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August 1, 2023

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

Attention: Patrick Wruck, Commission Secretary

Dear Patrick Wruck:

Re: FortisBC Energy Inc. (FEI)

Revised Renewable Gas Program Application – Stage 2 (Application)

Evidentiary Update and Further Update on Carbon Tax Matter

On June 5, 2023, FEI submitted its update on the carbon tax matter[1] in the above referenced proceeding, in which it advised that it will file a further update regarding the carbon tax matter on or before August 1, 2023. On June 14, 2023, the British Columbia Utilities Commission issued Order G-142-23 amending the regulatory timetable for the proceeding and establishing August 1, 2023 as the deadline for FEI to file its further update on the carbon tax matter.

In accordance with Order G-142-23, FEI hereby attaches its Evidentiary Update to the Application, including its further update on the carbon tax matter.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Sarah Walsh

Attachments

cc (email only): Registered Interveners

[1] Exhibit B-88.

FORTISBC ENERGY INC.

Evidentiary Update to the Comprehensive Review and Application for Approval of a Revised Renewable Gas Program

August 1, 2023

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1. INTRODUCTION

Further to Order G-142-23, in this Evidentiary Update on the carbon tax matter, FEI explains how its current biomethane program is affected by the carbon tax matter, the measures FEI is taking to balance supply and demand of renewable natural gas (RNG) to recover carbon tax refunds on behalf of its customers from the Province, the relatively minor amendments to the Application required to implement these measures, and a proposed regulatory timetable.

In the preparation of this Evidentiary Update, FEI has completed due diligence, both in its discussions with the Province and tax experts, to arrive at a proposed solution that, absent legislative changes, minimizes monthly differences in renewable gas supply and demand which will help maximize carbon tax refunds from the Province under the *Carbon Tax Act* on behalf of its customers. To accomplish this, FEI must balance renewable gas supply and demand monthly, as receiving carbon tax refunds under the *Carbon Tax Act* requires that FEI acquire RNG each month to match any RNG it sells to customers. This can be challenging given the demand profile of FEI's typically heat-sensitive customer base and relatively flat[1] supply of RNG throughout the year.

FEI's solution has two components, with only the second being directly related to the approvals sought in this Application.

- First, FEI will sell or redirect RNG from its biomethane suppliers into markets that are not in BC, such as the Renewable Identification Number (RIN) market in the US.[2] This will help FEI reduce the supply of RNG that it receives to better match supply and demand, especially in the short term before the Renewable Gas Blend is implemented.
- Second, FEI will set the percent of Renewable Gas Blend that it will deliver to customers monthly instead of annually. This will allow FEI to better manage the demand for RNG from its typically heat sensitive customer base.

FEI's solution results in relatively minor changes to the approvals sought in the Application related to the Renewable Gas Blend service.

First, in the Application FEI had requested approval of the following effective January 1, 2024 or such later date to be proposed by FEI based on sufficient Renewable Gas supply and the filing of amended rate schedules for review and approval by the BCUC three months prior to the actual implementation date:

a) Approval of FEI's proposed Renewable Gas Blend as described in Sections 7 and 8 of the Application.

[1] While the production profile of most facilities is relatively flat compared to demand, FEI's supply is growing month over month based on the number of biomethane purchase agreements that FEI has entered into.

[2] FEI considers this solution to be sub-optimal because it reduces the amount of RNG flowing into BC thereby reducing the GHG reduction potential of RNG in BC.

b) Approval to discontinue the Biomethane Variance Account delivery rate rider and to begin the use of the Storage and Transport Low Carbon (S&T LC) rider.

c) Approval to discontinue the BVA Balance Transfer Account.

Given the need to implement the Renewable Gas Blend as soon as possible, FEI is amending its approvals sought with respect to the Renewable Gas Blend to reflect the earliest practicable implementation date. Specifically, pursuant to sections 59 to 61 of the *Utilities Commission Act*, FEI requests all of the following approvals to be effective the first of the month at least two months after the date of the BCUC's final decision in this proceeding:

a) Approval of FEI's proposed Renewable Gas Blend as described in Sections 7 and 8 of the Application, as amended in this Evidentiary Update to reflect FEI's proposal to set the blend percentage on a monthly basis.

b) Approval of changes to the Voluntary Renewable Gas service, including changes to existing related Rate Schedules and renaming from Biomethane to Low Carbon Gas.

c) Approval to discontinue the Biomethane Variance Account delivery rate rider and to begin the use of the S&T LC rider.

d) Approval to discontinue the BVA Balance Transfer Account.

e) Approval to change the name of the Biomethane Variance Account to the Low Carbon Gas Account.

f) Approval to change the name of FEI's Biomethane Energy Recovery Charge to the Low Carbon Gas Charge.

The Renewable Gas Connections and changes to the Voluntary Renewable Gas service will take more time to implement (approximately five months). Thus, FEI proposes that the effective date for the remaining approvals sought related to these new service offerings be proposed in a compliance filing subsequent to the decision, filed at least 30 days prior to implementation, and will include all the revised tariff pages for BCUC review, approval and endorsement.

Second, given that it is not possible for FEI to perfectly match forecast supply and demand in a month and that FEI collects carbon tax from customers and grants carbon tax (biomethane) credits to customers on behalf of the Province, FEI is requesting approval to capture any carbon tax credits that FEI has granted or grants to customers but which are not refunded to FEI by the Province by recording them in the Biomethane Variance Account (BVA), proposed to be renamed as the Low Carbon Gas Account (LCGA).

Third, in the Application, FEI requested to discontinue the Unsold Biomethane Premium Deferral Account (UBPDA). FEI anticipates that all biomethane will be sold as biomethane, recognizing that it is low carbon and results in GHG reductions. However, as FEI wishes to ensure it has multiple methods to manage biomethane inventory, FEI is no longer requesting approval to discontinue the UBPDA.

FEI has provided a revised Draft Order in Appendix A to this Evidentiary Update reflecting the amended approvals sought.

FEI requests that the BCUC establish the proposed regulatory timetable below, which reflects the need for further process addressing the changes to FEI's approvals sought. As discussed in Section 5 of this Evidentiary Update, these changes will help FEI to maximize recovery of carbon tax refunds on behalf of its customers within the existing carbon tax regime.

Table 1-1: Proposed Regulatory Timetable

Action	Dates (2023)
BCUC and Intervener IRs on Evidentiary Update	Thursday, August 24
FEI Responses to IRs on Evidentiary Update	Friday, September 15
FEI Written Final Argument	Friday, October 6
Intervener Written Final Arguments	Friday, October 27
FEI Written Reply Argument	Friday, November 17

2. BACKGROUND REGARDING THE CARBON TAX MATTER

As a retail dealer under the *Carbon Tax Act*, FEI is registered with the BC Ministry of Finance (the Ministry) to charge, collect, report and remit the carbon tax from its customers on behalf of the Province on retail sales of natural gas to its customers. This is completed on a monthly basis. In accordance with the *Carbon Tax Act*, FEI must provide biomethane customers with a biomethane credit on their bill on behalf of the Province that is proportionate to the amount of biomethane sold to each customer. This means that FEI is required to provide biomethane credits on the bills issued to its RNG customers, whether or not FEI is able to reduce its carbon tax remittances to the Province by these amounts. Given the dollar value of carbon tax that FEI collects from its customers, FEI is required to remit carbon tax to the Province on a monthly basis.

Regardless of the amount of its biomethane supply in a given month, FEI's practice has been to reduce its total carbon tax remittance to the Province by the amount of biomethane credits provided to customers. To account for the variation between biomethane supply from suppliers and fluctuating seasonal demand for biomethane from its customers, FEI maintains a biomethane inventory. Where biomethane supply exceeds customer demand in a given monthly reporting period, FEI carries the surplus forward to a period when demand is higher than supply (which FEI refers to internally as "inventorying"), thereby balancing supply and demand over time. This approach recognizes the fungible nature of biomethane and is consistent with how gas is procured, delivered and, where supply and demand do not balance, stored to serve future demand.

In March 2023, the Ministry confirmed that their interpretation of the *Carbon Tax Act* outlined in a recent ruling (Carbon Tax Ruling) was final.[3] The Carbon Tax Ruling outlines the Ministry's interpretation that a retail dealer such as FEI can only claim a carbon tax refund for the lesser of the amount of biomethane credits provided to customers in the reporting period and the amount of biomethane that is physically blended in the same reporting period.

For example, if FEI receives 100,000 GJ of biomethane in a given month from its suppliers, but demand is only 75,000 GJ (e.g., a warmer month), for carbon tax return purposes, the Ministry determined that FEI cannot allocate the 25,000 GJ difference to a future reporting period when demand for biomethane exceeds supply purchases for that month. As a result, FEI would not be able to inventory biomethane from month-to-month for the purpose of recovering carbon tax refunds from the government on behalf of its customers (through a reduction of FEI's carbon tax remittance to the Ministry).

2.1 *ENGAGEMENT WITH THE PROVINCE*

Since filing its letter with the BCUC on May 8, 2023,[4] FEI has met with members of the Province's Tax Policy and Legislative division, and other provincial ministries supporting the CleanBC

[3] Appendix B.
[4] Exhibit B-87.

Roadmap objectives, to discuss the potential for a solution that would recognize the inventorying of biomethane for the purpose of recovering carbon tax refunds on behalf of customers. On May 26, 2023, FEI received a letter from the Assistant Deputy Minister of the Policy and Legislation Division of the Ministry of Finance acknowledging FEI's practice of inventorying biomethane. In its letter, the Ministry commits to undertaking a detailed analysis of the issues identified by FEI as part of the February 2024 budget cycle and states that it will forward options to the Minister of Finance for consideration. The Ministry's letter was filed with FEI's June 5, 2023 update.[5]

Through its engagement with the Ministry, FEI explored non-legislative alternatives such as annual filing processes that could potentially avoid monthly variations in RNG supply and demand. However, FEI and the Ministry ultimately determined that there were no non-legislative means under the *Carbon Tax Act* or *Carbon Tax Regulation* available to FEI that would help mitigate this issue. FEI continues to advocate for the Ministry to enact legislative changes, through amendments to *Carbon Tax Regulations*, to resolve this issue.[6]

While a legislative change recognizing the inventorying of biomethane for the purpose of recovering carbon tax refunds remains FEI's objective and may ultimately be recommended by the Ministry, the Ministry has not committed to making such a change. As such, as described in the balance of this Evidentiary Update, FEI has developed a solution that will enable FEI to comply with its carbon tax remittance obligations within the existing legislative framework and continue to receive a carbon tax refund from the Province on behalf of its customers in proportion to the biomethane credits reflected on its customer bills.

[5] Exhibit B-88.
[6] Appendix C: FEI letter to the Minister dated June 16, 2023.

