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Electronic Filing

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Mr. Patrick Wruck, Commission Secretary

Dear Sirs/Mesdames:

**Re: FortisBC Energy Inc. Biomethane Energy Recovery Charge (BERC) Rate
Methodology - British Columbia Utilities Commission (BCUC) Decision and Order
G-133-16 Compliance Filing – BERC Rate Assessment Report – Final Argument –
Stage 1**

In accordance with the regulatory timetable in the above proceeding, we enclose for filing the Final Argument of FortisBC Energy Inc., dated March 25, 2021.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[Original signed by]

Christopher Bystrom*
*Law Corporation

CRB/NR
Encl.



BRITISH COLUMBIA UTILITIES COMMISSION

FORTISBC ENERGY INC.

**BIOMETHANE ENERGY RECOVERY CHARGE (BERC) RATE
METHODOLOGY**

**BRITISH COLUMBIA UTILITIES COMMISSION (BCUC) DECISION
AND ORDER G-133-16 COMPLIANCE FILING**

BERC RATE ASSESSMENT REPORT

FINAL ARGUMENT

OF

FORTISBC ENERGY INC.

MARCH 25, 2021

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Part One: Introduction

1. FortisBC Energy Inc. (“FEI”) filed its BERC Rate Assessment Report (the “Assessment Report”)¹ on August 12, 2020 in compliance with British Columbia Utilities Commission (“BCUC”) Order G-133-16, dated August 12, 2016, which approved the current Biomethane Energy Recovery Charge (“BERC”) rate. Following submission from the parties, the BCUC determined that this proceeding will have two stages. The first stage will review FEI’s Assessment Report. The second stage will be a comprehensive review of FEI’s renewable natural gas (“RNG”) program, for which FEI is preparing a comprehensive review and assessment (the “Comprehensive Review”). FEI expects to file the Comprehensive Review late in 2021.² This submission is FEI’s final argument on the first stage of the review, which focuses only on FEI’s Assessment Report.

2. In the Assessment Report, FEI has provided the information directed by the BCUC in Order G-133-16. FEI has also responded to information requests (“IRs”) from the BCUC and interveners, providing further details on the performance of the BERC rate and the RNG program more generally. In this submission, FEI focusses on two key points:

- The BERC rate has been successful. The BERC rate has increased program participation, increased RNG sales volumes and increased program revenues. FEI has sold all of its RNG supply, so that no RNG has been transferred to the Midstream Cost Recovery Account (“MCRA”) for recovery from non-RNG customers.
- The BERC rate should remain in place at this time and any changes to the RNG program should be considered in the context of FEI’s Comprehensive Review and the second stage of this proceeding.

3. FEI submits that the BCUC should accept FEI’s Assessment Report and defer any consideration of potential changes to the RNG Program to the second stage of this proceeding.

¹ Exhibit B-1.

² Exhibit B-2, p. 4.

PART TWO: BERC RATE METHODOLOGY HAS BEEN SUCCESSFUL

A. Introduction

4. In this part FEI discusses how the BERC rate approved by Decision and Order G-133-16 successfully achieved its purpose by increasing RNG program participation, sales volume, and revenues, as well as selling all the RNG supply.

5. The BERC rate methodology consists of a short-term rate and long-term rate, as follows:

- (a) The Short Term BERC Rate is equal to the BCUC-approved January 1 Commodity Cost Recovery Charge each year, plus the approved Carbon Tax rate, plus a premium of \$7.00 per gigajoule (GJ).
- (b) The Long Term BERC Rate is set at a \$1.00 discount to the Short-Term BERC Rate to reflect the benefits to FEI and its non-RNG customers, including long-term revenue certainty, a more predictable load throughout the year, and reduced marketing efforts required to reach this customer group.

6. FEI proposed the BERC rate methodology in 2015 in response to a negative trend in customer enrolment in the RNG program at that time. FEI's evidence was that the premium customers were required to pay for RNG compared to conventional natural gas was too high and was discouraging customer enrollment. FEI proposed the BERC rate methodology to reduce the risk to non-RNG customers of the cost of unsold biomethane volumes by selling most or all of the available RNG supply at a lower price, instead of selling less volume at a higher price.³

