreement to deal with such a significant change in program structure in order to affect the intended outcomes, whereby Surrey is able to repurchase a specific volume of biomethane based on its own production..

11.6 With reference to the twelve scenarios, hypothetically, if FEI buys biomethane from Surrey and resells the biomethane to Surrey under Rate Schedule 5 rather than the BERC Rate Schedule 5B, what are the impacts to FEI with regards to: (i) year-end financial true-up; (ii) total revenue; (iii) delivery margin; and (iv) net cost of gas. Please elaborate.

Response:

As discussed in the response to BCUC IR 2.10.1 and the revised response to BCUC IR Confidential 1.1.1, the Agreement contemplates that the City and its Designated Customers will purchase biomethane from FEI under its approved biomethane rate schedules and, in doing so,

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1 receive the environmental attributes associated with the displacement of natural gas
2 corresponding to that biomethane. Surrey cannot purchase biomethane from FEI under Rate
3 Schedule 5 as biomethane is not offered under this schedule, and any volumes purchased
4 under Rate Schedule 5 would not be included in the calculation of the ARR. As such, the
5 hypothetical scenario posed in the question is not feasible.

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9 11.6.1 From a net financial standpoint from the perspective of FEI, is there any
10 difference if the City of Surrey and its Designated Customers
11 repurchase the gas under a biomethane rate class vs. a conventional
12 natural gas rate class (e.g. Rate Schedule 5 vs. 5B)? Please elaborate.
13

14 **Response:**

15 Please refer to the response to BCUC IR 2.11.6. As it is essential to the City that it be able to
16 claim the environmental attributes associated with the displacement of natural gas
17 corresponding to the biomethane it purchases from FEI, purchasing natural gas under Rate
18 Schedule 5 is not a feasible alternative to achieve the City's objectives.
19

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1 **12.0 Reference: AMENDING AGREEMENT**

2 **Exhibit B-3, Cover letter; Exhibit B-6, BCSEA IR 8.1; Exhibit B-5,**
3 **BCOAPO IR 1.4;**

4 **FEI Section 71 Greater Vancouver Sewage and Drainage District**
5 **(GV&DD) Biomethane Purchase Agreement Application, Exhibit B-**
6 **1, p. 12;**

7 **FEI BERC Rate Methodology proceeding, Exhibit B-8, Attachment**
8 **11.3, Climate Action Secretariat letter**

9 **Environmental attributes of notional RNG deliveries**

10 In the January 19, 2016 cover letter to FEI's response to BCUC IR No. 1, FEI describes
11 the three changes to the Biomethane Purchase Agreement between FEI and the City of
12 Surrey that are contained in the Amending Agreement, one of which is described as
13 follows:

14 Clause 7.2 of the Agreement has been amended to clarify that the Designated
15 Customers must acknowledge that the City has retained the environmental
16 attributes of the Re-Purchased Biomethane.

17 In response to BCSEA IR 8.1, where BCSEA seeks confirmation of the concept of the
18 notional delivery of renewable natural gas (RNG), FEI stated:

19 The intention is that the City will physically deliver pipeline quality biomethane to
20 FEI's Interconnection Facilities and, to the extent that Surrey and its Designated
21 Customers purchase biomethane, Surrey will physically receive natural gas
22 (deemed to be renewable natural gas) from FEI at a different location. [Emphasis
23 added]

24 12.1 Given that the City of Surrey has retained the environmental attributes of the Re-
25 Purchased Biomethane that is delivered to Designated Customers, does FEI
26 agree that the Re-Purchased Biomethane delivered to Designated Customers
27 cannot be notionally deemed renewable natural gas? If FEI does not agree,
28 please explain.

29
30 **Response:**

31 Please refer to the response to BCUC IR 2.10.1.

32

33

34

FortisBC Energy Inc. (FEI or the Company) <i>Utilities Commission Act Section 71 Filing – Biomethane Purchase Agreement Between FEI and City of Surrey (the City or Surrey) (the Application)</i>	Submission Date: January 26, 2016
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12.2 Please confirm, or otherwise explain, that the portion of the “pipeline quality biomethane” physically delivered and sold to FEI from the City of Surrey that is then resold under the renewable natural gas program to the Designated Customers as Re-Purchased Biomethane does not include the associated the environmental attributes referred to in the January 19, 2016 cover letter.