3. IMPACT ON EXISTING BIOMETHANE PROGRAM WITHOUT MITIGATION

As explained in Section 2 above, the impact of the Carbon Tax Ruling is that FEI cannot rely on its practice of inventorying to balance supply and demand for the purposes of reducing its carbon tax remittances to the Province. This has three potential implications for FEI's existing biomethane program:

1. It is possible that the Ministry may determine that carbon taxes are owing in respect of past months where the practice of inventorying was used to balance RNG supply and demand.
2. FEI has accumulated RNG inventory for which cost recovery is needed. FEI will seek to maximize the benefit to customers of this existing inventory, but will require flexibility in managing this inventory.
3. Going forward, FEI must implement the proposed Renewable Gas Blend and other mitigation measures discussed in Section 4 to enable it to better balance supply and demand, as closely as possible, on a monthly basis to maximize recovery of carbon tax refunds from the provincial government on behalf of its customers.

Each of these implications is discussed in more detail below.

3.1 *CARBON TAX OWING*

While FEI has currently more RNG supply than RNG demand throughout the year, there have been times in past years where FEI has used biomethane inventory to balance supply and demand in some months. Given the Carbon Tax Ruling, it is possible that the Ministry may determine that carbon tax is owing in respect of these past months. FEI estimates that these potential remittances plus interest would be less than $500,000 since June 2019. As noted in Section 1 and discussed further in Section 5 below, given that it is not possible for FEI to perfectly match supply and demand in a month, FEI is requesting approval to capture any carbon tax credits that FEI has granted or grants to customers, as required by law, but that are not refunded from the Province, in the BVA, proposed to be renamed as the LCGA.

3.2 *RENEWABLE NATURAL GAS INVENTORY*

As discussed in FEI's Application,[7] FEI's existing RNG Program, which is limited to a voluntary service, does not generate sufficient demand to consume the supply of biomethane FEI has acquired to meet the anticipated emissions cap for natural gas utilities proposed in the CleanBC Roadmap. FEI filed its Application in anticipation of this rising supply. As of the date of filing, FEI

[7] Exhibit B-11, Application, Section 7.4.1. FEI has proposed the Renewable Gas Blend as a service that will enable it to provide all of its Renewable Gas supply to its customers.

has accumulated approximately 1.5 PJ of inventory and is accumulating approximately 200 TJ of additional RNG inventory each month.

FEI can employ mechanisms to reduce its existing inventory. The preferred mechanism is that FEI sells this RNG inventory to its customers. While the existing carbon tax legislation will effectively result in customers paying carbon tax on this energy, FEI's customers will continue to be able to report or claim a reduction in GHG emissions. An alternative mechanism is that FEI can utilize the existing approved UBPDA/CCRA method of inventory cost recovery. The cost to customers is effectively the same as the preferred method, with carbon tax being paid on the energy, however the customers could no longer report or claim a reduction in GHG emissions.

While FEI will endeavour to use whichever mechanism provides the most benefit for its customers when selling its existing RNG inventory, as discussed in Section 1 FEI wishes to ensure it has multiple methods to manage RNG inventory, therefore FEI is no longer requesting approval to discontinue the UBPDA.

3.3 *MITIGATING MEASURES*

Given the Carbon Tax Ruling, FEI must take mitigating measures to begin to balance supply and demand monthly for the benefit of customers. As FEI's RNG supply is greater than demand and relatively flat compared to the typically heat-sensitive load, FEI must either reduce or shape its RNG supply or increase its sales of RNG in BC. As outlined in Section 4 below, FEI's key mitigation measures are to (1) resell or redirect its RNG supply from its suppliers to markets outside of BC; and (2) implement the Renewable Gas Blend where the blend is changed on a monthly basis to match as closely as possible FEI's forecast demand for RNG in the month.

4. SOLUTION IS TO BALANCE RNG SUPPLY AND DEMAND ON A MONTHLY BASIS

In this section, FEI describes the key measures it will use to balance supply and demand as closely as possible to help maximize the recovery of carbon tax refunds from government on behalf of its customers. As outlined in Sections 1 to 3 above, to maximize carbon tax refunds from government on behalf of its customers, FEI must match, as closely as possible, the supply and demand for RNG on a monthly basis. As described below, FEI has considered both supply-side and demand-side measures to accomplish this balancing. Since FEI has more RNG supply than demand and RNG supply is relatively flat[8] compared to the demand profile of FEI's typically heat-sensitive customers, FEI's measures are focused on either reducing (or shaping) its RNG supply or increasing (or shaping) the demand for RNG. As outlined in Section 1, FEI's proposed changes to its proposed revised Renewable Gas Program to align with the Carbon Tax Ruling are relatively minor and are primarily related to modifying the proposed Renewable Gas Blend offering so that FEI can set the blend monthly.

4.1 *SUPPLY-SIDE MEASURES TO BALANCE RENEWABLE GAS SUPPLY AND DEMAND*

As FEI currently has more RNG supply than RNG demand in every month of the year, FEI has pursued options to reduce or shape its RNG supply.

First, to reduce supply to be more closely aligned with demand in a given month, FEI is making shorter-term commercial arrangements to sell and/or redirect excess RNG supply from its biomethane suppliers to markets outside of BC.[9] This process is similar to the mitigation activities FEI currently undertakes on a regular basis as part of managing its conventional natural gas portfolio for the benefit of customers.

As part of its gas supply functions, FEI balances its supply based on demand across its system, including RNG. Given increasing volumes of RNG supply[10] and in light of the Carbon Tax Ruling, FEI is exploring commercial mechanisms to reduce RNG supply on a monthly basis to better match demand from FEI's customers. In particular, FEI has been working with its RNG suppliers to redirect and commercialize RNG supply into the US RIN market or other RNG markets. This may require amendments to FEI's biomethane purchase agreements (BPAs), which FEI expects to file with the BCUC for acceptance under section 71 of the UCA. The costs or benefits from the redirection of RNG will be accounted for in the LCGA (currently named the BVA). This practice of

[8] While the production profile of most facilities is relatively flat compared to demand, FEI's supply is growing month over month based on the number of biomethane purchase agreements that FEI has entered into.

[9] FEI would not be selling and/or redirecting RNG but for the carbon tax legislation making inventorying of biomethane unusable for Provincial carbon tax refunds.

[10] See updated supply forecast provided in Section 5.

undertaking mitigating activity to balance RNG supply and demand for FEI customers is consistent with FEI's existing natural gas mitigation activities.

Second, FEI is also exploring other mid- and long-term mechanisms to manage excess monthly supply, including:

- Mitigating volumes of RNG provided by a supplier in the short term, while ensuring FEI has the ability to increase supply volumes in the long term; and
- Shaping the RNG volumes provided by suppliers to better reflect the heat sensitive consumption patterns of FEI's customers (i.e., shaping supply to more closely align with demand).

FEI will continue to pursue these mechanisms with its suppliers and expects to file any amendments to its BPAs to implement the above solutions with the BCUC for acceptance pursuant to section 71 of the UCA.

The above supply-side measures require no changes to the existing or proposed Renewable Gas Program or any approvals sought in the Application. Rather, FEI will undertake RNG mitigation activities in the ordinary course of business to match RNG supply and demand, just as it undertakes similar mitigation activities to match natural gas supply and demand. Until FEI receives approval of its revised Renewable Gas Program whereby it can increase demand within BC for RNG through the Renewable Gas Blend service, FEI's supply-side mitigation activities will be the primary mechanism that FEI relies on to attempt to match supply and demand monthly.

4.2 *DEMAND-SIDE RENEWABLE GAS SUPPLY/ DEMAND BALANCING*

In addition to the supply-side activities outlined above, FEI is proposing to adjust the percent of the Renewable Gas Blend as frequently as on a monthly basis, instead of annually, as originally proposed in the Application. Specifically, for each month, FEI will determine a Renewable Gas Blend for all Sales Customers based on the forecast supply and demand for RNG for that month. This will enable FEI to sell its RNG supply to its customers in BC in an effort to maximize the carbon tax refund available for the benefit of customers. FEI notes that it still proposes to set the S&T LC rider annually based on a forecast overall blend it will provide to customers over the year. Continuing to set the S&T LC rider in this way will continue to ensure that no monthly bill volatility, with respect to the recovery of RNG costs, occurs from changing the Renewable Gas Blend percentage monthly. This is discussed in greater detail in Section 5 below.

As discussed in Section 7 of the Application, FEI has proposed a Renewable Gas Blend service where FEI will blend RNG volumes with conventional gas to be sold to all Sales Customers as part of their gas service. Every Sales Customer will receive a blend of RNG and conventional gas, and the blend will be the same as that received by every other Sales Customer, including Renewable Gas Connections and Voluntary Renewable Gas customers. FEI will recover the costs of the Renewable Gas Blend through the proposed S&T LC rider, which is designed to recover the costs of the Renewable Gas Program not otherwise recovered through other components of the Program. Customers will also receive an offsetting carbon tax credit for any volume of Renewable Gas they receive. The benefits of this approach are that it:

1. is relatively simple to understand for customers and straightforward to implement for FEI; and
2. maximizes FEI's ability to sell all of the RNG volumes it purchases, lowering the risk of excess RNG inventory which would not be eligible for a carbon tax refund from the Province.

In Section 8.4.2.1 of the Application, FEI set out how the S&T LC rider will be calculated and how it will be based upon, among other things, a forecast of the volume of RNG available for Renewable Gas Blend customers for the upcoming year. As illustrated in Table 8-3 of the Application, the S&T LC rider will recover RNG costs from all Sales Customers by summing the associated costs not otherwise collected from other Renewable Gas Program participants and divides those costs by <u>all</u> of FEI's Sales Customers' volume. Using this approach separates the Renewable Gas Program cost recovery from the quantity of RNG delivered to those same Sales Customers.

The process to set the S&T LC rider as described in the Application does not change as a result of the modification to the Renewable Gas Blend proposed in this submission. In particular, while this modification will change how much RNG will be delivered to customers each month throughout the year, FEI will still forecast annually the percentage the Renewable Gas Blend when setting the S&T LC rider each year.

In Section 5 below, FEI describes and illustrates the balancing of RNG supply and demand through the Renewable Gas Blend, and the limited amendments to the approvals sought in the Application required to implement this solution.

5. AMENDMENTS TO THE APPLICATION TO IMPLEMENT THE SOLUTION

As discussed above, FEI is modifying its proposed Renewable Gas Blend service to set the percentage blend of RNG provided to all Sales Customers[11] on a monthly basis so that FEI can closely match monthly RNG supply and demand and thereby maximize the carbon tax refund it can receive from the Province. In this section:

1. FEI describes how adjusting the RNG blend percentage on a monthly basis can closely match forecast RNG demand.
2. FEI describes how there remains the possibility for residual supply and demand imbalances in a month and, as such, FEI is seeking approval to account for carbon tax credits granted to customers for which the Province does not provide a refund to FEI in the LCGA.
3. FEI describes how setting the RNG blend on a monthly basis affects the RNG and the carbon tax credit a customer receives compared to the annual blend percentage purposed in the Application.
4. FEI estimates the effect on customer bills due to the setting of a monthly blend compared to the annual blend percentage proposed in the Application.
5. FEI sets out the amendments to its tariffs required to implement the proposed Renewable Gas Blend service.