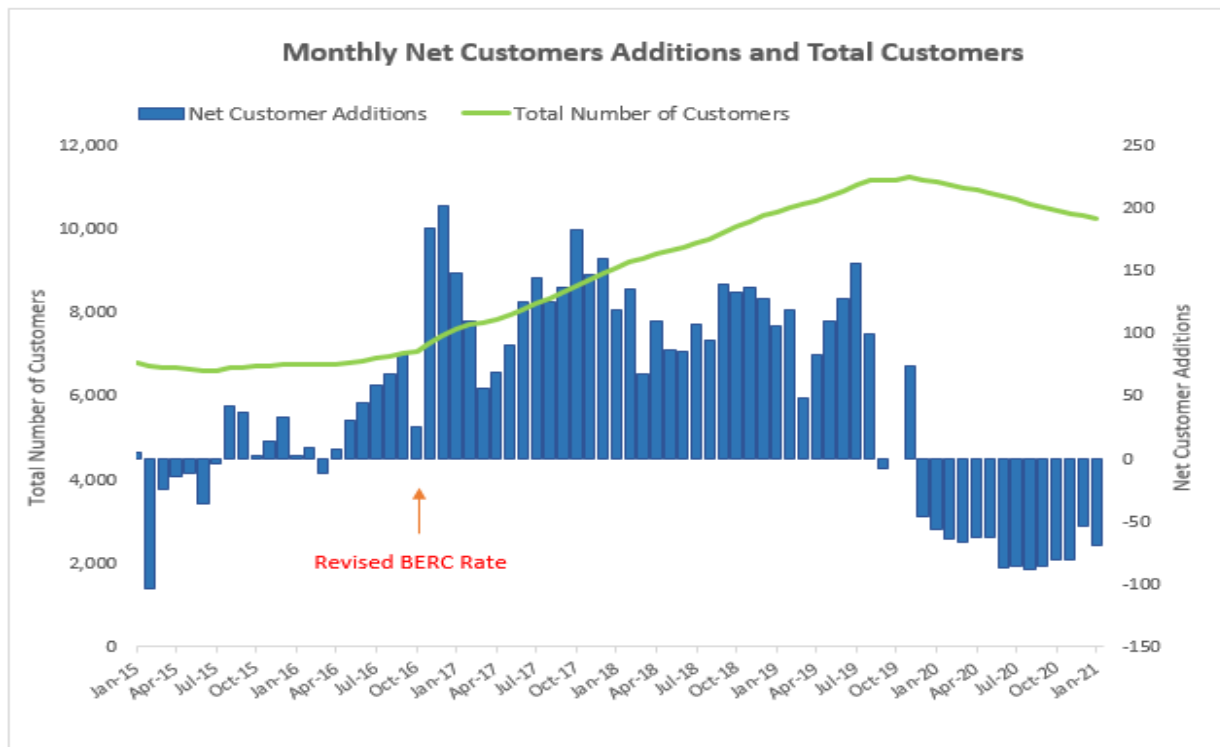
7. As set out in the sections below, the BERC rate achieved its purpose and has been successful.

B. Change to the BERC Rate Increased Customer Enrollment

8. The BERC rate methodology successfully reversed the negative trend in enrolment in the RNG program. As shown by the blue bars in the figure below, the customer response to the

³ Exhibit B-1, pp. 3-4.

change in the BEREC rate was clear and consistent up until the end of 2019, when additional supply did not materialize to serve demand.



9. The reduction in customer additions starting towards the end of 2019 is due to the temporary closure of the program, as supply was not available to meet the increase in demand.⁴ This was due in part to the increase in demand from customers, but was primarily due to the lag in supply compared to forecast. Had even a small amount of additional supply materialized, FEI would have been able to continue to meet growing demand.⁵

10. FEI described the various challenges with its supply portfolio as follows:⁶

During this same period, several events occurred which resulted in the supply of biomethane not materializing as forecast. While FEI had hoped to have several new suppliers online during this timeframe, only one new biomethane project, the City of Surrey's Biofuel facility, became operational in the summer of 2018. This project underwent a delayed ramp up period in biomethane production, and as yet is still not able to produce the full 120,000 GJ/year output that was

⁴ Exhibit B-1, p. 6.

⁵ Exhibit B-4, BCUC IR1 2.2.

⁶ Exhibit B-4, BCUC IR1 2.1.2.