Response:

Not confirmed. Please refer to the response to BCUC IR 2.10.1.

On page 12 of the FEI Section 71 Greater Vancouver Sewerage and Drainage District (GVS&DD) Biomethane Purchase Agreement application, FEI describes the purchase of a quantity of gas that is delivered as “pipeline quality biomethane” that is delivered without the environmental attributes and therefore not considered a purchase of biomethane but rather conventional natural gas:

The Agreement provides that GVS&DD may supply volumes in excess of the 40,000 GJ Biomethane supply cap. As the GVS&DD would own any GHG reduction credits for these volumes, these volumes would not be treated as Biomethane for the purpose of FEI’s Biomethane program. FEI recognizes that the approval of the supply above 40,000 GJ is not contemplated by the filing criteria for Biomethane supply contracts. FEI is therefore seeking approval of this aspect of the agreement independent of the Biomethane supply criteria discussed in the section above.

12.3 For the portion of the biomethane delivered from the City of Surrey that is then resold to the Designated Customers as Re-Purchased Biomethane, does FEI agree that this portion of the gas purchased from the City of Surrey under the Biomethane Purchase Agreement between FEI and the City of Surrey as amended by the Amending Agreement (Surrey Purchase Agreement) is similar to the purchase of excess gas in the GVS&DD biomethane purchase agreement that is without environmental attributes?

Response:

No. Please refer to the response to BCUC IR 2.10.1.

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12.3.1 If FEI does not agree, please explain.

Response:

Please refer to the response to BCUC 2.12.3.

12.4 For the portion of the biomethane delivered from the City of Surrey that is then resold to the City of Surrey, does FEI agree that this portion of the gas purchased from the City of Surrey under the Biomethane Purchase Agreement between FEI and the City of Surrey, as amended by the Amending Agreement (Surrey Purchase Agreement), is similar to the purchase of excess gas in the GVS&DD biomethane purchase agreement that is without environmental attributes?

Response:

No. Please refer to the response to BCUC IR 2.10.1

12.4.1 If FEI does not agree, please explain.

Response:

Please refer to the response to BCUC IR 2.12.4.

In Exhibit B-5, in response to BCOAPO IR 1.4, FEI stated:

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1 FEI clarifies that in fact all of the RNG produced by the Surrey Facility goes to the
2 RNG pool and that all biomethane sold from the RNG pool, including to Surrey
3 and its Designated Customers, will be at the applicable BERC.

4 12.5 Please describe how the biomethane purchased from the City of Surrey that is
5 delivered to the Designated Customers as Re-Purchased Biomethane will be
6 recorded and treated in the Biomethane Variance Account (BVA).
7

8 **Response:**

9 Please refer to the response to BCUC IR 2.10.1. The biomethane purchased from the City of
10 Surrey will be treated the same as any other biomethane purchased from biomethane suppliers
11 in that it goes into the same pool and is recorded in the BVA. Similarly, any biomethane
12 purchased by Surrey and its Designated Customers is treated the same as biomethane
13 purchased by any other customers through existing rate schedules and also recorded in the
14 BVA.

15
16
17
18 12.5.1 If this purchase is to be recorded in the BVA, will this quantity of gas be
19 identified and tracked as a separate quantity that does not have
20 environmental attributes? Please discuss.
21

22 **Response:**

23 Please refer to the response to BCUC IR 2.12.5 and the amended response to BCUC
24 Confidential IR 1.1.1.
25
26

27
28 12.5.2 If this purchase is not to be recorded in the BVA, please describe where
29 it will be recorded and the price that applies.
30

31 **Response:**

32 Please refer to the response to BCUC IR 2.12.5.
33
34

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2
3 Attachment 11.3 of Exhibit B-3 of the BERC Rate Methodology proceeding contains a
4 letter from the Climate Action Secretariat to FEI dated March 13, 2015 that sets out the
5 Climate Secretariat's policy regarding FEI's renewable natural gas for public sector
6 organizations.