5.1 *SETTING RENEWABLE GAS BLEND PERCENT MONTHLY*

As discussed above, FEI will adjust its Renewable Gas Blend percent monthly (as required) instead of setting it annually, as originally proposed in the Application. This change reflects the requirements of the current carbon tax regime to match RNG supply and demand monthly.

Demand for gaseous energy from FEI's sales customers' is typically heat sensitive. Consequently, sales customers' demand is greater in the colder (winter) months than it is in the warmer (summer) months. If FEI were to apply a Renewable Gas Blend percent that was determined on an annual basis, then the RNG delivered each month would follow the heat sensitive trend of demand for conventional natural gas (i.e., more RNG would be demanded in the winters and less in the summers). However, the supply of RNG is not heat sensitive and is generally acquired by FEI from suppliers evenly across the year. By setting the Renewable Gas Blend percent on a monthly

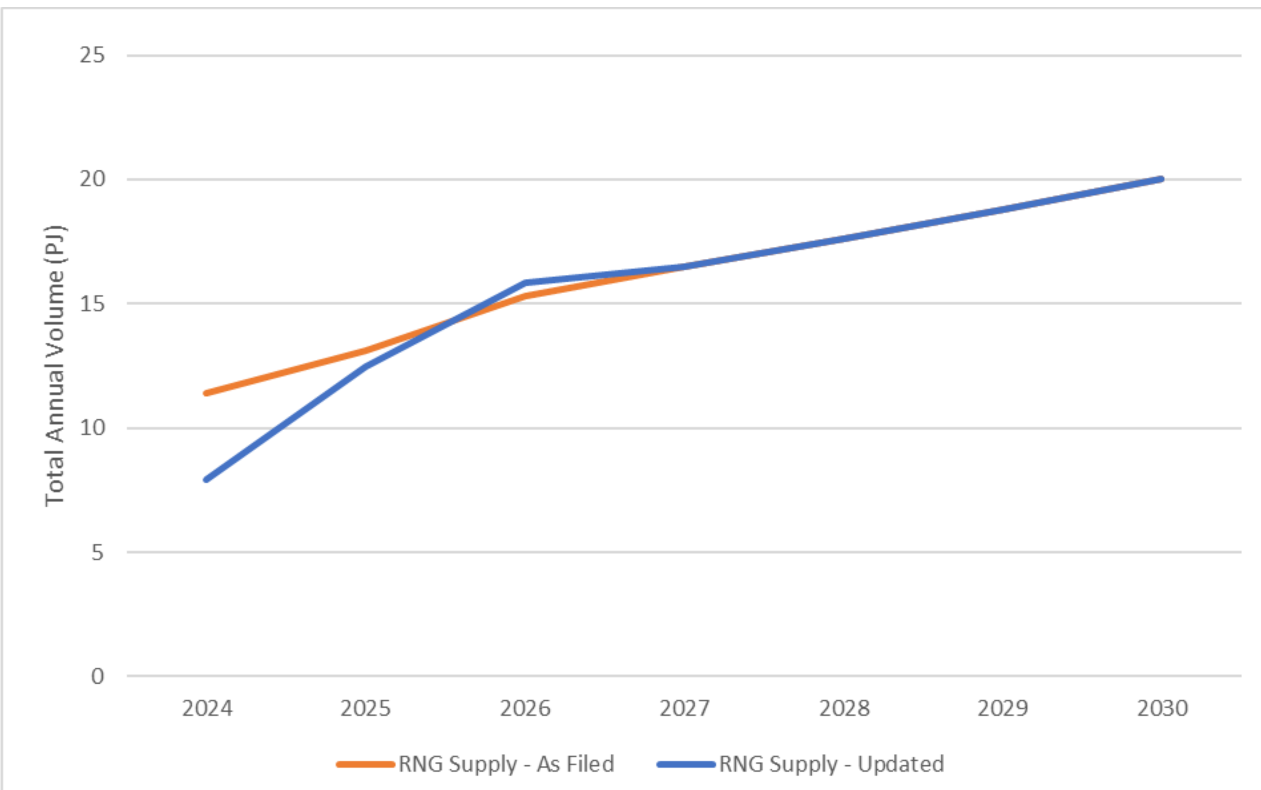
[11] As described in the Application, Section 7.4.1, existing sales customers are those who receive service under Rate Schedules 1, 2, 3, 4, 5, 6 and 7. For the purposes of the Renewable Gas Blend, sales customers would also include the proposed revised and new rate schedules (RS 1, 1LC, 1PLC; RS 2, 2LC, 2PLC; RS 3, 3LC, 3PLC, 3VLC; RS 4; RS 5, 5LC, 5PLC, 5VLC; and RS 7, 7LC.

basis, FEI is better able to match available RNG supply for blending (i.e., consistent/flat supply) with the heat sensitive demand (i.e., inconsistent/variable demand) of sales customers.

Demand under the proposed Renewable Gas Connections will also follow a heat sensitive pattern (i.e., peaking in winters) in a manner consistent with the majority of FEI's customer groups. Similarly, demand under the proposed Voluntary Renewable Gas service is also generally heat sensitive. As a result, if FEI were to set the Renewable Gas Blend percent annually, the volumes of RNG FEI delivered to sales customers through the Renewable Gas Blend service would also follow a similar heat sensitive use rate pattern and FEI would be delivering more or less RNG than the associated supply it receives in any given month.

For the purpose of illustrating the monthly Renewable Gas Blend, FEI has updated its 2024 to 2026 RNG supply and demand forecast.[12] As it has been two years since FEI developed its supply forecasts included in the Application, FEI concluded that an update was warranted. The following figure compares the supply forecast included in the Application to the updated forecast.

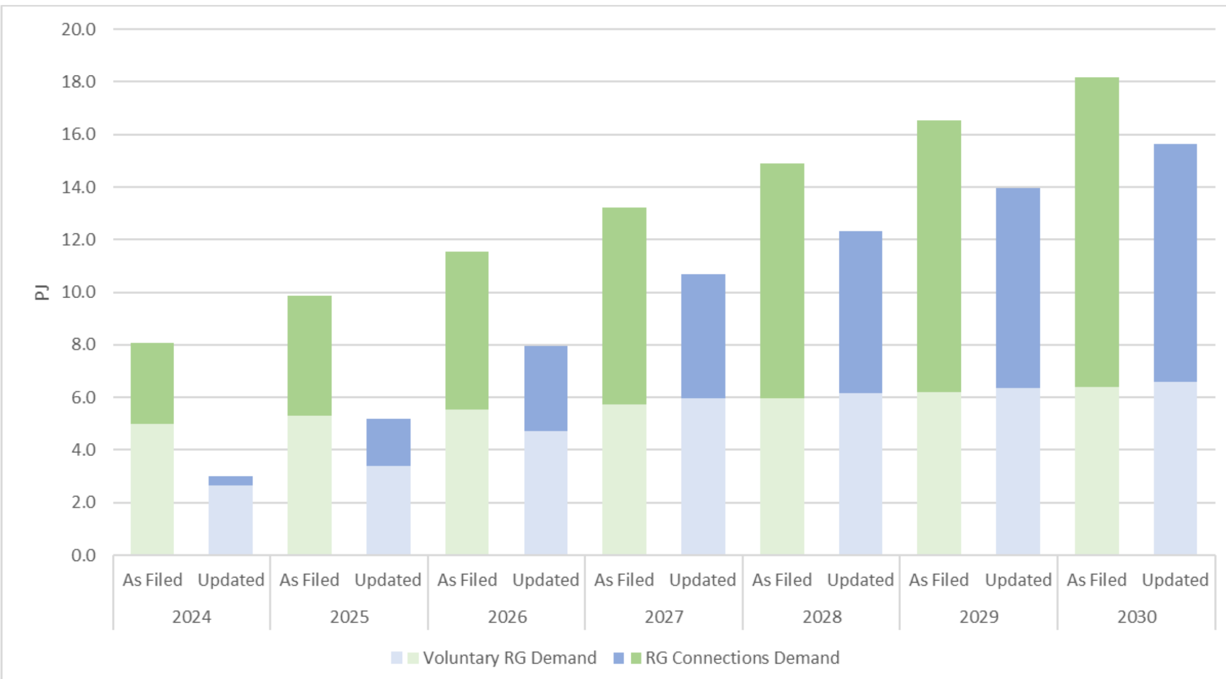
Figure 5-1: Updated RNG (Biomethane) Supply Forecast



[12] Order G-165-22A narrowed the scope of the proceeding to a 5-year forecast for supply and demand (2024 – 2028).

FEI's updated demand for the Voluntary Renewable Gas and Renewable Gas Connections services[13] for years 2024 to 2030 is predominantly based on a delay in the expected implementation of the proposals in this Application and a decline in RNG demand from the Transportation sector due to the BC Low Carbon Fuel Standard (BCLCFS) requiring that RNG must be produced in BC to be eligible for the BCLCFS and demand from the public sector[14] has not materialized as anticipated. The following figure compares the demand forecast included in the Application with the updated forecast.

Figure 5-2: Updated Renewable Gas Demand Forecast

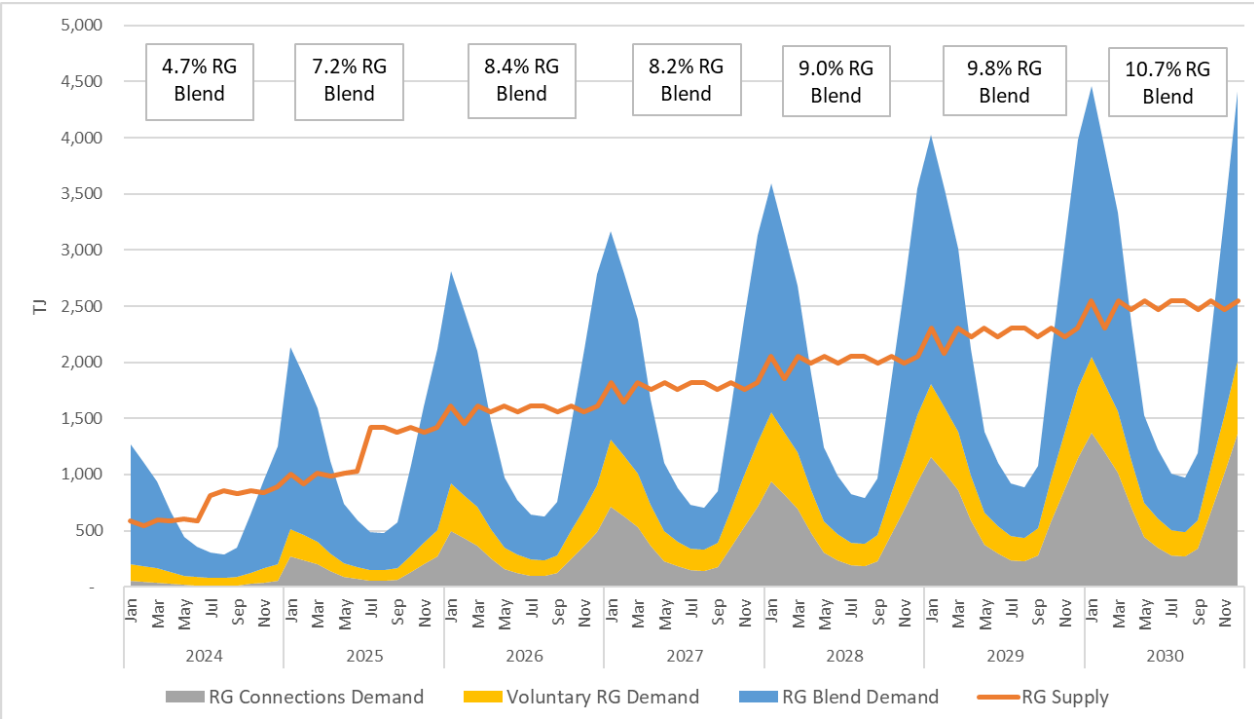


Based on the updated forecasts above, the following figure illustrates the monthly imbalance if FEI were to set the Renewable Gas Blend percentage on an annual basis.