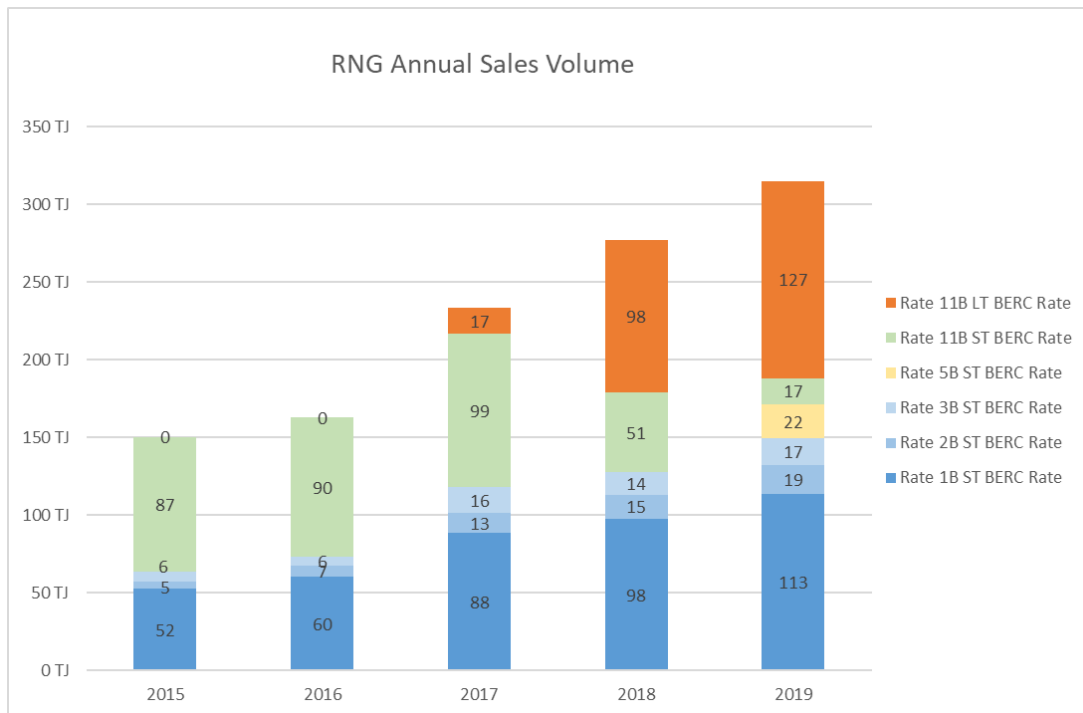
originally forecast. Further, other supply projects that FEI anticipated would be completed during the period were delayed. Finally, FEI's existing suppliers experienced events, such as digester issues and mechanical failures, which adversely affected their ability to supply RNG to FEI. The net result is that the incremental increase in overall actual biomethane supply did not match FEI's forecast over the period.

- 11. FEI expects additional supply to be available for the program in 2021.

C. Change to the BERC Rate Increased Sales Volume

12. The change to the BERC rate also increased the volume of RNG sold. From the end of 2016, when the revised BERC rate methodology was implemented, to the end of 2019, the sales volume for Short Term BERC Rate customers increased from approximately 163 terajoules, to approximately 188 terajoules. This is a growth of 15 percent over the three-year period, or an average annual growth rate of nearly 5 percent.⁷

13. The growth by rate schedule is illustrated in the figure below.⁸ As seen below, there has generally been annual increases in the volumes from all rate schedules since 2015.



⁷ Exhibit B-1, p. 8.

⁸ BCUC IR1 17.2.

