



Diane Roy
Vice President, Regulatory Affairs

Gas Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.com

Electric Regulatory Affairs Correspondence
Email: electricity.regulatory.affairs@fortisbc.com

FortisBC
16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (604) 576-7349
Cell: (604) 908-2790
Fax: (604) 576-7074
www.fortisbc.com

June 30, 2021

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

Attention: Mr. Patrick Wruck, Commission Secretary

Dear Mr. Wruck:

Re: FortisBC Energy Inc. (FEI)

Biomethane Energy Recovery Charge (BERC) Rate Assessment Report - British Columbia Utilities Commission (BCUC) Order G-35-21

Stage 2 Comprehensive Review and Assessment of the Renewable Gas Program – Status Update

FEI writes in compliance with Directive 2 of BCUC Order G-35-21 directing FEI to provide the BCUC with a status update on its Comprehensive Review and Assessment of the Renewable Gas (RG) Program (Comprehensive Review), including expected timing for the application.

In this status update and in future filings with the BCUC, FEI will use the term “renewable gas” (RG) to refer to the portfolio of renewable energy sources, including renewable natural gas (RNG), the acquisition of which are prescribed undertakings under the amended Greenhouse Gas Reduction (Clean Energy) Regulation (GGRR).¹

In the sections below, FEI discusses the scope of the Comprehensive Review, the consultation that FEI will undertake, and the timing of the Comprehensive Review filing.

Scope of the Comprehensive Review

FEI has taken into consideration feedback from the BCUC in Order G-292-20, stakeholders and customers as well as impacts from the policy environment in the development of the scope of the Comprehensive Review. FEI has commenced its activities on the

¹ B.C. Reg. 102/2012 Amendments, s 3.71, 3.8, s 6, 7, 8, 9 and 10.

Comprehensive Review and work is currently underway. FEI is focusing on key areas within the scope of the review, including a robust supply outlook, a fulsome understanding of customer demand from various customer segments, the evolving climate policy landscape, and an assessment of the existing Biomethane Variance Account (BVA) and BERC cost recovery mechanism. Also under review are those areas that were identified in the BERC Rate Assessment proceeding. The scope outlined in Order G-292-20 was:

1. Considering the BC government's CleanBC Policy and stated objectives, among other factors, what is the market outlook for Renewable Natural Gas (RNG) supply and demand in BC over the next ten years?
2. If the current maximum amount of RNG that FEI can acquire while remaining within the limit set out in the Greenhouse Gas Reduction (Clean Energy) Regulation is insufficient to meet the forecast RNG demand, what options would be available to FEI for resolving the imbalance?
3. What is FEI's load resource balance for RNG over the next ten years based on its forecast of RNG demand relative to contracted RNG supply?
 - I. How does FEI plan to meet any gaps in the load resource balance?
 - II. To the extent FEI plans to meet this gap with additional supply, how should this be done?
 - III. To the extent that the supply is notional, please explain notional supply, and how it works for RNG purchased outside of BC.
 - IV. To the extent FEI plans to purchase carbon offsets to meet this gap, how should this be done?
 - V. If carbon offsets are purchased to meet RNG demand, how do the costs of carbon offsets compare with the average cost of RNG supply and how are these costs recovered?
4. Detail the environmental attributes associated with any current or future RNG supply. How should environmental attributes associated with RNG supply be valued and who should be entitled to claim those environmental attributes?
5. What is FEI's forecast of the RNG Program costs over the next ten years and the extent of cross subsidization from FEI's non-bypass customers if the current BERC rate methodology is maintained?
6. Considering FEI's load resource balance for RNG, what are the risks that the RNG Program becomes oversubscribed again in the short to medium term if the current BERC rate methodology is maintained?
7. How does FEI's RNG Program impact its risk profile in the short, medium, long term?
8. What should the Panel consider in their evaluation of and any approvals related to the Assessment Report?
9. What are the implications of not approving the Assessment Report?
10. Any other relevant matters?

This work entails both internal and external resources. FEI has had conversations with some interveners and stakeholders to assist in guiding its review and assessment work.

A high level discussion of the major areas of scope and review is provided below.