[13] The Renewable Gas Blend demand (percent) is determined by calculating how much renewable gas is left, after serving Renewable Gas Connections customer and Voluntary Renewable Gas customers, to flow to all Sales Customers as Renewable Gas Blend.

[14] Hospitals, Universities, Municipal Buildings, Other government.

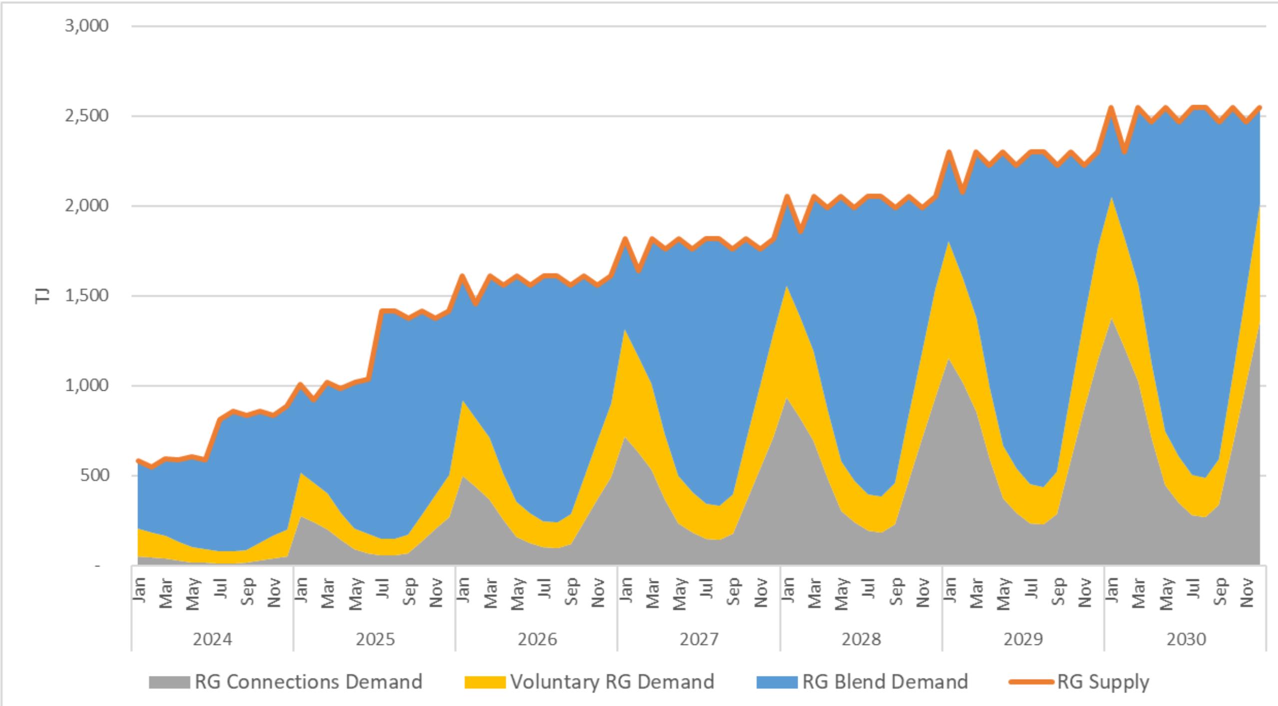
Figure 5-3: Monthly Renewable Gas Supply and Demand when the Blend Percent is set Annually



As shown in the figure above, there is a demand/supply imbalance when the demand (the stacked areas) does not align with supply (the orange line).

As shown in Figure 5-4 below, this imbalance is corrected when setting the Renewable Gas Blend on a monthly basis as FEI is able to balance supply and demand.

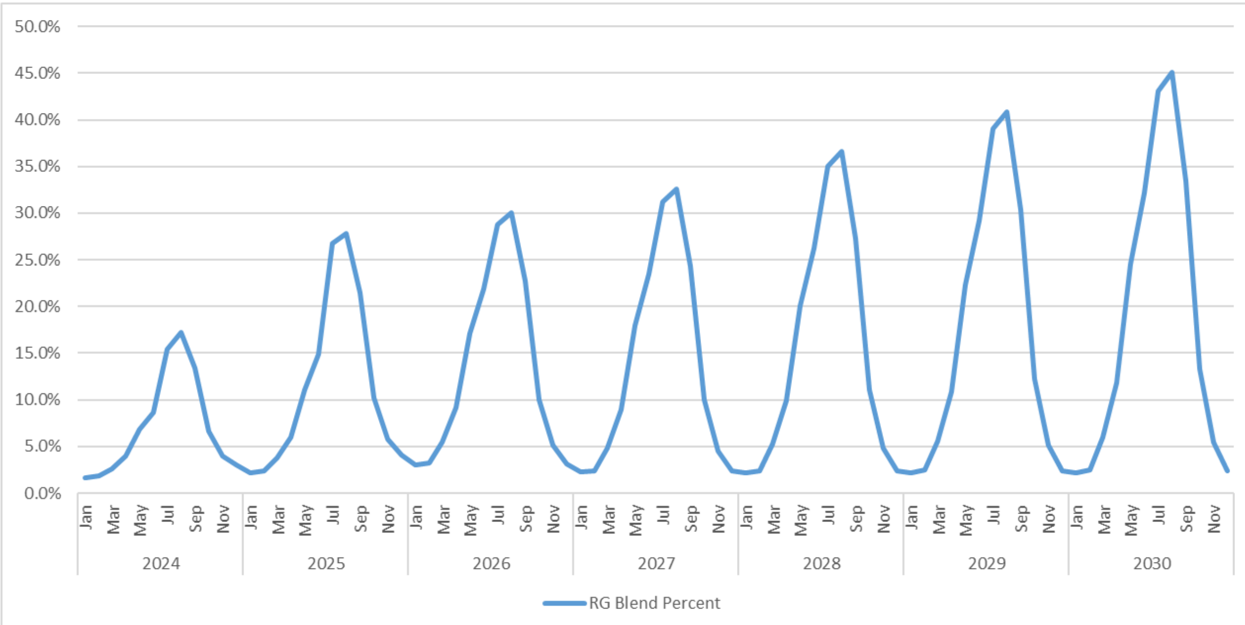
Figure 5-4: Monthly Renewable Gas Supply and Demand when the Blend Percent is set Monthly



In order to achieve the balance shown in the figure above, FEI is proposing to adjust the RNG blend percentage monthly so that when it is multiplied by the sales customers' volume it equals the RNG supply available for blending, thus helping to maximize the carbon tax refund it recovers on behalf of customers from the Province. This figure depicts supply and demand balancing on a forecast basis; however, it is not possible to perfectly match supply and demand on a forecast basis and, as such, monthly variances will still occur. Please see Section 5.5 for a discussion of monthly imbalances.

The following figure sets out the range of blend percentages that FEI would use to balance supply with demand. As can be seen, when sales customers' volumes are high due to cold weather (winters) the percentage of the Renewable Gas Blend is at its lowest. In contrast, when sales customers' volumes are low due to warm weather (summers) the percentage of the Renewable Gas Blend is at its highest.

Figure 5-5: Range of Blend Percent to Match Supply and Demand



Please note that the estimated blend percentages provided in the above figure are illustrative of how the blend percent will change within each year of the revised Renewable Gas Program, and over time to 2030 as RNG supply grows. These blend percentages will be reviewed and adjusted each month as required, thereby allowing FEI to manage supply and demand so that they match as closely as possible, on a monthly basis, helping maximize the recovery of carbon tax credits associated with the RNG volumes received by customers.

5.2 *RESIDUAL SUPPLY AND DEMAND IMBALANCES*

Given the possibility for residual supply and demand imbalances, FEI is seeking approval to account for carbon tax credits granted to customers for which the Province does not provide a refund be accounted for in the LCGA.

Even with the supply-side and demand-side solutions discussed above, FEI does not expect that it will be able to perfectly match supply and demand on a monthly basis. This is because FEI will need to set the percentage of the Renewable Gas Blend on a prospective basis based on a forecast of RNG supply and a forecast of demand from the Renewable Gas Connections, Voluntary Renewable Gas customers and sales service customers.

If FEI's forecast results in a residual imbalance whereby demand in a given month exceeds supply, then the Province will not provide a refund for the carbon tax credits granted to customers on the amount by which demand exceeds supply. To enable recovery of such amounts, FEI is proposing to account for un-refunded carbon tax credits in the LCGA to be recovered from all sales customers in a subsequent period when setting the S&T LC rider. Similarly, if the residual imbalance results in RNG supply exceeding demand in a given month, FEI will add any excess supply to its low carbon gas inventory. If this inventory is delivered to customers in a subsequent period, FEI will not be able to recover a carbon tax refund from the Province on behalf of its customers. Therefore, FEI proposes to account for any un-refunded carbon tax amounts in the LCGA to be recovered from all sales customers in a subsequent period when setting the S&T LC rider.

5.3 RENEWABLE GAS DELIVERED FROM SETTING THE RENEWABLE GAS BLEND PERCENT MONTHLY VS ANNUALLY

FEI's proposal to set the Renewable Gas Blend on a monthly basis results in customers receiving different volumes of RNG from what they would have received from setting the blend annually. As the net carbon tax a customer pays (i.e., the carbon tax less the carbon tax biomethane credit) is related to the volume of RNG they receive, the bill impact from setting the blend percentage on a monthly basis is different when compared to setting it annually. FEI has provided the following table to illustrate why this is the case.

