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May 18, 2016
File No.: 240148.00790

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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 Reply Argument on Floor and Ceiling Prices

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 Reply 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 RATE METHODOLOGY

SUPPLEMENTAL REPLY ARGUMENT OF
FORTISBC ENERGY INC.

MAY 18, 2016

A. Introduction

1. On May 9, 2016, FortisBC Energy Inc. (“FEI”) filed its Supplemental Argument on the appropriateness of and need for the application of floor and/or ceiling prices to a market based BERC rate methodology. Supplemental Reply Arguments were filed on May 14 by British Columbia Old Age Pensioners Organization et al (“BCOAPO”), BC Sustainable Energy Association and Sierra Club (“BCSEA-SCBC”) and the Commercial Energy Consumers Association of British Columbia (“CEC”).

2. FEI files the following submissions in reply to the intervener arguments. FEI notes that it has not replied to the submissions of the CEC that go beyond the scope set by the Commission for supplemental argument in Order G-60-16. Silence on FEI’s part in response to a particular intervener comment should not be taken as agreement.

B. A Floor/Ceiling Price is Unnecessary

3. BCOAPO submits that the imposition of a floor or ceiling price on the market based BERC rate methodology is unnecessary, while BCSEA-SCBC states that: “incorporating floor prices and ceiling prices into the BERC rates proposed by FEI is likely to be ineffective in coping with the contingency of extremely low or extremely high natural gas prices in the future.”¹ FEI agrees.

4. FEI agrees in particular with BCSEA-SCBC that “the contingencies of extremely low or extremely high natural gas prices would be most effectively addressed by a requirement that FEI address such contingencies in its reporting to the Commission, with proposals for changes to the BERC prices if warranted by the circumstances that exist at the time.”² In this regard, FEI will be monitoring the impact of the BERC rate methodology on Biomethane

¹ BCSEA-SCBC Supplemental Argument.

² BCSEA-SCBC Supplemental Argument.

Program participation and revenues, and would apply to the Commission for a change to the BERC rate methodology if warranted.

C. Reply to BCOAPO on Floor Price for Short-Term Contract Rate

5. Although BCOAPO submits a floor or ceiling is not necessary, BCOAPO believes that a \$10 price floor “is justifiable on the basis that it is easy for customers to understand and has very little associated downside.”³ While FEI proposed a \$10 floor price as an alternative if the Commission determines that a floor price is necessary, FEI submits that a floor price is not justified. First, as BCOAPO is noted, a floor price is unlikely to make a significant impact on core customer rates. Second, the introduction of a floor price would increase the premium over the CCRA rate, which could reduce demand for biomethane from voluntary customers. Third, the introduction of a floor price would introduce complexity into the BERC rate methodology, which may in itself discourage voluntary participation. Thus, any increase in revenue from voluntary customers through a floor price may be more than offset by a reduction in demand. For these reasons, FEI submits that any potential benefit of including a floor price is outweighed by the associated detriments, including decreased demand, and loss of simplicity, understandability and certainty. It is therefore preferable for FEI to monitor participation in and revenue from the Biomethane Program and propose a change to the BERC rate methodology if warranted.

D. Reply to BCOAPO on Floor Price for Long Term Contract Rate

6. BCOAPO discusses the potential for using the CCRA rate as a floor in the long term contract BERC rate, or constraining the duration of long term contracts to 5 years.⁴ FEI is opposed to either of these suggestions. There is no evidence to conclude that any floor price or restriction on the length of long term contracts less than 10 years would result in increased revenues from voluntary customers. Rather, the evidence is to the contrary. Both of the BCOAPO’s suggestions would remove the long term price certainty that long term customers

³ BCOAPO Supplemental Argument.

⁴ BCOAPO Supplemental Argument.

require. In particular, the prospect of a limiting long term contracts to 5 years results in no certainty in price beyond five years, even though the customer may have a much longer time horizon for its project. Removing long term price certainty would make it more difficult for FEI to successfully negotiate long term contracts. The loss of even a single long term customer could result in significantly reduced biomethane revenues. Again, any potential benefit of including a floor price or restricting the length of long term contracts less than 10 years is heavily outweighed by the associated detriments, due to the risk that long term customers could refuse to enter into long term contracts for biomethane

E. Reply to CEC on Ceiling Price

7. The only party to support a ceiling price is the CEC. The CEC states that: “The appropriate ceiling price for the BERC rate is one which recovers the full cost of service for the RNG service, and would reasonably be calculated as the BERC rate is calculated presently.”⁵ The CEC provides no support for this assertion. FEI explained why the imposition of a ceiling price is not warranted at this time in paragraph 4 of its Supplemental Argument. BCOAPO also addressed this topic in paragraph 19 of its Supplemental Argument. FEI submits that there is no need for a price ceiling at this time.

