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By Electronic Filing

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

Attention: Laurel Ross
Acting Commission Secretary and Director

Dear Sirs/Mesdames:

Re: Project No. 3698850
FortisBC Energy Inc.
Application for Approval of Biomethane Energy Recovery Charge (BERC) Methodology (the Application)

Further to the regulatory timetable established for this proceeding by Order G-181-15, enclosed for filing is the electronic version of the Reply Submission of FortisBC Energy Inc.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[original signed by Christopher R. Bystrom]

Christopher R. Bystrom

CB/ta
Enclosure

BRITISH COLUMBIA UTILITIES COMMISSION

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

and

APPLICATION FOR APPROVAL OF BIOMETHANE ENERGY RECOVERY CHARGE (BERC) RATE METHODOLOGY

REPLY SUBMISSION OF
FORTISBC ENERGY INC.

FEBRUARY 23, 2016

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PART ONE: INTRODUCTION

1. FortisBC Energy Inc. ("FEI") filed its Final Argument in this proceeding on February 4, 2016. On February 16, final arguments were filed by the Commercial Energy Consumers Association of BC ("CEC"), the BC Sustainable Energy Association and Sierra Club of BC ("BCSEA-SCBC") and the British Columbia Old Age Pensioners' Organization, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre ("BCOAPO").

2. BCSEA-SCBC supports FEI's Application for a BERC Rate Methodology (the "Application").

3. BCOAPO supports most of FEI's proposals, although it submits that the Commission should specify minimums for duration and monthly volumes for long-term contracts in order to avoid undue discrimination. As addressed in FEI's Final Argument and further below, FEI submits that its long-term contract proposal is a reasonable approach in the circumstances and that the Commission can address any concerns related to undue discrimination on a case-by-case basis when contracts are filed for approval. FEI notes BCOAPO's comments regarding the "convenience barrier" to participation for smaller volume customers.[1] While this issue was not covered in the scope of the proceeding, FEI will consider whether enhancements to the enrollment process could be made in the future.

4. The CEC makes a number of recommendations to the Commission which FEI opposes. The CEC's recommendations would lead to more detailed rate design initiatives, added complexity to the biomethane program, more onerous regulatory requirements and further delay and uncertainty as FEI applies for and pilots rate design concepts. In short, the CEC's recommendations would require substantial investment in rate design and regulatory process that is disproportionate to the size of the biomethane program. The CEC's

[1] BCOAPO Final Argument, para. 10 e.g.

recommendations would likely only serve to add to the costs being recorded to the biomethane variance account ("BVA") with no appreciable benefit.

5. In the subsections below, FEI responds further to the submissions of the CEC and BCOAPO. FEI notes that it has not responded to every individual comment of interveners, but sought to respond in a more general way to the material points made in intervener submissions. Silence on FEI's part in response to a particular submission should not be interpreted as agreement.

PART TWO: NEED FOR A CHANGE TO THE BERC RATE

6. As set out in Part Two of FEI's Final Argument, FEI submits that the evidence shows that the BERC rate has increased to a point that the premium of biomethane over the natural gas commodity rate is discouraging participation in the biomethane program. The CEC takes issue with FEI's conclusion, making a number of submissions that suggests that customer participation in the biomethane program is not linked to the price of biomethane. FEI submits that the CEC's position is counter-intuitive and not supported by the evidence. FEI responds below to the various points raised by the CEC.

A. Decreased Participation due to Premium of the BERC Rate over the Commodity Cost Recovery Charge ("CCRA Rate")

7. The CEC submits that "there is no evidence supporting a customer response to the BERC rate premium".[2] FEI submits that the CEC's assessment of the evidence is incorrect. As summarized in Part Two of FEI's Final Argument, there is compelling evidence that the increase in the premium of the BERC over the CCRA Rate has resulted in decreased participation in the biomethane program.

8. The CEC focusses its submission on drop outs from the biomethane program. The CEC argues at para. 47 that "there is no sustained drop-out from the program" and that

[2] CEC Final Argument, para. 51.

there is only a short-term increase in drop-outs in response to the increase in the BERC rate.[3] FEI disagrees with the CEC's characterization of the evidence. First, as shown in Figure 4-3 of the Application, there are two short-term spikes in drop outs. The spike in early 2014 is due to the increase in the price of biomethane and discontinuance of the Air Miles program, while the second even larger increase in drop outs can only be attributed to the price increase.[4] These spikes are clear evidence of customer response to the increase in price of biomethane. Second, Figures 4-3 and 4-6 of the Application show an increase in drop outs from the program that begins with the increase in the BERC rate in early 2014 and which is sustained thereafter. Third, the sustained increased drop-out rate is consistent with the sustained decrease in monthly additions to the biomethane program in Figures 4-2 and 4-5 of the Application. When adds and drops are viewed together, the net monthly additions in Figures 4-1 and 4-4 of the Application show a fairly dramatic response to the increase in price in 2014. FEI submits that there is clear evidence supporting the conclusion that there is a customer response to the increase in the BERC rate.