Table 5-1: Example of the Difference in the Volume of Renewable Gas Received When Calculating Blend Percent Monthly vs. Annually

Line	Particulars	Jan - Apr	May - Aug	Sep - Dec	Total	Reference
1		(1)	(2)	(3)	(4)	
2	Rate Schedule (RS) X - UPC (GJ)	40.0	10.0	40.0	90.0	
3	Rate Schedule (RS) Y - UPC (GJ)	147.0	21.0	147.0	315.0	
4	Total (GJ)	187.0	31.0	187.0	405.0	Line 2 + Line 3
5						
6	RG Supply Available for Blend (GJ)	20.0	20.0	20.0	60.0	Renewable Gas available to deliver through Blend
7						
8	**Calculate Blend % Annually**					
9	RG Blend %				15%	(Line 6, Column (4)) / (Line 4, Column (4))
10						
11	RS X - RG delivered (GJ)	5.9	1.5	5.9	13.3	Line 2 x (Line 9, Column (4))
12	RS Y - RG delivered (GJ)	21.8	3.1	21.8	46.7	Line 3 x (Line 9, Column (4))
13	Total (GJ)	27.7	4.6	27.7	60.0	Line 11 + Line 12
14						
15	Monthly Difference (GJ)	**(7.7)**	**15.4**	**(7.7)**	-	Line 6 - Line 13
16						
17	**Calculate Blend % Monthly**					
18	RG Blend %	11%	65%	11%		Line 6 / Line 4
19						
20	RS X - RG delivered (GJ)	4.3	6.5	4.3	15.0	Line 2 x Line 18
21	RS Y - RG delivered (GJ)	15.7	13.5	15.7	45.0	Line 3 x Line 18
22	Total (GJ)	20.0	20.0	20.0	60.0	Line 20 + Line 21
23						
24	Monthly Difference (GJ)	-	-	-	-	Line 6 - Line 22
25						
26	**Annual Difference**					
27	RS X - RG delivered (GJ)				(1.7)	Line 11 - Line 20
28	RS Y - RG delivered (GJ)				1.7	Line 12 - Line 21
29	Total (GJ)				-	Line 27 + Line 28

Lines 2 and 3 in the above table show two hypothetical rate schedules (RS X and RS Y) with use rates through Jan – Apr, May – Aug and Sep – Dec in columns (1), (2) and (3), with Renewable Gas Supply Available for Renewable Gas Blend customers on Line 6.

As illustrated in the table above, a monthly supply and demand imbalance is caused when FEI calculates the Renewable Gas Blend percentage annually and then applies it to each month's sales volume (Line 15).

In contrast, when FEI calculates the blend percentage on a monthly basis, it does not result in the same imbalance (Line 24). However, when comparing the total RNG the customers in a rate schedule receive (Lines 27 and 28 in Column (4)), the allocation of RNG between rate schedules differs when calculating the blend percentage on a monthly versus annual basis. This is due to a difference in Use Per Customer (UPC) profiles between rate schedules. Because the net carbon tax paid by a customer correlates to the volume of RNG they receive, this difference causes a minor positive or negative bill impact depending on the rate schedule when compared to setting the Blend percentage annually.

5.4 *EFFECT ON BILLS FROM SETTING THE BLEND PERCENT ON A MONTHLY BASIS*

As illustrated in the table above, setting the Renewable Gas Blend on a monthly basis causes variation in the amount of RNG a customer receives each month across the year and, therefore, the total annual volume of RNG delivered. As shown in the figures below, FEI expects any variations on a customer's bill from month-to-month to be small, in comparison to the total bill, due to FEI's proposed change to the Renewable Gas Blend service. The following figures, which show real 2022 dollars, illustrate the difference between the total customer bill where the RNG blend percentage is set on a monthly versus annual basis for years 2024 and 2030.[15]

[15] FEI chose to display 2024 and 2030 as all the other years bill impacts fall in between these book ends.

Figure 5-6: Rate Schedule 1 Bill Comparison between Monthly and Annual Blend Percent Setting for RG Blend and RG Connections Customers for years 2024 and 2030

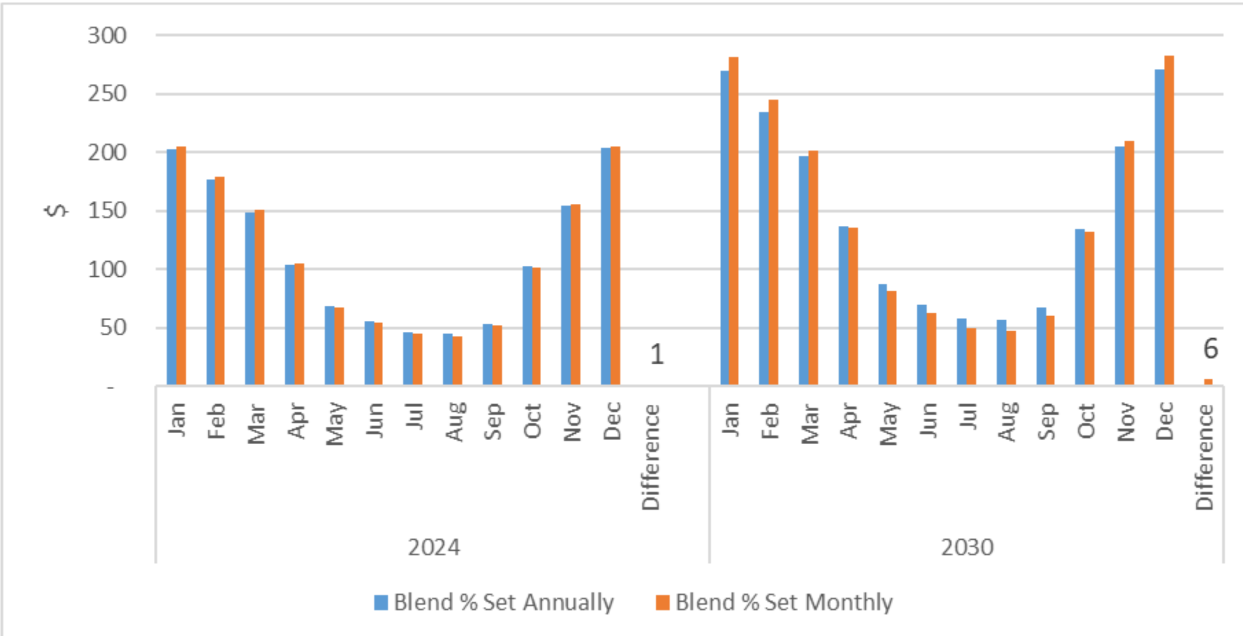


Figure 5-7: Rate Schedule 1 Bill Comparison between Monthly and Annual Blend Percent Setting for Voluntary RG Customers for years 2024 and 2030

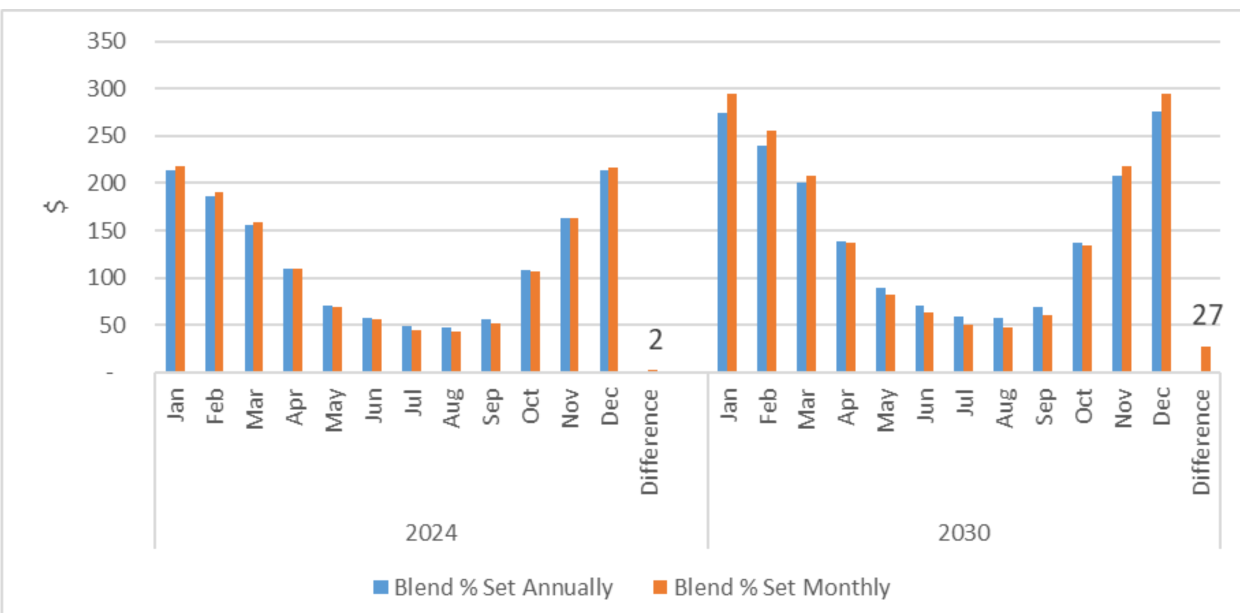


Figure5-8: Rate Schedule 2 Bill Comparison between Monthly and Annual Blend Percent Setting for RG Blend and RG Connections Customers for years 2024 and 2030

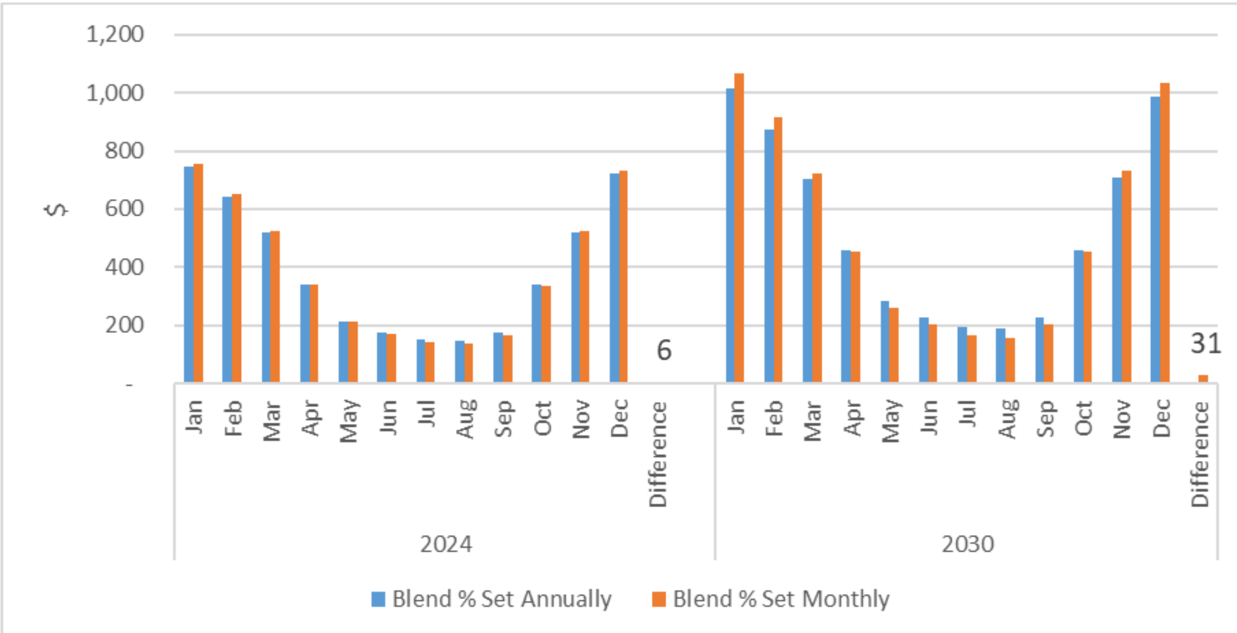


Figure 5-9: Rate Schedule 2 Bill Comparison between Monthly and Annual Blend Percent Setting for Voluntary Customers for years 2024 and 2030