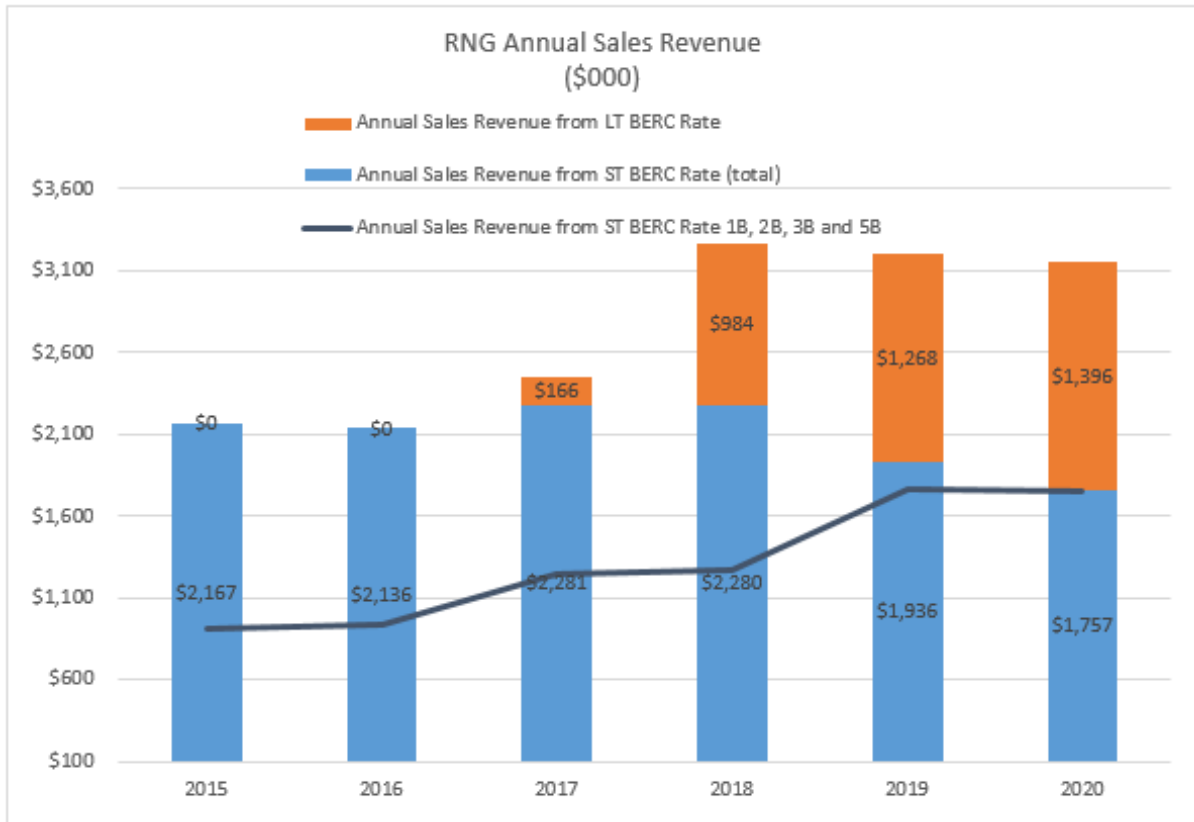
14. The migration of Rate 11B customers (City of Vancouver, U.B.C. and Translink) from the short-term to the long-term rate is illustrated by the growth of the orange bars in the figure above, which also shows the success of the long-term BERC rate. To date, FEI has executed three long-term contracts. FEI has been approached by additional customers interested in long-term contracts, but the delay in additional RNG supply volumes has hindered FEI's ability to sign such contracts. The demand for long-term access to large volumes of RNG is driven by factors that are specific to particular industries or customers. These drivers include greenhouse gas ("GHG") emissions reduction targets, the price of long-term RNG compared to alternatives, and environmental initiatives from different levels of government. FEI understands that the long term contracts make it easier for these customers to meet their GHG emission reduction objectives since the contract provides them with RNG supply security for 5 to 10 years.⁹

D. Change to the BERC Rate Increased Revenues

15. Total revenues from the RNG program have also increased since the BERC rate was approved, as shown in the figure below.¹⁰

⁹ Exhibit B-1, p. 7; Exhibit B-4, BCUC IR1 2.1.2; Exhibit B-7, CEC IR1 7.1 and 7.4.

¹⁰ Exhibit B-1, p. 10; Exhibit B-8, BCOAPO IR1 6.1.



16. The black line in the figure shows the growth in total revenues generated from mass market residential and commercial customers (RS 1B, 2B, 3B and 5B). Although the price per GJ of RNG declined under the revised BERC rate, the average revenue generated per residential customer remained steady at approximately \$110 per customer. This indicates that the new Short Term BERC rate has not reduced the per customer revenues for the majority of customers. When coupled with the increased number of customers enrolled, the effect is increased revenues.¹¹

17. The growth in the orange bars in the figure above illustrate the increase in revenue generated from Long Term BERC Rate contracts. Revenue from the Long Term BERC Rate grew from nil to nearly \$1.3 million by the end of 2019.¹²

¹¹ Exhibit B-1, p. 10.

¹² Exhibit B-1, p. 11.

E. FEI Has Sold All of its RNG

18. FEI has also sold all of its inventory of RNG since the change in the BERC rate. The following table shows the Biomethane Variance Account (“BVA”) balance up to January 1, 2021.¹³ The January 1 balance represents the value of RNG inventory at the start of each year, valued at the Short Term BERC Rate in effect at that time.¹⁴

Item	1-Jan-17	1-Jan-18	1-Jan-19	1-Jan-20	1-Jan-21
The BVA balance (\$000)	\$ 341.0	\$ (471.3)	\$ -	\$ 1.5	\$ -

19. The January 1 2017 balance is positive, indicating that FEI had sold more RNG than it had available. The January 1, 2018 balance was negative due to the timing difference of FEI’s purchase of carbon offsets in 2018 to offset the positive balance in 2017.¹⁵ The key fact is that balance has been nil (or virtually nil) in recent years, indicating that FEI has been able to sell its inventory of RNG.