9. The CEC's position is that the increase in drop-outs is more correlated to the size of the customer base as indicated by a "fairly stable" churn rate.[5] In fact, as shown in Exhibit B-12, the churn rate has increased in 2014 and 2015, which is consistent with FEI's view that the increase in the BERC rate has led to a decrease in participation in the biomethane program. The CEC argues that FEI has inappropriately portrayed the data, saying:

> The CEC submits that it is inappropriate to add up the churn by quarter and divide by the end quarter customer base. The CEC submits that the appropriate interpretation of the evidence would be to average the quarterly churn rates.[6]

FEI directly calculated the quarterly and annual churn rates based on the numbers in Exhibit B-12, which are readily verifiable. The CEC does not explain why FEI's calculations are wrong, and does not justify why taking averages of quarterly churn rates would be appropriate when the

[3] CEC Final Argument, para. 47-78.
[4] Exhibit B-1, pp. 22-23.
[5] CEC Final Argument, para. 48.
[6] CEC Final Argument, para. 83.

annual churn rate can be calculated directly. Furthermore, examining the quarterly churn rates (rather than the annual figures) shows that the quarterly churn rates increase in 2014 and that the churn rate of 4.4% in the first quarter of 2015 was the highest in the history of the biomethane program and both are aligned with the timing of the price increases. FEI submits that the CEC's interpretation of the churn rate is incorrect. The evidence in Exhibit B-12 shows that the churn rate is increasing, reflecting the response of customers to the increase in price of biomethane.

10. The CEC incorrectly reports FEI as saying that its exit survey showed that 86% percent of customers dropped out due to price.[7] FEI's application states that 86% of customers said that they dropped out "due to the price (extra cost on bill) *and the discontinuance of the Air Miles programs*" [emphasis added].[8] The CEC's submissions from paragraphs 84 to 87 are therefore based on a misinterpretation of FEI's evidence.

11. The CEC states that customers are more likely managing their total energy bill, rather than paying attention to the difference between the CCRA and the BERC rate.[9] The CEC's position appears to be that customers are essentially indifferent to the cost of biomethane so long as their total energy bill is within a certain range. The CEC's position is implausible and not supported by the evidence. When customers choose to participate in the biomethane program, they agree to pay the BERC rate instead of the CCRA rate for a portion of their consumption. It is intuitive that customers will only be willing to pay so much more for biomethane than what they would otherwise pay for natural gas. In fact, FEI's 2012 market research indicated that the average residential customer would be willing to pay about an extra $6/month assuming a 10% blend.[10] This market research is consistent with the decrease in

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[7] CEC Final Argument, para. 84-87.

[8] Exhibit B-1, p. 31.

[9] CEC Final Argument, para. 49.

[10] Exhibit B-1, pp. 34-35.

participation since early 2014 when the price of biomethane increased, which occurred despite the decrease in commodity costs since April 2014.[11]

12. The CEC also accuses FEI of relying on "speculation in this proceeding that customers are aware of the CCRA and compare their RNG rates to these rates in managing their spending."[12] FEI is not relying on speculation as the CEC suggests. In FEI's submission, the evidence is clear that customers are reacting to the increase in cost of biomethane, regardless of which numbers they may actually be looking at on their bill. Customer bills show both the BERC rate and the CCRA rate. The bills also show the cost of biomethane on a monthly basis and the cost of natural gas on a monthly basis.[13] As the premium of the BERC rate over the CCRA rate increases, the cost of biomethane on a customer's bill will increase, which is readily comparable to the cost of natural gas on a customer's bill. Exactly which numbers customers look at it on their bill is not relevant. Customers may compare the BERC rate to the CCRA rate, or compare the monthly cost of biomethane to the cost of natural gas, or simply react to the increase in the monthly cost of biomethane. Whichever numbers customers look at, the data shows that there is decreased participation in the biomethane program when the premium of the BERC rate over the CCRA rate exceeds $7.