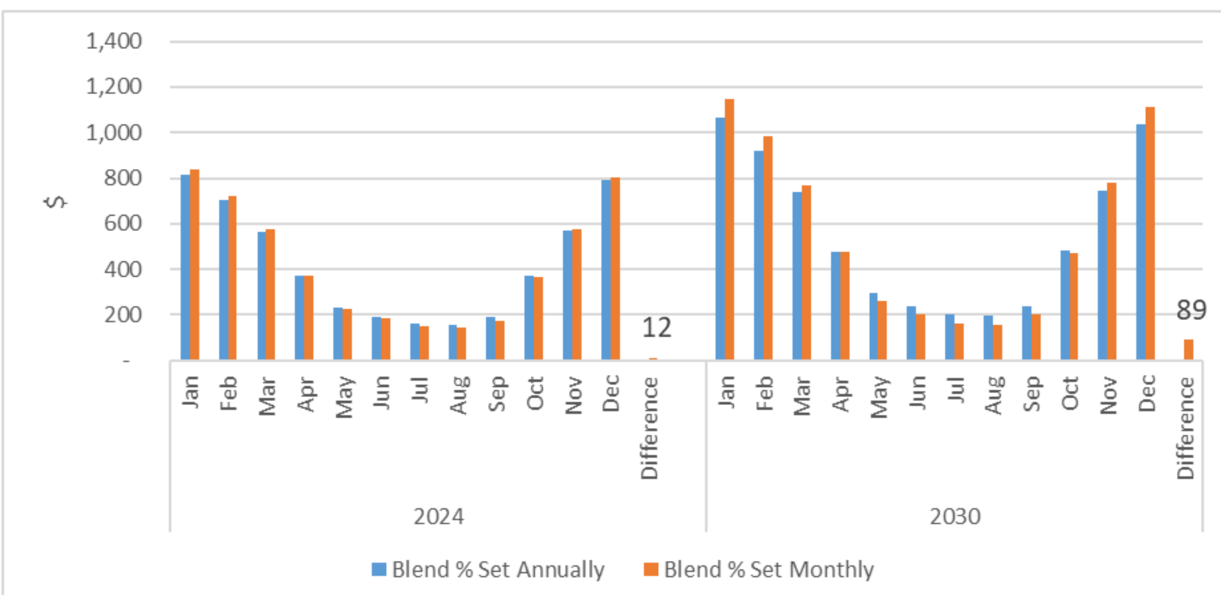


Figure 5-10: Rate Schedule 3 Bill Comparison between Monthly and Annual Blend Percent Setting for RG Blend and RG Connections Customers for years 2024 and 2030

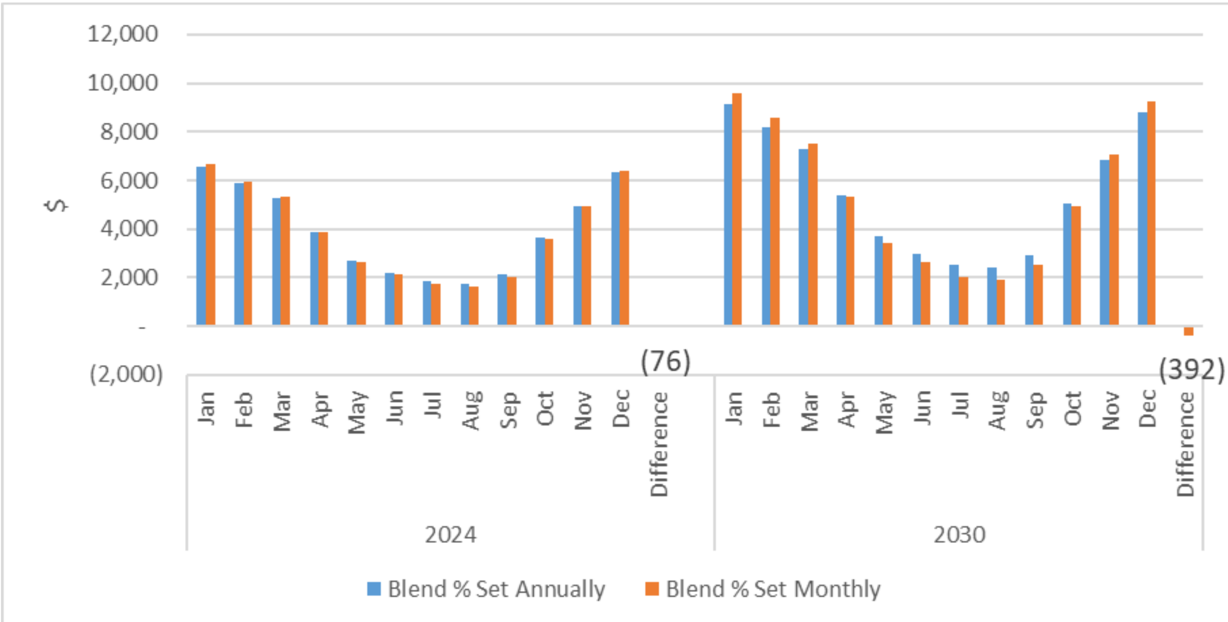
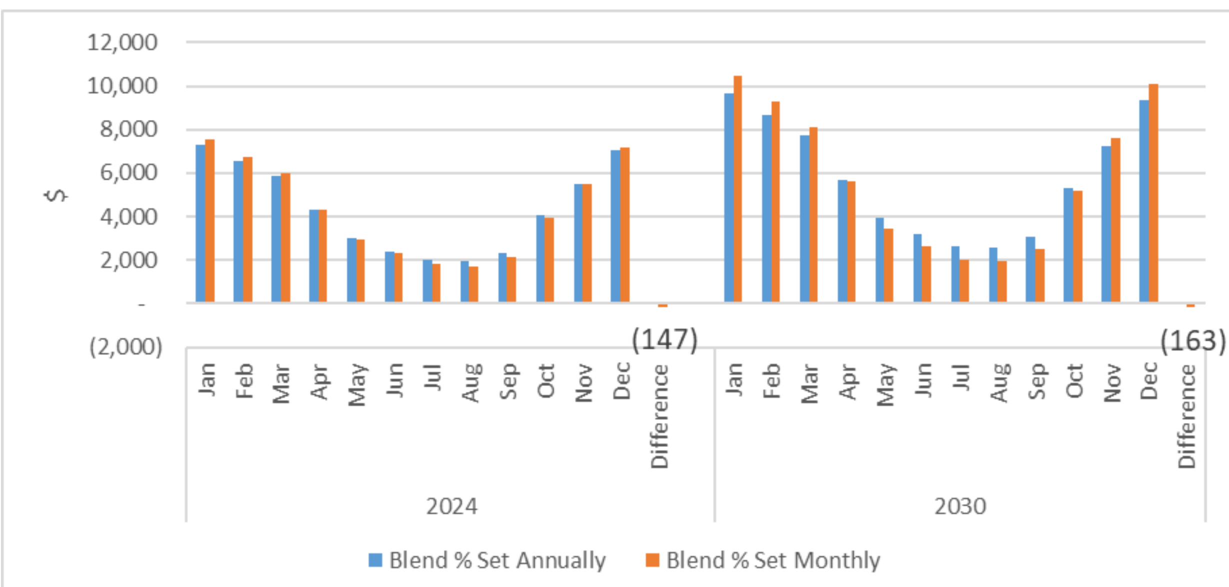


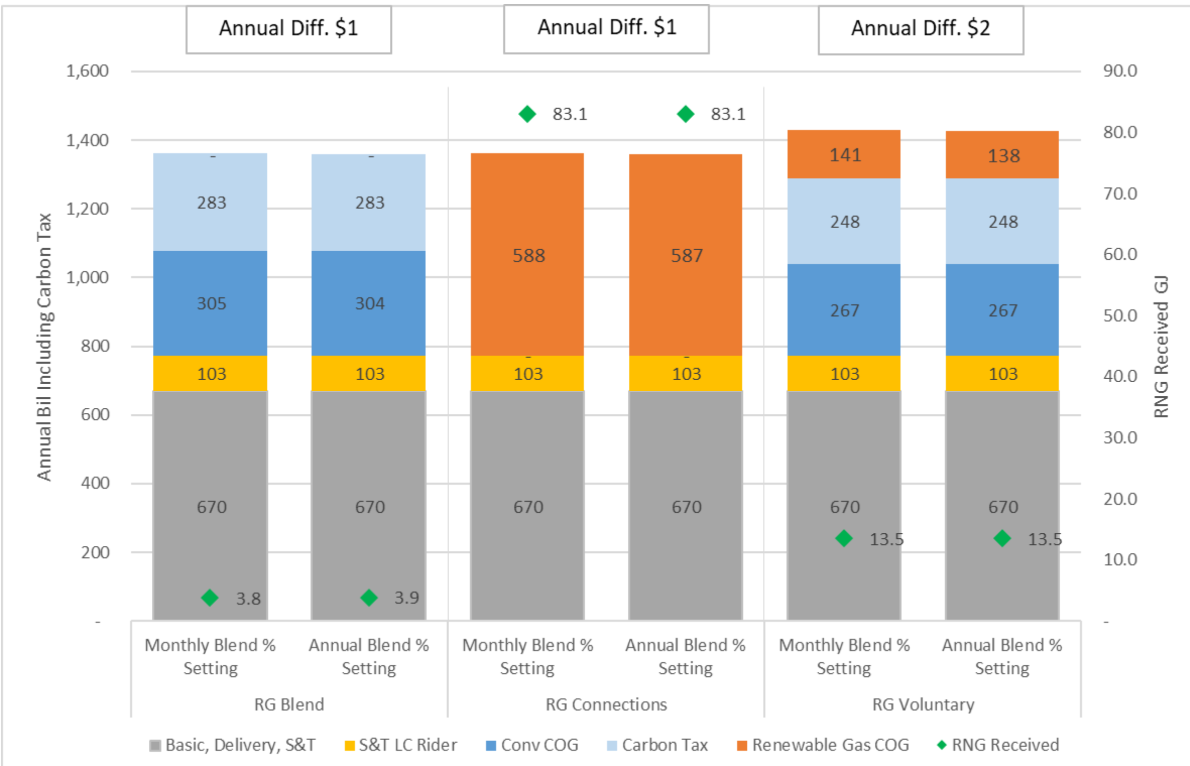
Figure 5-11: Rate Schedule 3 Bill Comparison between Monthly and Annual Blend Percent Setting for Voluntary RG Customers for years 2024 and 2030