Renewable Gas Supply Outlook

As recorded in the 2020 FEI Annual BVA filing, FEI acquired approximately 306,000 gigajoules (GJs) of RG supply from eight different producers. In 2021, FEI expects to approximately double that volume and increase the number of suppliers to a total of twelve different sources. Overall, since approving the BERC rate and RG Program structure in 2016, the BCUC has accepted a total of 17 additional agreements which are expected to supply an incremental volume of approximately 6.5 petajoules (PJs) per year for a total of close to 7.0 PJs annually once these supply projects are fully operational. Furthermore, the most recent GRR amendment provides for an additional potential 22 PJs per year and a maximum acquisition price of \$31 per GJ beginning in 2021. In order to determine rate/tariff offerings for RG Program participants as well as rate impacts to non-Program participants, supply volumes and costs must be understood.

As such, as part of the Comprehensive Review, FEI will be providing a ten-year RG supply outlook. To encompass all renewable gas supply contracts, FEI will be including a portfolio of renewable gases which will include RNG², waste hydrogen³, electrolytic hydrogen⁴, synthesis gas derived from biomass⁵ and lignin⁶, all of which may be used to displace conventional natural gas. FEI intends to provide a robust ten-year RG supply forecast using a probabilistic model which can provide a predicted range of potential volumes over this period. While FEI is currently developing and will be providing a ten year supply outlook in this Comprehensive Review the company is also evaluating a longer term decarbonization strategy, and the requirement for increasing RG volumes to displace conventional gas in our gas system and consideration of the dynamics associated with this shift including infrastructure needs to support continued safe, resilient and affordable energy supply. The role of carbon offsets in the portfolio will be examined, including a forecast of supply and how the costs of carbon offsets compare with the average cost of RG supply. A discussion of the environmental attributes associated with future RG supply and how environmental attributes associated with RG supply will be valued and who should be entitled to claim those environmental attributes will also be undertaken. FEI will also be examining the associated risks inherent to the future RG supply and supply risk mitigation strategies.

Renewable Gas Demand and Customer Programs

Included in the scope of the Comprehensive Review is a review of potential RG demand by various customer segments and the factors that affect demand, such as price, a customer's requirements to meet greenhouse gas reduction targets, and other economic considerations.

Currently, the RG offerings available include firm RNG offerings for Rate Schedules 1B, 2B, 3B, 5B in which customers can choose to designate five percent, ten percent, 25 percent, 50 percent or 100 percent for the RNG portion of their consumption. Customers can move in and out of the Program on a monthly basis. In addition, there are interruptible and long-term offerings available to larger customers. FEI is assessing the nature of these existing

² Ibid., s 2(3.8).

³ Ibid., s 6(b)(ii).

⁴ Ibid., s 6(b)(i).

⁵ Ibid., s 7(1).

⁶ Ibid., s 8(a).

offerings, the terms, price and tariffs to ensure that they meet the current and future needs of customers, the utility, stakeholders and climate policy. FEI will then bring forward any changes in the Comprehensive Review.

As the nature of customer demand and policy is constantly evolving, FEI is also assessing the need for additional tariffs and offerings. As noted below, municipal policy changes to provincial building codes could necessitate the need for specific rate schedules to assist our customers in meeting these municipal GHG emission bylaws. As such, FEI will also be exploring how the program can meet carbon performance targets in buildings where RG is provided as a permanent service offering for the life of the building in order to meet government climate policy objectives.

FEI has engaged third parties and work is currently underway in two areas:

The first is a market scan of RG programs and rate/tariff offerings in other jurisdictions that will help FEI better understand the nature of RG and renewable offerings available and their applicability to British Columbia. Similarly, understanding how other jurisdictions create and implement renewable rates and tariffs will assist FEI in developing new rates and tariffs if they are relevant to the needs of our customers.

Second, to garner a better understanding of customer attitudes, FEI has engaged a third party to undertake market surveys directed at the general population and current RG Program participants. The surveys aim to gain an understanding of the overall attitudes toward meeting climate objectives, willingness to pay for RG to reduce emissions and the specific needs and preferences related to the RG Program. These surveys will help FEI understand the potential uptake of RG offerings from Program participants, willingness to pay and appetite for differing options.

The external third-party work will dovetail with internal analysis so that FEI is in a position to file any proposed changes to existing rate schedules or the addition of new rate schedules as part of the Comprehensive Review.