13. In summary, FEI submits that the evidence with respect to net monthly additions to the biomethane program, including adds and drops, and the churn rate show a consistent picture of customers responding to the increase in price of biomethane. The BERC rate and the CCRA rate are the rates approved by the Commission, which customers pay and which appear on customer bills. Looking at the premium of the BERC rate over the CCRA rate provides an analysis of customer participation in the biomethane program independent of volume purchased. This analysis shows a decrease in participation above a premium of $7 dollars.

[11] Exhibit B-1, Figure 3-1.

[12] CEC Final Argument, para. 49.

[13] Exhibit B-5, Attachment 12.1.

B. Marketing Not the Predominant Cause of Decreased Participation

14. CEC submits that "the evidence shows that marketing efforts have been extremely successful in generating sales" and that "FEI has under-rated the value of marketing".[14] FEI has consistently stated that marketing efforts are essential to the success of the biomethane program[15] and does not dispute that the reduction in marketing spending in 2014 was likely a contributing factor to the decline in customer participation in the biomethane program. However, the current price of biomethane is well above what customers have indicated they are willing to pay.[16] While marketing efforts have been successful in the past, it is not reasonable to believe that they could be equally successful at the current BERC rate.

15. For the reasons set out in paragraph 10 of its Final Argument, FEI submits that the reduction in marketing spending by less than half[17] is insufficient to explain the decrease in customer participation (in both adds and drops) in the biomethane program. Rather, the extent and continuing nature of decreasing program participation over the past two years, and other factors, point to the increasing premium of biomethane over the CCRA rate as the predominant cause. The CEC has not responded to FEI's argument on this point.

C. 5% Blend Should Continue to be an Option

16. At paragraph 58 CEC submits that "FEI has not demonstrated that there is a significant issue with respect to the uptake of 5% blends". FEI's evidence did not seek to demonstrate any issue with the uptake of 5% blends. FEI added the 5% blend option as directed by the Commission in 2014[18] and the 5% blend should continue to be an option for customers. While the availability of different blends of biomethane is part of the evidentiary record, the prospect of changing the available blends is not within the scope of this proceeding. FEI nonetheless responds to the submission of the CEC below.

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[14] CEC Final Argument, para. 81.

[15] Exhibit B-9, BCUC IR 1.33.2; 1.43.6.

[16] Exhibit B-1, pp. 34-35.

[17] Exhibit B-5, BCUC IR 1.9.1.

[18] Exhibit B-1, p. 15.

17. The CEC states that "the value of the addition of 5% blend customers is potentially so low relative to the cost of customer acquisition that FEI and the Commission should be considering…dropping the 5% blend."[19] The CEC's analysis is incorrect and should be rejected. Removing the 5% blend option would not, as the CEC implies, result in reduced marketing cost or the use of marketing dollars to attract other customers. Contrary to the CEC's view, there are no incremental costs to including a 5% option in the biomethane program or adding a 5% blend customer. The costs to add the 5% blend have already been incurred and FEI does not target marketing dollars at adding specific 5% blend customers. Rather, FEI has broad marketing campaigns to make customers aware of the biomethane program and educate them about the program offerings.[20] Customers then have a choice of blends available at which they can join the program. As stated by Ms. Carman:

> …the FEI proposal preserves that ability for all customers to choose RNG and pay the same rate, and the customer has the choice to adjust the blends to meet their own circumstances so that they can achieve whatever annual bill impacts they want associated with RNG.[21]

18. Without the 5% blend, some customers may choose not to participate at all due to the bill impacts of a higher blend. And, if a customer adopts 5%, that customer is a candidate to adopt a higher blend in the future. The CEC also ignores the importance of customers as marketers of the biomethane program. Each customer, whether 5% or 100%, is a potential ambassador for the biomethane program. The 5% blend option therefore provides a number of benefits to the biomethane program at little to no cost.

D. FEI's Proposal Would Increase Cost Recovery

19. The CEC submits that "the evidence shows significant increased cost recovery from the existing customer base at the full BERC rate through 2014" and that "such evidence is

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[19] CEC Final Argument, paras. 59 and 60.

[20] Exhibit B-1, p. 49; Exhibit B-9, BCUC IR 1.43.4.