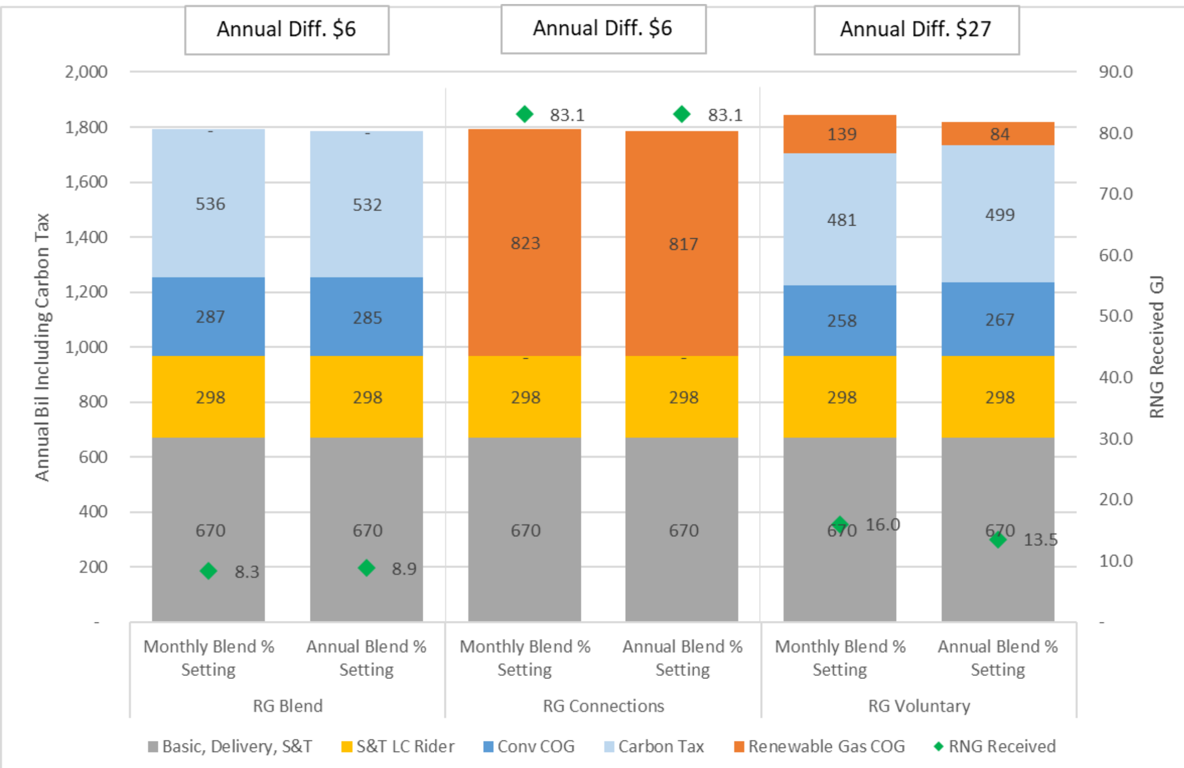
As shown in the figures above, there is some monthly variability between monthly and annual blends which is caused by changes in the volume of RNG received and the carbon tax paid by customers, as opposed to costs related to delivery, conventional gas cost or storage and transport costs. For example, a Rate Schedule 1 customer's January 2030 bill would be $12 higher and their August 2030 bill would be $8 lower, with their total 2030 annual bill being $6, or approximately 0.3 percent, higher when setting the blend percentage monthly compared to annually. Ultimately, any variability is relatively small when compared to the total monthly bill.

Finally, the following figures, in real 2022 dollars, compare the annual bill components between the RNG blend percentage set on a monthly versus annual basis for years 2024 and 2030. The amount of RNG in GJ is shown as green markers and the difference in the annual bill between the two methods is also included in boxes at the top of each figure.