7 12.6 To the extent a portion of the biomethane sold to FEI by the City of Surrey does
8 not include the associated environmental attributes, would this gas qualify as
9 renewable natural gas for public sector organizations under the policy described
10 in the March 13, 2015 letter from the Climate Action Secretariat to FEI? Please
11 discuss.
12

13 **Response:**

14 Please refer to the responses to BCUC IRs 2.10.1 and 2.10.6.
15



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1 **A. UTILITIES COMMISSION ACT – SECTION 71 ITEMS**

2 **1.0 Reference: FEI-CITY OF SURREY BIOMETHANE PURCHASE AGREEMENT**

3 **Exhibit B-1, Application, Appendix A, p. 10**

4 **Environmental Attributes**

5 Clause 8.3(a) of the Biomethane Purchase Agreement between FortisBC Energy Inc.
6 (FEI) and the City of Surrey (Surrey) (Agreement) contained on page 10 in Appendix A
7 of the Application states:

8 For any biomethane purchased from FEI by the Owner or any Designated
9 Customer in accordance with ARTICLE 7 (the ‘Re-Purchased Biomethane’), the
10 Owner will retain and own any corresponding Environmental Attributes
11 associated with the displacement of traditional natural gas by carbon neutral (or
12 carbon negative) biomethane through the purchase and usage of this Re-
13 Purchased Biomethane.

14 1.1 Please confirm, or explain otherwise, that when a Designated Customer
15 purchases renewable natural gas (RNG) from FEI under FEI’s existing RNG rate
16 schedule and tariff, the Designated Customer receives the RNG along with all of
17 the associated environmental attributes.

18
19 **Response:**

20 Not confirmed for the reasons discussed below.

21 As articulated in past proceedings, FEI’s view is that when its RNG customers purchase
22 renewable natural gas (RNG) from FEI under FEI’s existing RNG rate schedule and tariff, the
23 customer receives the RNG along with the environmental attributes associated with the
24 displacement of natural gas.

25 Article 8 of the Agreement, however, provides that the City retains ownership of all of the
26 environmental attributes of the amount of biomethane it produces up to the amount of “Re-
27 Purchased Biomethane”. See especially clause 8.3(a).

28 As the City retains the environmental attributes of the “Re-Purchased Biomethane”, when
29 Designated Customers purchase the Re-Purchased Biomethane they do not receive the
30 environmental attributes. Since FEI’s RNG Rate Schedules are silent with respect to
31 environmental benefits, this is not inconsistent with FEI’s approved RNG Rate Schedules.

32 To clarify and ensure that there will be no double-counting of environmental benefits of the Re-
33 Purchased Biomethane, the Amendment to clause 7.2 the Agreement between FEI and the City



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of Surrey adds a condition for an entity to become a Designated Customer, that the customer has:

- (i) acknowledged in writing the Owner has retained the Environmental Attributes arising in connection with the Re-Purchased Biomethane, and
- (ii) agreed with the Owner in writing not to claim, report or otherwise benefit from (and has not claimed, reported or otherwise benefited from) any Environmental Attributes arising in connection with the Re-Purchased Biomethane except to the extent such Environmental Attributes have been transferred to it by the Owner.

This condition therefore ensures that there is no double-counting of environmental benefits associated with the Re-Purchased Biomethane.

FEI's RNG customers who are not purchasing RNG as a Designated Customer pursuant to the Agreement will continue to receive the environmental benefits associated with the displacement of natural gas resulting from the purchased RNG.

- 1.2 Please confirm, or explain otherwise, that the environmental attributes associated with the usage of the re-purchased biomethane by a Designated Customer is assigned to Surrey.

Response:

Since the City retains the environmental attributes of the Re-Purchased Biomethane as discussed in the response to BCUC Confidential IR 1.1.1, the environmental attributes are not transferred from the Designated Customer and the Owner. However, it would be possible for the City to transfer environmental attributes to the Designated Customers.