[21] Transcript, Volume 2, p. 54.

in adequate support for leaping to a price discount strategy".[22] The CEC's submission should be rejected. FEI has not used the cost recovery data to "leap" to a price discount strategy. FEI's proposal is based on the evidence of the decrease in net customer additions since early in 2014 and other evidence summarized by FEI in Part Two and Part Thee of its Final Argument. The CEC's submission on this point does not take into account the impact of the decline in customer participation as documented by FEI in its Application. Based on the reduction in net customer additions, there is no reason to expect continued "significant increased cost recovery from the existing customer base at the full BERC rate" as suggested by the CEC. In fact, FEI compared the impact of the status quo to FEI's proposed market-based rate.[23] This comparison shows that the status quo is forecast to result in much higher impact to the BVA and delivery rates of non-bypass customers than FEI's proposal.[24] FEI therefore submits that its market-based proposal is superior to the status quo from a cost recovery perspective.

E. The Supply Side of the Program cannot Address Current Challenges

20. The CEC states that it is not unreasonable for FEI to consider slowing additions to its supply to enable more optimal matching of supply and demand.[25] As acknowledged by the BCOAPO,[26] supply is not within scope of the proceeding. FEI submits that the Commission should not issue any direction with respect to supply in this proceeding. Potential supply in the Province and forecast demand has been discussed in previous proceedings related to the biomethane program and the Commission determined that the biomethane program is in the public interest with a maximum supply cap of 1.5 PJ.[27] A revision to the supply cap is not an issue that is before the Commission in this proceeding. Any new supply agreements will be filed with the Commission for acceptance under section 71 of the *Utilities Commission Act* in

[22] CEC Final Argument, para. 23.

[23] Exhibit B-1, section 6, as updated by Exhibit B-1-1.

[24] Exhibit B-1-1, Table 6-2.

[25] CEC Final Argument, p. 35.

[26] BCOAPO Final Argument, para. 24.

[27] BCUC Decision, dated December 11, 2013, *In the Matter of FEI Biomethane Service Offering: Post Implementation Report and Application for Approval of the Continuation and Modification of the biomethane Program on a Permanent Basis*.

the ordinary course, which provides an opportunity for the Commission and interveners to review all additions to the supply to the biomethane program.

21. Reducing the addition of supply would not address the current challenges facing the biomethane program. As explained by Ms. Carman, FEI does not currently have a buildup of inventory in the BVA and FEI is not forecasting a need to transfer premiums until 2018.[28] Rather, the current challenges facing the program relate to a BERC rate that is no longer economical for customers. Reducing supply may of course reduce the costs being added to the BVA in the long term, but would do nothing to increase customer participation. Rather, it is more likely to harm the prospects of adding long-term, high-volume customers which are key to the success of the program. As testified to by Mr. Wolfe, it takes a long time to develop supply contracts, which therefore require a long-term signal from FEI that it is interested in developing the supply.[29] If FEI reduces its efforts, supply projects will take even longer to develop or may not be developed at all, which would be contrary to the public interest in developing these cost-effective clean energy resources. Reduction in supply will in turn negatively impact FEI's ability to bring on larger volume customers that require secure sources of biomethane.[30] FEI therefore submits that there is no reason for the Commission to issue any direction with respect to reducing supply, and that the review of supply is more appropriately addressed when supply contracts are filed for acceptance by the Commission.

F. Analysis of Elasticity of Demand is Consistent with FEI's Proposal

22. Under the heading "Price Elasticity", the CEC discusses FEI's responses to BCUC IRs 1.23.1 and 2.47 regarding elasticity of demand and states that it is "intuitively appealing that a higher premium can result in selections of lower blend levels."[31] However, the CEC argues that "FEI has not shown any elasticities of price but instead simple correlations of historical experience" and that this information "is not sufficient to justify FEI's claims as to the

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[28] Transcript, Volume 2, p. 207.

[29] Transcript, Volume 2, p. 153.

[30] Transcript, Volume 2, p. 153 and Exhibit B-9, BCUC IR 2.51.2.3.

[31] CEC Final Argument, para. 67.

important of substantial price discounts in managing demand."[32] In reply, FEI has been clear regarding what information it was presenting and what it means. Although the analysis was not used to justify FEI's proposals as the CEC suggests, the analysis is consistent with them.

