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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: FortisBC Energy Inc.
Application for Approval of Biomethane Energy Recovery Charge (BERC)
Rate Methodology (the Application)
FEI Supplemental Argument on Floor and Ceiling Prices in Response to the
British Columbia Utilities Commission (Commission) Exhibit A-10

In accordance with the regulatory timetable for supplemental argument set out in Appendix A to Commission Order G-60-16, dated May 4, 2016, we enclose for filing the electronic version of the Supplemental Argument of FortisBC Energy Inc.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[original signed by Christopher R. Bystrom]

Christopher R. Bystrom

CB
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

SUPPLEMENTAL ARGUMENT OF
FORTISBC ENERGY INC.

May 9, 2016

A. Introduction

1. On May 4, 2016, the British Columbia Utilities Commission (the “Commission”) issued Order G-60-16 requesting supplemental argument on the appropriateness of and need for the application of floor and/or ceiling prices to a market based BERC rate methodology, and if appropriate or needed, what should be the quantum of floor and/or ceiling prices. FEI provides its submissions on these points below.

B. Need for Floor and/or Ceiling Prices

2. As stated in Final Argument, FEI’s 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 is proposing a market-based BERC rate set at a premium to the commodity rate that will recover the costs of the program from voluntary customers to the extent possible in order to minimize the rate impact on non-biomethane customers. For the reasons explained below, FEI submits that a floor and ceiling price are not needed.

3. The imposition of a floor price will potentially increase the premium over the commodity rate over the \$7 premium proposed by FEI. As summarized in section 7A of FEI’s Final Argument, FEI’s \$7 premium is neither too high, which would discourage participation, nor too low, which would not maximize the potential revenue from voluntary customers. Based on the evidence, FEI believes that a floor price that results in a premium of much more than \$7 could reduce demand from voluntary customers. FEI, therefore, does not believe that a floor price is warranted.

4. FEI also does not believe that the imposition of a ceiling price is warranted at this time. As discussed in the Application and FEI’s Final and Reply Arguments, the purpose of adopting the market based rate is not to subsidize one group of customers or the other, but to recover the costs of the program from voluntary customers to the extent possible in order to

minimize the rate impact on non-biomethane customers. Since biomethane customers receive the benefit of a market based BERC rate that recovers less than the cost of the biomethane supply and program costs, it is symmetrical that they also bear the burden if the market based BERC rate recovers more than those costs. However, FEI recognizes that such higher prices may have a negative impact on customer additions and retention and ultimately the demand for biomethane. FEI notes that this is unlikely to occur in the near term, since the price of natural gas and/or the carbon tax would have to increase significantly for FEI's proposed market rate to exceed the cost of biomethane supply and program costs. FEI, therefore, believes that setting a ceiling at this time is not needed and potentially premature. Instead, FEI proposes to monitor the response of biomethane customers to future increases in the BERC rate (due to increases in the price of natural gas and/or the carbon tax), and bring forward a proposal for a ceiling price for the Commission's consideration should the higher prices have a negative impact on biomethane demand.

5. For these reasons, FEI has not proposed a floor or ceiling in its market-based BERC rate and continues to believe that neither is required. Nonetheless, if the Commission concludes that a floor is required, FEI provides the following submissions on the floor price and the long-term contract price.

C. Floor Price

6. In the alternative, FEI's recommendation for a floor price, if one is required, is for a fixed dollar amount until subsequently adjusted, which is option a) in the table provided by the Commission in Exhibit A-9. Specifically, FEI would propose that a floor be set at \$10 for the short term rate and \$9 for the long term rate.

7. If a floor price is required, FEI submits that the following principles should be considered:

- The floor price should be high enough to ensure that the BERC rate does not drop so low as to not recover a reasonable portion of the costs of the biomethane supply and program costs;
- The floor price should be set low enough so that it does not unduly reduce biomethane demand;
- The floor price should be easy to communicate to customers; and
- The floor price should be, to the extent possible, consistent with the pricing methodology proposed in the Application.