The City of Surrey also provides the following response:

It is not completely accurate to say that the environmental benefits associated with biomethane purchased from FEI by the City or Designated Customers ("Re-Purchased Biomethane") will be "assigned" to the City. The environmental benefits associated with the displacement of traditional natural gas by the biomethane the City produces, supplies to FEI and re-purchases from FEI either by the City itself or by Designated Customers, will be retained by the City and not transferred to FEI. For greater certainty,



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these environmental benefits are not transferred to FEI and then assigned back to the City; they remain with the City.

For the Re-Purchased Biomethane volume, the City collects and processes the waste, prevents decomposition gases from entering the atmosphere, produces pipeline quality biomethane, and provides the Designated Customers that displace a volume of regular natural gas in the FEI system. The City retains the environmental benefits associated with its actions. Contractual certainty regarding the allocation of environmental benefits was a key requirement of the City.

The extent to which the City compensates the Designated Customers for their incremental costs of purchasing biomethane from FEI, and transfers environmental benefits to the Designated Customers or other third parties will be determined through contractual arrangements between the City and these parties on a case-by-case basis. The City has not yet formalized these arrangements and anticipates doing so prior to completion of the Surrey Biofuel Facility.

1.2.1 If confirmed, please explain whether there is an arrangement between the Designated Customer and the Owner for the transfer of environmental attributes, and provide details on what that arrangement entails.

Response:

Please refer to the response to BCUC Confidential IR 1.1.2.



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3.0 Reference: SCHEDULE D COMMERCIAL TERMS

**FEI Biomethane Service Offering: Post Implementation Report and
Application for Approval for the Continuation and Modification of the
Biomethane Program on a Permanent Basis (2012 Biomethane
Application), Exhibit B-17, Attachment 1.2
Inconsistency with contract template**

The contract template provided in Exhibit B-17, Attachment 1.2 of the 2012 Biomethane Application includes Clause 1.4 on Maximum Rate under Schedule D.

3.1 Please explain whether Clause 1.4 under Schedule D of the contract template, or equivalent, has been included in the Biomethane Purchase Agreement between FEI and Surrey.

Response:

Clause 1.4 of Schedule D of the template contract states:

Maximum Rate. No adjustment will be made which results in the applicable rate payable by FEI exceeding the then current BCUC - approved maximum rate for delivered biomethane.

An equivalent clause has been included in the Agreement with Surrey.

In clause 2.1 (b) of Schedule D of the said Agreement, the Net Sale Rate does not escalate in the event that the BCUC-approved maximum rate for delivered biomethane is lower than the Net Sale Rate, as follows:

“...no adjustment will be made which results in the Net-Sale Rate exceeding the then current BCUC-approved maximum rate for FEI’s delivered biomethane.”

3.1.1 If Clause 1.4 under Schedule D of the contract template is not included in the Biomethane Purchase Agreement between FEI and Surrey, please discuss the reasons for deviating from the contract template on Maximum Rate.

Response:

Please refer to the response to BCUC Confidential IR 1.3.1.



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1 **B. UTILITIES COMMISSION ACT – SECTION 59-61 ITEMS**

2 **4.0 Reference: FEI-CITY OF SURREY BIOMETHANE PURCHASE AGREEMENT**

3 **Exhibit B-1-1, Appendix A, Schedule A, p. 1**

4 **Biomethane specifications**

5 Page 1 in Schedule A under the Agreement lists specifications that the biomethane
6 supplied by Surrey must meet.

7 4.1 Please explain if there are any changes to the biomethane specifications and any
8 measurement changes on the metering skid from previous biomethane
9 interconnect facilities. If there have been changes made, please explain why.

10

11 **Response:**

12 There have been minor changes made to the gas composition specifications for biomethane.
13 Based on a broader review of industry specifications for biomethane, FEI has made its
14 specifications more stringent by adding a requirement for a maximum amount of ammonia and
15 bacteria.