23. In response to BCUC IR 1.23.1, FEI responded to a request to estimate an RNG demand curve and elasticity of demand. FEI responded:[33]

> Using 2014 and 2015 data and multinomial regression, FEI has been able to estimate a demand curve for RNG for residential customers, and has also been able to determine an estimate of the elasticity of demand based on the relative probability of selecting a certain blend level at varying levels of RNG price premiums. Only residential data were analyzed as it was the only class that had adequate data points to meet the minimum degree of freedom to allow a statistical assessment of demand elasticity.
>
> …
>
> The analysis suggests that the 10 percent blending option is least elastic to changes in the RNG price premium relative to other options. The 5 percent is the option most elastic to changes relative to other options, indicating that in the case of a price increase beyond the $10.50 per GJ RNG premium, customers are most likely to choose the 5 percent option over other options.

24. FEI provided further explanation of the analysis in response to the BCUC IR 2.47 series. In response to BCUC IR 2.47.9.1.1, FEI states: "the model describes the relative probability of selecting a certain blending option relating to a premium but does not predict the absolute probability of choosing or not choosing (as in "the 0 percent option") the RNG program in general".[34] FEI's response to BCUC IR 2.47.1 describes in more detail the multinomial analysis that FEI undertook and compares it to a simple linear regression approach.

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[32] CEC Final Argument, para. 68.

[33] Exhibit B-5, BCUC IR 1.23.1.

[34] Exhibit B-9, BCUC IR 2.47.9.1.1.

25. In short, the analysis shows that an increase in the premium of the BERC rate over the CCRA rate leads to customers choosing lower blends of biomethane.[35] These results are intuitive, as the CEC admits, and demonstrate again that customers are sensitive to the price of biomethane.

PART THREE: FEI'S PROPOSED BERC RATE IS JUST AND REASONABLE

26. In Part Two above, FEI has responded to the general submissions of the CEC on the evidence for a need to change to a market-based rate. In this part, FEI responds to the particular submissions of the CEC and BCOAPO regarding FEI's proposed rates, as well as the CEC's suggested alternatives.

A. Short-Term Contract Rate

(a) CEC's Reasons for Opposition

27. The CEC states that it is opposed to FEI's proposed discount rate set at a $7 premium over the CCRA rate for two primary reasons: it results in an immediate reduction in revenues; and price increases are not as acceptable as price decreases.[36] FEI responds to each of these points below.

(a) First, the CEC submits that FEI's proposed market-based rate results in a reduction in revenues and a rate impact to FEI's non-bypass customers that is unnecessarily expensive.[37] FEI disagrees. While FEI's proposal will result in an initial reduction in revenues, FEI expects it to result in the maximization of revenues over the longer term. Thus, FEI's comparison of the status quo to its proposed market based rate shows that FEI's proposal will increase revenues and decrease the potential impact to non-biomethane customers.[38] FEI

[35] Exhibit B-5, BCUC IR 2.47.9.
[36] CEC Final Argument, para. 111, e.g.
[37] CEC Final Argument, para. 95-96.
[38] Exhibit B-1, section 6, as updated by Exhibit B-1-1.

therefore submits that the CEC has not demonstrated that FEI's proposals result in a less optimal result for non-bypass customers. The evidence is to the contrary.

(b) Second, CEC asserts that "price discounts cannot be reversed".[39] This is generally not true. The BERC rate can be increased or decreased if the Commission determines it is just and reasonable to do so. While customers may not welcome rate increases, there is no reason in principle why a price discount could not be reversed or reduced.

28. FEI submits that the evidence supports FEI's proposed market-based rate and that FEI's proposal is consistent with its objective to recover the costs of the biomethane program from voluntary customers to the extent possible in order to minimize the rate impact on non-biomethane customers.

(b) CEC's Market Based Rate "Connected to Sales and Retention Strategies"

29. The CEC recommendation, which is sprinkled throughout its submission, is that the Commission should consider a market based rate "connected to sales and retention strategies."[40] The CEC clarifies what this means where it recommends "price discounts…for customers prepared to take service for longer periods of time and for higher blends."[41] The CEC says that it "characterizes this as rate design pricing connected to sales and retention strategies."[42] The CEC elaborates on its proposal in para. 107 where it states that "the concept of offering a discount in exchange for a long-term commitment and higher volumes is appropriate for a full range of larger customers and does not need a specific threshold for implementation" and that "the concepts are equally applicable to residential and commercial customers." While unclear, this may include the CEC's recommendation for "a formulaic

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[39] CEC Final Argument, para. 100.
[40] CEC Final Argument, para. 98, e.g.
[41] CEC Final Argument, para. 97.
[42] CEC Final Argument, para. 97.

approach to price discounts for term and volume which should be based on the value for the magnitude of the revenue certainty."[43] The CEC suggests that FEI pilot rate design concepts while maintaining the current rate for current customers that wish to take service on a month-to-month basis.[44] The CEC submits that it is appropriate to cap the BERC rate at its current level.[45]

30. FEI submits the CEC's proposals are not supported by the evidence and should be rejected for the following reasons:

(a) FEI's proposals are more directly "connected to sales and retention strategies" in that FEI directly addresses the most pressing sales and retention challenge facing the biomethane program, i.e. price.