8. A \$10 floor for the short-term rate and \$9 floor for the long-term rate would be consistent with the above considerations, for the reasons set out below.

- A \$10/\$9 floor would recover the majority of biomethane supply and program costs, as compared to a five year forecast of the BERC rate using the current cost of service methodology which ranges from a low of \$14.64 to a high of \$16.59.¹
- In the absence of data showing how customers actually respond to the floor, FEI cannot be certain what the impact of the floor may have on customer additions and retention (and therefore demand). However, a \$10/\$9 floor reflects historically low natural gas prices and is similar to the monthly cost that FEI's research showed customers would be willing to pay for biomethane.² For long-term customers, FEI's evidence was that a burner tip price point at about \$10 per GJ is economic for long term customers.³ Thus, while FEI is concerned that any floor price may reduce demand, there is some evidence that a \$10/\$9 floor may not unduly decrease demand.

¹ Exhibit B-5, BCUC IR 1.31.1, Attachment 31.1, Schedule 4 (2016 \$15.74, 2017 \$14.64, 2018 \$16.10, 2019 \$16.41, 2010 \$16.59).

² Exhibit B-1, Application, pp. 34-35.

³ Exhibit B-7, BCSEA IR 1.4.7.1.

- A fixed \$10/\$9 floor is simple and easy to communicate to customers.
- A fixed \$10/\$9 floor is consistent, to the extent possible, with the proposed pricing methodology in the sense that it does not incorporate a conflicting pricing methodology as the basis for the floor price.

9. In summary, FEI's recommendation would ensure the majority of biomethane supply and program costs are recovered while not unduly reducing demand. It also has the benefit of being easy to communicate to customers and does not incorporate conflicting pricing methodologies.

10. Options b) and c) in the table in Exhibit A-9 were based on a percentage or fixed dollar discount to the BERC rate as determined using the current rate setting methodology. FEI does not believe that these mechanisms are viable. A mechanism which links the rate to a discount off of the current BERC rate setting methodology will result in a varying floor price and, therefore, a varying premium over the CCRA rate. This is as a result of the current BERC rate changing due to a number of factors, such as demand volume as described in section 3.1 of the Application. Using the current BERC rate setting methodology as a reference point from which to determine a floor is inconsistent with the idea of locking in a premium above conventional natural gas as proposed in the Application. Setting a floor price on this basis would, therefore, complicate the BERC rate for customers and be challenging for FEI to communicate clearly. FEI therefore concludes that such a floor price would be inferior to FEI's proposal above.

D. Long-Term Contract Price

11. If the Commission determines that a floor or ceiling should be put in place for the long-term contract price then it should be applicable only at the time of signing of a long-term contract. That is, once the rate is negotiated it should remain in place for the term of the

contract, subject to escalation rates to account for inflation as proposed in the Application.⁴ A key purpose of the Long Term Contract offering is to provide price certainty for the customer in exchange for a commitment to purchase a fixed volume of RNG for a fixed period of time.⁵ If the contract is subject to variations in the floor or ceiling price, then the customer will not have the price certainty needed to enter into a long-term contract. It is therefore essential that the long-term contract be set for the length of the contract term.

E. Conclusion

12. In conclusion, FEI submits that its Application should be approved without the imposition of a floor or ceiling price. In the alternative, if the Commission determines that a floor price is required, FEI would propose that a floor be set at \$10 for the short term rate and \$9 for the long term rate for the reasons discussed above. FEI also proposes to monitor the response of biomethane customers to future increases in the BERC rate (due to increases in the price of natural gas and/or the carbon tax), and bring forward a proposal for a ceiling price for the Commission's consideration should the higher prices have a negative impact on biomethane demand.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: May 9, 2016

[original signed by Christopher Bystrom]
Christopher Bystrom
Counsel for FortisBC Energy Inc.

⁴ Exhibit B-5, BCUC IR 1.26.6.

⁵ Exhibit B-5, BCUC IR 1.26.2.