F. Reply to CEC on Floor Price

8. The CEC states that, in its view, “it is appropriate to establish both floor and ceiling prices for the BERC rate in order to ensure that the Renewable Natural Gas service recovers its costs as soon as possible from voluntary customers, and limits the burden on the non-bypass customer base.”⁶ The CEC provides no evidence to support its view that a floor or ceiling price would ensure costs are recovered “as soon as possible” from voluntary customers. To the contrary, the imposition of a floor price would increase the premium over the CCRA rate and introduce complexity into the BERC rate, likely reducing demand. In short, there is no evidence that a floor price would optimize revenue from voluntary biomethane customers. It is

⁵ CEC Supplemental Argument, para. 3.

⁶ CEC Supplemental Argument, para. 2.

therefore preferable for FEI to continue to monitor participation in and revenue from the biomethane program and propose a change to the BERC rate if the circumstances warrant.

9. The CEC also submits the floor price should be set to recover the biomethane service costs as follows:

At minimum a floor price is necessary in order to avoid extraordinary subsidies from non-bypass customers that exceed the cost of providing the service altogether were it to be developed and simply included in the conventional natural gas supply and recovered in non-bypass customer rates. The floor price is appropriately established at a cost which recovers all the costs of selling the RNG service to RNG customers and any other costs that exceed the basic provision of the supply. Such expenditures may include marketing and other sales and delivery costs.⁷

10. The CEC goes on to conduct an analysis which purports to determine the incremental marketing costs per customer addition taking a specific blend. The CEC recommends “at least \$10 per GJ as the floor for a 10% blend customer, and elimination of the 5% blend option.”⁸

11. The question of whether any particular blend should be eliminated is not within the scope of supplemental argument as determined by the Commission in Order G-60-16. As such, FEI submits that the Commission should disregard the CEC’s submissions on this topic.

12. In reply to the CEC’s recommended floor price, FEI submits the following:

(a) The CEC’s position is unclear and is not logically grounded in the evidence. In particular, it is not clear how the CEC believes the floor price should be set, which costs it should ensure recovery of, or why those costs should be used as a basis to set a floor. At various points the CEC appears to suggest that the floor should be the cost of all costs above the CCRA rate⁹, all costs above biomethane

⁷ CEC Supplemental Argument, para. 5.

⁸ CEC Supplemental Argument, para. 20.

⁹ CEC Supplemental Argument, para. 5, first sentence.

supply costs,¹⁰ “the recovery of marketing, sales and delivery costs for customers taking a specific blend at a specific BERC rate price”,¹¹ or incremental marketing costs.¹² The CEC provides no rationale for why a particular subset of costs should be used to set the floor price. FEI submits that there is no basis for such a position. Rather, the objective should be to maximize revenues from voluntary customers. As submitted above, the imposition of any floor price jeopardizes this objective.

- (b) Although unclear, the CEC’s proposed calculation of the floor price would appear to be a complex and subjective exercise. In addition, the CEC is suggesting a different floor price for each blend for commercial and residential customers. Setting various floor prices on such a basis would introduce significant complexity into the BERC rate which could undermine FEI’s marketing efforts and reduce demand, resulting in a decrease in demand from biomethane customers.
- (c) The CEC’s characterization of different blends as being “discounts” to taking 100% RNG service is incorrect.¹³ Blends do not change the price, but the volume of biomethane that a customer chooses to purchase. Customers taking a blend of biomethane (e.g. 5%, 10% or 50%) pay for that portion of their natural gas as biomethane.¹⁴ In this way, the different blend options provide alternatives for customers to take more or less biomethane, but the price of biomethane remains the same in all cases.
- (d) The CEC’s attribution of incremental marketing costs to customer additions is an incorrect and misleading view. FEI has addressed this point in paragraphs 49 and 50 of its Final Argument and paragraphs 48 and 49 of its Reply Argument.

¹⁰ CEC Supplemental Argument, para. 5, second sentence.

¹¹ CEC Supplemental Argument, para. 7.

¹² CEC Supplemental Argument, paras. 10 to 18.

¹³ CEC Supplemental Argument, para. 6.

¹⁴ Exhibit B-1, Application, pp. 15-19.

13. For these reasons, FEI submits that the CEC's proposal should be rejected.

G. Conclusion

14. FEI submits that its proposed BERC rate methodology should be approved as filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: MAY 18, 2016

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