(b) There is no rationale for freezing the current BERC rate for month-to-month customers.

(c) The CEC's proposal offers no solution for customers that consume lower volumes or are unwilling or unable to enter into long-term contracts.

(d) The CEC's proposal is cost and time intensive to a degree that is disproportionate to the size of the biomethane program.

(e) The CEC's proposal would add complexity to the biomethane program and is unlikely to increase revenues more than FEI's proposal.

31. FEI expands on these reasons below.

32. First, FEI disagrees with the CEC's repeated submission that FEI's proposals are not "connected to sales and retention strategies". FEI's proposal is based on reducing the price

[43] CEC Final Argument, para. 119.
[44] CEC Final Argument, p. 97.
[45] CEC Final Argument, para. 40.

of the BERC rate to a level that the market will bear, which directly addresses the most pressing sales and retention challenge facing the biomethane program today. The CEC's version of rate design "connected to sales and retention strategies" is simply offering a discounted rate exclusively to those customers prepared to enter into a long-term and higher volume commitment. The CEC's proposal is actually less "connected to sales and retention strategies" as there is currently no evidence of demand for a long-term rate beyond the high-volume customers that FEI is already in discussions with.[46]

33. Second, there is no rationale for freezing the current BERC rate for month-to-month customers. While freezing the BERC rate may be preferable to having it increase, the CEC offers no rationale for why the current rate is the right rate. Moreover, the CEC is implicitly acknowledging that price is impacting customer participation and needs to be contained at a level that is currently below the cost based rate. The CEC's proposal is therefore merely a half-measure that does not address the fundamental challenge of price that is facing the biomethane program.

34. Third, the CEC's proposal offers no solution for customers that consume lower volumes or are unwilling or unable to enter into long-term contracts. As FEI has discussed in detail in this proceeding, the increased price of biomethane has resulted in reduced participation in the biomethane program. The CEC's proposal offers no relief from this challenge for the segment of customers that consume lower volumes or are unwilling or unable to enter into long-term contracts. Under the CEC's proposal, these customers will continue to reduce their participation in the program, resulting in fewer customers and reduced revenues.

35. Fourth, the CEC's proposal is cost and time intensive to a degree that is disproportionate to the size of the biomethane program. The CEC's proposal would require FEI to:

- study various rate design options,

[46] Transcript, Volume 2, p. 146.

- make proposals to the Commission for various pilot projects,
- make the necessary changes to its IT and billing systems to implement any approved pilot projects,
- monitor the results of the pilot projects, report back to the Commission and seek approval of adjustment to pilot projects or approval of rates on a permanent basis,
- make any further changes to the FEI's IT and billing systems, and
- communicate and explain to customers the various pilot projects and permanent changes to the biomethane program.

36. Each of the steps above takes time and money, the cost of which would likely be allocated to the BVA causing upward pressure on biomethane rates or would increase the costs allocated to non-biomethane customers. It could be years before FEI was able to launch any change to the biomethane program on a permanent basis. FEI submits that this level of process is disproportionate to the size of the biomethane program.

37. Fifth, CEC's proposals would increase the complexity of the biomethane program and would be unlikely to increase revenues more than FEI's proposal. One of the principles that FEI has sought to abide by is to minimize changes to the currently approved biomethane program. Adding changes will increase the complexity to the program and potentially confuse customers, which will increase the cost of FEI's marketing efforts. The benefit of adding this type of complexity when FEI has not seen evidence of demand is especially dubious. Mr. Wolfe explained as follows:

> One of the principles of the program was some simplicity that we are trying to stick to. One could design a program with multiple price points, with multiple volumes, and potentially have success, but in and of itself the program is fairly small. It represents a relatively small number of gigajoules compared to the whole system, the costs are relatively small.
>
> The more -- if we have a greater number of offerings it takes more effort to manage, to educate customers, and our intent with this proposal and this application was to keep it pretty simple, not really change much and to see how that worked. Mindful that we have some resources dedicated to the program but we're also trying not to incur too many costs as well, given the size of the whole program.