Furthermore, FEI will make best efforts to provide an outlook of future demand for voluntary participation into the Program by customer segment, and the risk mitigation plans if demand does not materialize as anticipated or if the Program becomes oversubscribed again.

Supply Cost and Recovery Mechanism

The mechanisms for cost recovery of RG costs have been in place in the current form since BCUC approval in 2016; however, the development of the original concepts and mechanisms began nearly ten years ago. Those mechanisms were based upon the size, scale and scope of the Program at that time. Since then, as noted, FEI has received approval of 17 agreements, representing an incremental expected volume of approximately 6.5 PJs with a potential maximum volume of about nine PJs. The recently approved GRR amendment will enable a further addition of over 22 PJs annually for a total of about 31 PJs annually. The additional volume alone, when considering the acquisition costs, will impact rates, and therefore, FEI recognizes that a review of the current cost recovery mechanism is warranted. For example, the current BERB/BVA cost recovery is via a delivery rate rider of \$0.022/GJ applied to all sales customers and is based on an estimated supply of approximately 250,000

GJs of RG annually. If volumes increase to 31 PJs, this rider could increase substantially, all else equal.

As supply and associated costs are incurred, FEI is evaluating if the cost recovery structure remains appropriate going forward and the questions being explored include:

- Which regulatory principles should be prioritized for cost recovery from Program participants and non-participants?
- For RG supply costs not recovered from Program participants, from which customer groups should RG costs be recovered?
- Should all sales customers pay for RG costs?
- Should transportation and bypass customers pay for RG costs?
- Should the cost recovery mechanism be via a delivery rate rider?
- For Program participants in the voluntary customer offerings, what rates should be charged? Are different rates appropriate for different offerings and different customer segments?
- What time period should be considered for cost recovery?
- Are there additional mechanisms appropriate to recover costs?
- How will cost recovery impact the bill for Program participants and how will bills be impacted for non-participants?

To assist in informing appropriate the cost recovery mechanism FEI is engaging a third-party resource. This scope of work will help FEI understand the order of magnitude of the impact to natural gas customers' bills for those that are not participants in the RG Program if they pay a portion of RG supply costs, and at what point would these non-Program participants make a different energy choice.

Government Policy and Energy Objectives

Provincial and municipal policy, legislation and bylaws may have a significant impact on the scope and scale of the Comprehensive Review and the proposed solutions and tariff options. There are a number of policy and legislative changes being contemplated by both Provincial and Municipal governments as they relate to greenhouse gas emission reduction targets that could impact a potential RG solution. Currently, there are municipal bylaws that require emission profiles for buildings that conventional natural gas service is not able to meet and for which RG could be a potential option.

FEI continues to work with all levels of government to review and assess the plans, policies and legislation that affect FEI's RG Program. Below is a list of these types of policy initiatives at the Provincial level that have been announced publicly:

- CleanBC, the Province's climate and economic plan (CleanBC, 2018);⁷
- Sectoral greenhouse gas reduction targets⁸ to be implemented in 2030:

⁷ Published December 5, 2018.

⁸ Announced March 21, 2021. 2030 reduction targets are relative to 2007.

- Transportation: 27 percent to 32 percent;
- Industry: 38 percent to 43 percent;
- Oil and gas: 33 percent to 38 percent; and
- Buildings and communities: 59 percent to 64 percent;
- Recent amendments to the GRR; and
- Mandate letter for BC Attorney General Eby: supporting local governments to set their own carbon pollution performance standards for new buildings.⁹

The Company expects the Province will initiate further process to explore a potential Clean Portfolio Standard (CPS) to ensure the emissions reductions associated with the CleanBC plan, including the 15 percent renewable gas content, are achieved. The Province recently received a letter from the Climate Solutions Council that provides strategic advice to government on climate action and economic growth.¹⁰ The letter provided a number of recommendations regarding a potential CPS including setting an absolute emissions reduction target, expanding the range of compliance options beyond renewable gas and aligning the CPS with sectoral targets and 2040 and 2050 targets. The future process referred to above will likely address these issues.