16 As compared to the Fraser Valley Biogas facility (FEI's first interconnection station),
17 improvements were made to the instrumentation for the Seabreeze facility based on operational
18 feedback from field personnel and instrumentation and control technologists, as well as FEI's
19 analysis of data from the biomethane interconnect facility. This included upgrades related to the
20 measurement of methane, heating values, oxygen, carbon dioxide, and water content as well as
21 the addition of a separate telemetry hut.

22 There are no changes to the instrumentation as compared to the Seabreeze interconnection
23 facility (FEI's most recently constructed biomethane interconnection station).

24



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5.0 Reference: FEI-CITY OF SURREY BIOMETHANE PURCHASE AGREEMENT

Exhibit B-1-1, Appendix A, p. 3

Facilities fee

According to Article 2 – Term, Clause 2.1, the Agreement commences on the Execution Date (i.e. September 16, 2015) and expire on October 31st following the 25th anniversary of the In-Service Date (the “Initial Term”), unless terminated earlier or renewed in accordance with the terms of this Agreement (the “Term”). The In-Service Date is defined in Clause 2.1.

According to Article 3 – Division of Responsibilities, the FEI Facilities will be built by FEI to measure and monitor biomethane quantity and quality and inject the accepted biomethane into FEI’s existing gas distribution system.

According to Article 6 – Purchase price and payment, the payment for FEI Facilities states that “In order to enable FEI to recover the costs associated with the design, construction, operation and maintenance of the FEI Facilities and the operation and administration of this Agreement, each month during the Term the Owner shall pay to FEI a fee...” [Emphasis added]

5.1 Please confirm, or otherwise explain, when Surrey will start paying the Monthly Facilities Fee and whether the fee will be backdated since the Term commenced on September 16, 2015.

Response:

The intention of the parties was that the Facilities Fee would be paid each month of the 25 year period from the in-service date to the expiration of the Agreement. This intention is reflected in the fact that the Facilities Fee is a levelized charge over 25 years and the Agreement expires on October 31st following the 25th anniversary of the In-Service Date. FEI and the City have agreed to an amendment to Article 6.2 of the Agreement to reflect this intention.

Therefore, the Facilities Fee will not be backdated to September 16, 2015. Rather, FEI expects to receive the first monthly payment from Surrey in the month following the In-Service Date, which is defined under the Agreement as

“...the earlier of:

(a) the business day after the FEI Facilities have accepted at least 100 gigajoules (“GJ”) of Biomethane per day for seven (7) consecutive days; and

(b) the business day after the FEI Facilities have accepted Biomethane for a cumulative period of thirty (30) days.”



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Under the terms of the Agreement, the monthly invoice to Surrey is for the preceding month.

5.2 Suppose FEI builds all or a portion of the FEI Facilities but Surrey does not deliver any biomethane to FEI, is Surrey still required to pay the Monthly Facilities Fee to FEI?

Response:

As explained in the response to BCUC Confidential IR 1.5.1, the Facilities Fee is intended to be paid after the In-Service Date. As the In-Service Date includes the acceptance of biomethane by the FEI Facilities, if there is no delivery from the Surrey Facility then the In-Service Date will not be achieved and there will be no Facilities Fee paid. However, if the In-Service Date is delayed more than 1 year or a later date as agreed by the parties, the Agreement may be terminated by FEI (see clause 2.2), and Surrey will be required to pay a termination payment equal to the net book value of the assets as well as costs to remove them (clause 10.2 (i) and (ii)).

5.2.1 If so, please reference specific clause(s) in the Agreement related to this situation.

Response:

Please refer to the response to BCUC Confidential IR 1.5.2.

5.2.2 If not, how does the Agreement mitigate the losses incurred by FEI in this situation? Please specify the clause(s). If such clauses do not exist, please explain why they are not necessary.

Response:

Please refer to the response to BCUC Confidential IR 1.5.2.