> The proposal here might be enough to get the customer attraction that we're hoping for, the long term contracts, and we might not have any further volume to sell. We would have to wait to see how that works out. I think -- and our preference would be on keeping it to be a relatively simple change, which is what we've proposed at this point. If we see desire from customers for other alternatives in the future and this isn't working, then we may go down that road, but as of yet we don't.[47]

38. The CEC's proposal is not unlike the alternatives posed to FEI in BCUC IR 1.19. As with those options, FEI does not believe that the benefits of CEC's proposal will outweigh the extra costs of implementation (including development of rate designs, regulatory approval of pilot projects, system changes and education and awareness spending, and regulatory approval of permanent rates) and the potential reduction in recoveries from customers. FEI believes that its proposal will perform better and that its option offers a better chance to recover more costs from customers.[48]

39. FEI therefore submits that the CEC's proposals should be rejected as not feasible for the biomethane program.

B. Long Term Contract Rate

(a) FEI's Long-Term Contract Proposal not Unduly Discriminatory

40. As set out in the approvals sought and draft order included in the Application, FEI is seeking approval of a long-term contract rate at a one dollar discount to the BERC rate. On page 47 of the Application FEI describes additional terms of the long-term contract as "possible terms and conditions that FEI is expected to negotiate with a long-term contract customer and be included to these contracts. "

41. BCOAPO argues that "this is not a feasible way to proceed and that the Commission should specify minimums for duration and monthly volumes that will be required

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[47] Transcript, Volume 2, pp. 148-149.

[48] Exhibit B-9, BCUC IR 2.46.10.

to constitute a "long term contract"."[49] BCOAPO's stated concern is that FEI's approach would lead to undue discrimination amongst customers. FEI's proposal is in fact a feasible way to proceed. FEI proposes to file each long-term contract with the Commission for approval as a tariff supplement. At the time of filing the long-term contract, the Commission can ensure that each contract is just and reasonable and not unduly discriminatory. Specifically, the Commission's review of each contract can include a comparison to any previously approved long-term contracts to ensure that the terms and conditions of service are comparable and not unduly discriminatory. As there are relatively few contracts of this nature anticipated,[50] this is a reasonable way to proceed. FEI has also described the benefits of this approach in its Final Argument, paragraph 26 and continues to rely on those submissions. The BCOAPO has not responded to FEI's submissions on this point. FEI submits that the BCOAPO's view should be rejected.

(b) CEC's "Formulaic Approach to Price discounts for Term and Volume"

42. The CEC supports FEI's long-term approach,[51] but "recommends a formulaic approach to price discounts for term and volume which should be based on the value for the magnitude of the revenue certainty."[52] FEI submits that the development of a complex, formulaic rate structure, as the CEC appears to be suggesting, would require time and cost, but would not lead to more customers or generate any more revenue. The fundamental requirement of the long-term rate is that it must be economical for potential long-term customers. There is no point in engaging in complex rate design if it is clear that customers are unwilling to pay above a certain amount. The value of complex rate design is dubious when the market consists of a small number of large customers who are unwilling to engage in discussions if the price is too high for their projects.

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[49] BCOAPO Final Argument, para. 15.
[50] Transcript, Volume 2, p. 182.
[51] CEC Final Argument, para. 118.
[52] CEC Final Argument, para. 119.

43. FEI is in discussion with potential long-term customers such as UBC and has proposed a rate that is at the high end of what is economic for these customers.[53] The proposed long-term rate provides a burner tip price point at about $10.00 per GJ, which is what the customers are willing to pay.[54] The long-term contract rate is therefore expected to allow FEI to attract the type of long-term customers that will maximize revenues from voluntary customers and minimize the rate impacts on non-biomethane customers. As stated by Mr. Wolfe, FEI has proposed what it believes is "the sweet spot for the longer-term customers that they're willing to pay."[55] If the CEC's "formulaic approach to price discounts" resulted in a higher rate than FEI's has proposed, it will likely result in fewer customers, while if it is lower it would forego potential revenues. FEI therefore submits that the CEC's approach should be rejected.