F. Conclusion

20. The revised BERC rate methodology has successfully addressed the problem it was designed to solve. The declining customer enrolment experienced in the early years of the program was reversed. Following implementation of the revised BERC rate, customer enrollments increased, volumes of RNG sold increased, and revenue collected increased. FEI has sold all of its inventory of RNG such that it has never been necessary to transfer unsold RNG to the MCRA for recovery from non-RNG customers. While it may not be possible to determine with certainty that revenue has been maximized,¹⁶ the BERC pricing methodology approved by the BCUC has clearly enhanced revenue and improved the recovery of RNG program costs from RNG customers.

¹³ Exhibit B-4, BCUC IR1 14.1.

¹⁴ Exhibit B-1, p. 14.

¹⁵ Exhibit B-1, p. 14. FEI has responded to a number of IRs regarding how carbon offsets are used in the RNG Program (e.g., Exhibit B-4, BCUC IR1 5.1 and 5.3).

¹⁶ Exhibit B-7, CEC IR1 2.2.

PART THREE: CHANGES TO RNG PROGRAM SHOULD BE CONSIDERED IN SECOND STAGE

21. FEI submits that no changes should be made to the BERC methodology at this time, and that any changes should be considered as part of the Comprehensive Review to be filed in the second stage of this proceeding. There are three primary reasons for this.

22. First, the BERC rate has been successful. As discussed above, the current BERC rate methodology has led to positive net growth in customer participation as well as RNG sales volume and revenues. FEI has not faced any challenges which are attributable strictly to the current BERC rate methodology.¹⁷ Rather, the current challenges with the RNG program are primarily related to the lack of supply to serve demand. As new supply becomes available later in 2021, the BERC rate methodology will help ensure that the demand for RNG remains strong.¹⁸

23. Second, there is no foundation in this proceeding for any change to the BERC rate. Given the success of the BERC rate, FEI's Assessment Report did not recommend any changes. Nor was FEI in a position to provide or suggest alternative offerings or changes to the BERC offerings in the absence of further research and analysis.¹⁹ While the IRs explored various aspects of the RNG program and the BERC rate, there is insufficient evidence to determine that any changes to the BERC rate would be just and reasonable.

24. Third, FEI's Comprehensive Review will provide the appropriate context and foundation for considering changes to the RNG program, including the BERC rate. FEI will be consulting and engaging with customers and interested parties as part of its Comprehensive Review, which will be an important input to the process. FEI will assess the various drivers of demand and will consider whether or not modifications to the program are warranted to suit current market realities. Factors such as updated government objectives, regulations, and changing customer preferences could indicate that a change to the RNG program is required to effectively serve

¹⁷ Exhibit B-4, BCUC IR1 10.2.

¹⁸ Exhibit B-1, p. 11.

¹⁹ Exhibit B-4, BCUC IR1 10.1.

the market on a go-forward basis.²⁰ FEI will also analyze pricing mechanisms and market factors that could affect the willingness of customers to pay different rates for RNG.²¹ This will include an assessment of different pricing options for the long-term rate.²² FEI's analysis will include consideration of changes to Federal and Provincial emissions regulations, changes to climate policy at the municipal level that set emissions targets for buildings, and environmental, social and governance factors that may be driving larger corporations to reduce emissions. FEI will be using the results of this work to inform its Comprehensive Review.²³ Prior to this analysis being completed, any changes to the RNG program would be premature and uninformed.

Part Four: Conclusion

25. FEI submits that the first stage of this process has shown that the BERC methodology has been successful and that no changes are warranted at this time. The second stage of this proceeding will be the appropriate forum for consideration of the RNG program overall, and whether any changes are needed to the BERC rate or any other aspects of the program. Therefore, FEI requests that the BCUC accept the Assessment Report and defer any determinations on the RNG Program to the second stage of this proceeding.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

Dated:

March 25, 2021

[original signed by Chris Bystrom]

Christopher R. Bystrom

Counsel for FortisBC Energy Inc.

²⁰ Exhibit B-4, BCUC IR1 2.2.

²¹ Exhibit B-4, BCUC IR1 2.1.3.

²² Exhibit B-7, CEC IR1 8.1.

²³ Exhibit B-4, BCUC IR1 10.2.