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1 **A. UTILITIES COMMISSION ACT – SECTION 71 ITEMS**

2 **1.0 Reference: FEI-CITY OF SURREY BIOMETHANE PURCHASE AGREEMENT**

3 **Exhibit B-1, Application, Appendix A, p. 10**

4 **Environmental Attributes**

5 Clause 8.3(a) of the Biomethane Purchase Agreement between FortisBC Energy Inc.
6 (FEI) and the City of Surrey (Surrey) (Agreement) contained on page 10 in Appendix A
7 of the Application states:

8 For any biomethane purchased from FEI by the Owner or any Designated
9 Customer in accordance with ARTICLE 7 (the ‘Re-Purchased Biomethane’), the
10 Owner will retain and own any corresponding Environmental Attributes
11 associated with the displacement of traditional natural gas by carbon neutral (or
12 carbon negative) biomethane through the purchase and usage of this Re-
13 Purchased Biomethane.

14 1.1 Please confirm, or explain otherwise, that when a Designated Customer
15 purchases renewable natural gas (RNG) from FEI under FEI’s existing RNG rate
16 schedule and tariff, the Designated Customer receives the RNG along with all of
17 the associated environmental attributes.

18
19 **Response:**

20 Confirmed.

21 As articulated in past proceedings, when FEI’s RNG customers purchase renewable natural gas
22 (RNG) from FEI under FEI’s existing RNG rate schedule and tariff, the customer receives the
23 RNG along with the environmental attributes associated with the displacement of natural gas.
24 FEI confirms that the City and its Designated Customers will be treated the same as all other
25 RNG customers and will receive the environmental attributes associated with the displacement
26 of natural gas when purchasing RNG from FEI.

27 As expressed in the second sentence of section 8.3(a) of the Agreement, the City will deliver to
28 FEI biomethane and the associated environmental attributes pursuant to the Agreement. FEI
29 will then return biomethane and associated environmental benefits of equal quality back to the
30 City and its Designated Customers when they purchase biomethane from FEI.

31 The first sentence of section 8.3(a) of the Agreement states that the City “retains” ownership of
32 the environmental attributes associated with displacement of natural gas for all of the
33 biomethane purchased from FEI by the City and any Designated Customer. This is an
34 acknowledgement that at the end of all the RNG transactions the City of Surrey will own the

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environmental attributes associated with the displacement of natural gas corresponding to all of the RNG the City and its Designated Customers purchase from FEI. FEI understands that the Designated Customers will assign to the City the environmental attributes associated with the displacement of natural gas that the Designated Customers receive when purchasing RNG from FEI.

Consistent with the assignment of the environmental attributes from the Designated Customers to the City, and to clarify and ensure that there will be no double-counting of environmental benefits of the Re-Purchased Biomethane, the Amendment to clause 7.2 the Agreement between FEI and the City of Surrey adds a condition for an entity to become a Designated Customer, that the customer has:

- (i) acknowledged in writing the Owner has retained the Environmental Attributes arising in connection with the Re-Purchased Biomethane, and
- (ii) agreed with the Owner in writing not to claim, report or otherwise benefit from (and has not claimed, reported or otherwise benefited from) any Environmental Attributes arising in connection with the Re-Purchased Biomethane except to the extent such Environmental Attributes have been transferred to it by the Owner.

1.2 Please confirm, or explain otherwise, that the environmental attributes associated with the usage of the re-purchased biomethane by a Designated Customer is assigned to Surrey.

Response:

FEI understands that the Designated Customers will assign to the City the environmental attributes associated with the displacement of natural gas that the Designated Customers receive when purchasing RNG from FEI. However, this is a private contractual matter between the City and the Designated Customers, the details of which do not impact FEI's Biomethane Program. The Amendment to clause 7.2 provides the necessary assurance that the Designated Customers agree that the City has the right to claim the environmental attributes of the Re-Purchased Biomethane.

The City of Surrey also provides the following response:

The extent to which the City compensates the Designated Customers for their incremental costs of purchasing biomethane from FEI and how the Designated customers transfer the environmental attributes to the City will be determined through contractual arrangements between the City and these parties on a case-by-case



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- 1 basis. The City has not yet formalized these arrangements and anticipates doing so
- 2 prior to completion of the Surrey Biofuel Facility.
- 3