PART FOUR: TRANSFER MECHANISM

44. BCOAPO does not object to the general method proposed by FEI to amortize amounts directly from the BVA into delivery rates of non-bypass customers. However, BCOAPO states that "[a]ny transfer prior to 2018 should be permitted only if FEI presents a compelling rationale for its need." As explained by Ms. Carman, FEI does not currently have a buildup of inventory in the BVA and FEI is not forecasting a need to transfer premiums until 2018.[56] While FEI does not anticipate using the transfer mechanism until 2018, FEI submits that it is important to have certainty with respect to the process by which accumulated BVA balances can be kept at reasonable levels going forward.[57] FEI has therefore sought approval in principle of the transfer mechanisms set out in the Application and described in detail at the Streamlined Review Process.[58]

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[53] Transcript, Volume 2, p. 98.

[54] Exhibit B-1, Appendix D; Exhibit B-7, BCSEA 1.4.7.1; Exhibit B-8, CEC IR 1.18.1; Transcript, Volume 2, p. 98.

[55] Transcript, Volume 2, p. 98.

[56] Transcript, Volume 2, p. 207.

[57] Exhibit B-1, p. 47; Transcript, Volume 2, p. 206.

[58] Transcript, Volume 2, pp. 54-59.

45. CEC submits that the Commission should require FEI, when it files an application for transfer of inventory, to provide "a fulsome analysis of methods and approaches to preserving the opportunity for cost-recovery benefit to FEI's other customers."[59] FEI will file the information that is necessary and sufficient to support its Application to transfer inventory. However, FEI is seeking approval of principles in this proceeding that will help ensure that the regulatory process to transfer inventory is efficient and cost effective.

PART FIVE: EDUCATION AND AWARENESS

46. As discussed in FEI's Application and Final Argument, if a BERC rate is approved as proposed, FEI plans to return to previous levels of customer education and awareness spending of approximately $300,000. BCSEA-SBC supports FEI's efforts and BCOAPO does not object to the resumption of spending on customer education and awareness at the previously set level of $300,000 per annum.

47. The CEC states that "FEI indicates it does not need approval for the marketing spend".[60] This is not accurate. FEI did not seek approval in this proceeding, but FEI's rates are subject to Commission approval and, as FEI has stated, there are other processes in which its revenue requirements are set, including review of the forecast and actual balances in the BVA.[61]

48. The CEC submits that FEI should be "accountable" for cost per acquisition metrics.[62] As FEI submitted at paragraphs 49 and 50 of its Final Argument, cost per acquisition metrics are not fair or meaningful. Such calculations attribute no value to the cost of generating customer awareness amongst one million customers, educating customers that may be interested (but do not sign up) and retaining customers that do sign up for the program. Instead, cost per addition metrics unfairly attribute all spending to the sole purpose of

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[59] CEC Final Argument, para. 128.

[60] CEC Final Argument, para. 112.

[61] Exhibit B-9, BCUC IR 1.43.6. Transcript Volume 1, Procedural Conference, pp. 6-8.

[62] CEC Final Argument, para. 115.

customer additions in a single year, even though customers may remain as customers over many years.[63] This metric also fails to take into account that there is a cost of entry into the market that cannot be avoided. As stated by Mr. Wolfe:

> There is a certain price of entry that we need to pay just to educate and inform a million customers, and as opposed to looking at things from the standpoint of acquisition costs per customer, one of our greatest challenges is informing a million customers. I suppose if we had only a hundred thousand customers, it would be easier to inform them because there would be fewer, but with a million customers, you do need to be able to get to those customers somehow. And that will take a certain level of spending.[64]

49. FEI reiterates that the value of customer education and awareness spending is that it facilitates a voluntary program. A voluntary program can only function properly if customers are made aware of the program and are provided the information they need to decide to participate. One of the key benefits of a voluntary program is that the rate impacts to non-biomethane customers can be minimized by maximizing revenue from voluntary customers. In other words, the modest incremental spending required for customer education and awareness results in revenue from voluntary customers which reduces the potential impact to non-biomethane customers. The cost of customer education and awareness efforts must therefore be weighed against all the revenues of voluntary customers which would otherwise represent costs recovered from non-biomethane, non-bypass customers and the benefits of a voluntary program generally.

[63] E.g. Transcript, Volume 2, pp. 44-46.

[64] Transcript, Volume 2, p. 45.

PART SIX: CONCLUSION

50. In conclusion, FEI submits that its proposed changes to the BERC rate efficiently address the current challenges facing the biomethane program and are guided by the appropriate principles and objectives. FEI submits that alternative proposals from CEC are not feasible or are not supported by the evidence. FEI therefore submits that the approvals sought by FEI are just and reasonable and should be approved as filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: February 23, 2016

[original signed by Christopher Bystrom]

Christopher Bystrom
Counsel for FortisBC Energy Inc.