While the GRR enables gas utilities to increase their investment and supply in renewable gas on a voluntary basis, the CPS approach may require an emissions reduction goal or percentage RG blend target for the gas utility so as to increase confidence that the CleanBC targets will be met. In addition, BC Attorney General Eby's mandate letter outlines an approach to "*enable local governments to set their own carbon pollution performance standards for new buildings*". Such an approach could mean that 100 percent conventional natural gas would not serve to meet the CleanBC carbon performance targets. The details of the interactions of the 15 percent renewable gas content along with the development of carbon performance targets for buildings are complex and FEI has engaged with the relevant ministries at the Province to seek clarity of their intentions.

Additional policy considerations are at the local government level, with some local governments adopting carbon performance targets for buildings in their jurisdiction ahead of provincial climate policy. Some local governments (such as the District of North Vancouver and City of Burnaby) have taken the approach of adopting the BC Energy Step Code along with a Greenhouse Gas Intensity (GHGi) targets for new construction. The addition of the GHGi targets limit the ability for conventional natural gas to be provided to these buildings. To provide gas service, the GHGi targets can only be met by a higher blend (up to 100 percent) RG, and that the RG must be supplied for the lifetime of the building. The City of Vancouver council earlier this month approved a "zero emissions" standard to come into effect in 2022. As of January 1, 2022, new low-rise residential buildings require zero emissions equipment for heating. This new requirement cannot be met with conventional natural gas and FEI is in discussions with the City of Vancouver as to how RG can meet this new "zero emissions" standard.

⁹ [AG-Eby-mandate.pdf \(gov.bc.ca\)](#), Page 4. "Build on our government's work to require new buildings and retrofits to be more energy efficient and cleaner by supporting local governments to set their own carbon pollution performance standards for new buildings."

¹⁰ https://www2.gov.bc.ca/assets/gov/environment/climate-change/advisory-council/letter_csc_cpsadvice_20210427.pdf

As such, FEI continues to work with policy makers to address these provincial and municipal policies that affect FEI's RG Program. Conversations will be motivated by seeking to understand how FEI's RG Program can play a vital role in reducing greenhouse gases in the province. These conversations are complex as they involve various ministries within government and a variety of policy considerations both at the provincial and local government level. The timing and outcomes of this work are unknown at this time and are likely to have an impact on FEI's Comprehensive Review and proposed RG Program offerings.

Consultation

In addition to broad based studies and analysis, stakeholder consultation and engagement will help inform and support the Comprehensive Review. FEI has begun consultations with regulatory interveners and these initial conversations have informed the scope and work to date.

In June, FEI met with regulatory interveners and stakeholders to help inform the content of the Comprehensive Review in areas such as the consultation process, customer offerings and cost recovery. In addition, FEI has engaged in one-on-one consultation with a variety of additional stakeholders and customers including builders and developers, HVAC contractors, policy makers at the provincial and municipal level, non-governmental organizations, and customers. Consultation with interveners to date has been focused on FEI's current scope to include long-term forecasts for our RG supply portfolio, demand by customer segments, RG Program offerings and mechanism to recover costs, discussion of climate policy impacts at the provincial and municipal level and a discussion of risks FEI may face with the Program.

This feedback from stakeholders has been helpful in understanding their current level of knowledge of FEI's RG Program offerings. Early feedback from stakeholder engagement shows that there is low familiarity with the customer RG Program, low levels of understanding of how renewable gas meets climate objectives and low levels of knowledge of how RG fits into a long-term solution for reducing emissions in the Province. FEI is taking steps to educate customers and stakeholders via further engagement and advertising as FEI further develops its Comprehensive Review. Stakeholders are engaged to learn more about the expanded RG supply and how the program will evolve to meet future needs, and are looking forward to the next steps of our consultation plan.

A more robust consultation plan is being developed for activities in the third and fourth quarters of 2021. These activities will include workshops, one-on-one engagements and surveys if required. FEI expects that these discussions will be iterative, as FEI seeks to understand stakeholder needs and feedback to arrive at optimal solutions, along with the interplay with provincial and municipal policy/legislation/bylaws.

Timing of Comprehensive Review

FEI is preparing the Comprehensive Review with anticipated filing in the fourth quarter of 2021. This timing will allow FEI to continue to prepare the analysis, complete third-party studies, undertake consultation in the coming months, and to continue conversations with the provincial and municipal governments on key policy files that will influence the approvals sought in the Comprehensive Review.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

cc (email only): Registered Interveners