Figure 5-12: Rate Schedule 1 Annual Bill Components Comparison for 2024



1 **Figure 5-13: Rate Schedule 1 Annual Bill Components Comparison for 2030**



2

Figure 5-14: Rate Schedule 2 Annual Bill Components Comparison for 2024

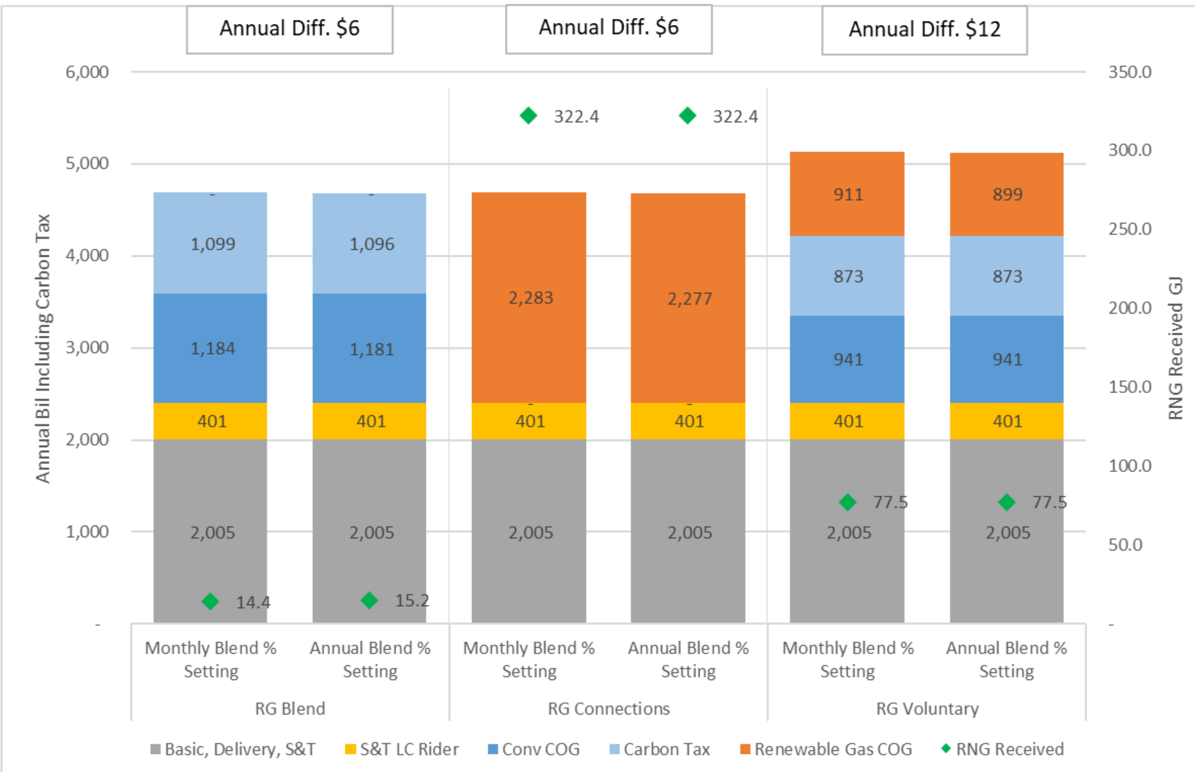


Figure 5-15: Rate Schedule 2 Annual Bill Components Comparison for 2030

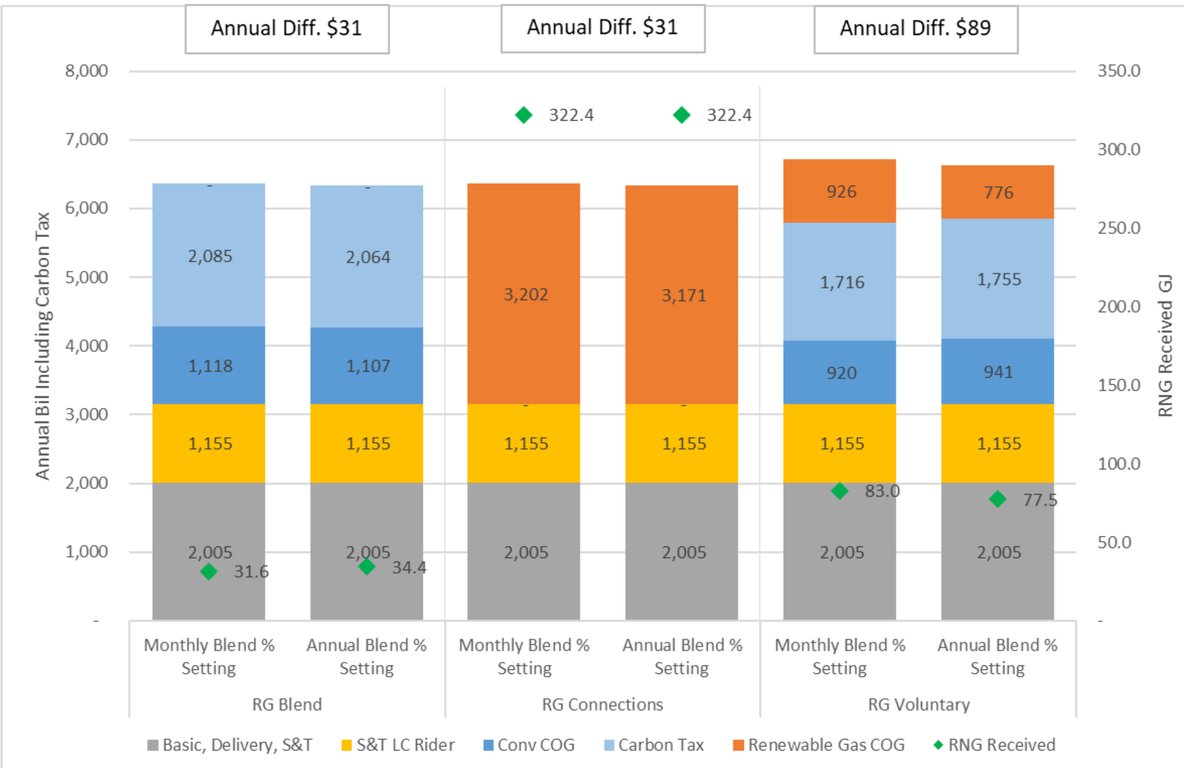


Figure 5-16: Rate Schedule 3 Annual Bill Components Comparison for 2024

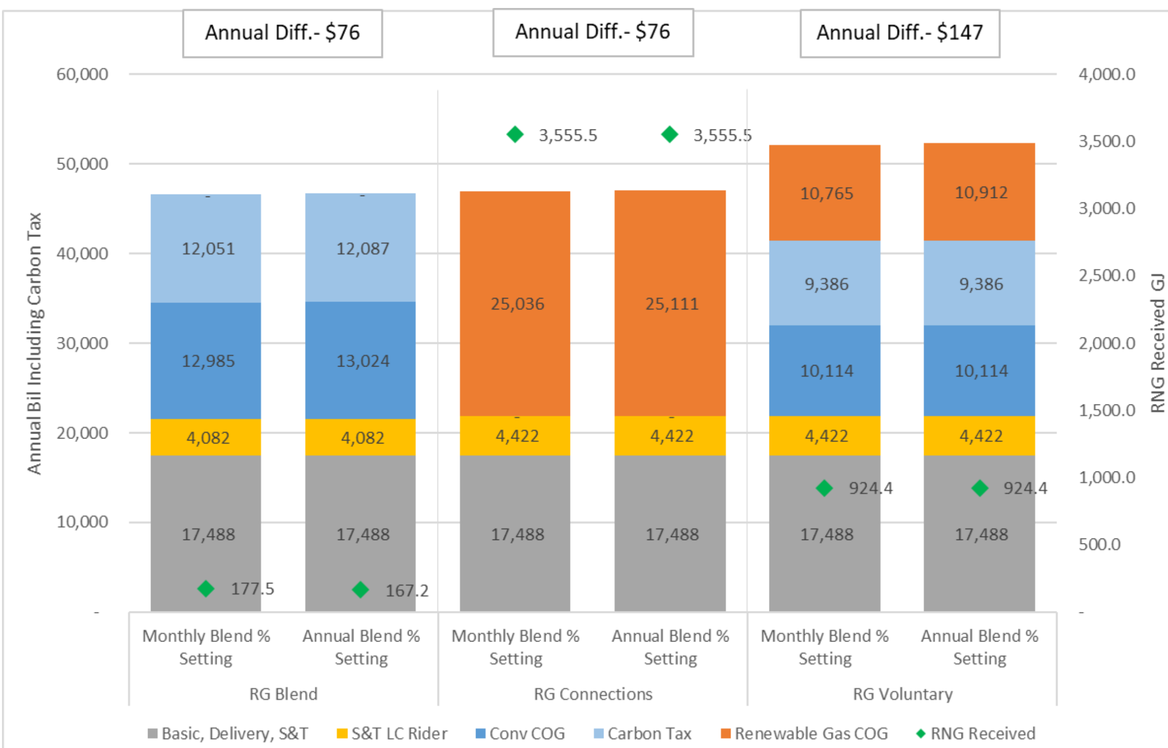
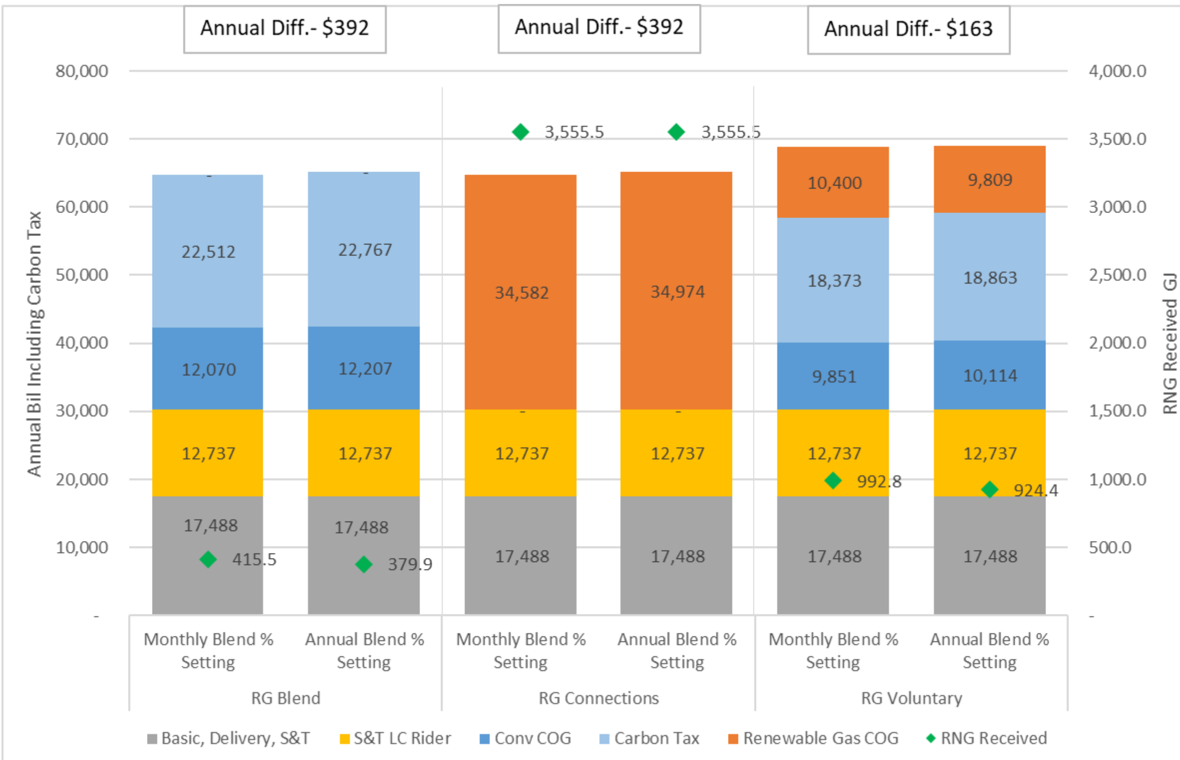


Figure 5-17: Rate Schedule 3 Annual Bill Components Comparison for 2030



As shown in the figures above, the difference in the annual bill between setting the RNG blend percentage on a monthly versus annual basis is small relative to the total bill.

5.5 *CHANGES TO FEI'S TARIFF TO IMPLEMENT A MONTHLY BLEND PERCENTAGE*

As discussed in the Application in Section 9.2, FEI had contemplated that changes to the Renewable Gas Program would be implemented in two phases, with approvals related to FEI's proposed Renewable Gas Blend service happening in the second phase with a requested effective date of January 1, 2024. Further, FEI had committed to filing the tariff changes related to the Renewable Gas Blend service for approval of the BCUC three months prior to implementation.

Considering that FEI must balance RNG supply and demand on a monthly basis as soon as practicable for the benefit of customers, FEI is amending its approvals sought, as outlined above in Section 1 of this Evidentiary Update, so that FEI can implement the Renewable Gas Blend service on the first of the month following at least two months after the date of the BCUC's final decision in this proceeding. FEI proposes that it will file an application for approval of the initial setting of the S&T LC rider prior to its effective date and implementation.

The other proposed new service offerings in the Application (Renewable Gas Connections and changes to the Voluntary Renewable Gas service) will take more time to implement (approximately five months). Thus, FEI proposes that the effective date for the remaining approvals sought related to these new service offerings be proposed in a compliance filing subsequent to the decision, filed at least 30 days prior to implementation, and will include all the revised tariff pages for BCUC review, approval and endorsement.

With respect to implementing the Renewable Gas Blend Service, below FEI discusses the expected changes to its General Terms and Conditions of Service (GT&Cs), in addition to those included in the Application (Appendix D).[16] FEI intends to file amended final tariff revisions for BCUC endorsement after the BCUC issues its final decision on the Application and may have refinements to the tariff language and will incorporate any directives from the decision once issued. The tariff changes required to implement the proposed Renewable Gas Blend service (or Blended Low Carbon Gas Service as will be defined in the tariffs) are relatively straight forward and encompass changes to FEI's GT&Cs and Rate Schedules, discussed in more detail below.

To implement the Renewable Gas Blend service, FEI's GT&Cs will require the addition of a definition for Blended Low Carbon Gas Service to section 1 of the GT&Cs, as follows:

> **Blended Low Carbon Gas Service** means Gas Service where the Gas delivered to Customers each month includes a percentage of Low Carbon Gas, from 0 to 100 percent, to be determined by FortisBC each month.

FEI will also add in Section 28 of the GT&Cs that FEI will provide Blended Low Carbon Gas to sales customers and that FEI will determine the percentage of Renewable Gas each month to match total Renewable Gas supply and demand for that month, as follows:

> 28.7 **Blended Low Carbon Gas Service**
>
> Beginning [date of implementation to be determined], FortisBC Energy will provide Blended Low Carbon Gas Service to Customers in the following rate schedules:
>
> (a) Residential Service:
> - 1 for Residential Service;
> - 1LC for Residential Low Carbon Gas Service;
>
> (b) Commercial Service:
> - 2 for Small Commercial Service;
> - 2LC for Small Commercial Low Carbon Gas Service;
> - 3 for Large Commercial Service;
> - 3LC for Large Commercial Low Carbon Gas Service;

[16] In Appendix D of the Application FEI included amendments to the GT&Cs and rate schedules required to implement the other proposed service offerings, and additional amendments were discussed in the responses to information requests during this proceeding.

(c) Seasonal Firm Gas Service
- 4 for Seasonal Firm Gas Service

(d) General Firm and Interruptible Service:
- 5 for General Firm Service;
- 5LC for General Firm Low Carbon Gas Service;
- 7 for General Interruptible Service; or
- 7LC for General Interruptible Low Carbon Gas Service;

(e) Natural Gas for Vehicle Service
- 6 for Natural Gas Vehicle Service

FortisBC Energy will determine the percentage of Low Carbon Gas to be provided each month for the purpose of the Blended Low Carbon Gas Service with the objective of matching FortisBC Energy's total supply and demand for Low Carbon Gas in that month. FortisBC will file a letter with the BCUC with notification of the percentage blend prior to the first of each month.

For clarity, the percentage of Low Carbon Gas determined by FortisBC Energy each month for the purpose of the Blended Low Carbon Gas service may differ from the blend of Low Carbon Gas forecast by FortisBC Energy each year for rate setting purposes.

With respect to the Rate Schedules, all sales service Rate Schedules will have amendments to:

- Eliminate the BVA rider (Rider 3)[17] and add the Storage and Transportation Low Carbon rider (Rider 8).[18]
- Add notes to the Table of Charges setting out that 0 to 100 percent of the Gas delivered each month will be Low Carbon Gas, that the percentage of Low Carbon Gas for each month will be determined by FortisBC Energy, and that the cost of the Blended Low Carbon Gas Service will be charged through the S&T LC rider.
- Amend other notes to make reference to the percentage of Low Carbon Gas received through the Blended Low Carbon Gas Service with the remaining portion being conventional natural gas such that the total gas received in a given billing period will be 100 percent of a customer's consumption.

FEI proposes to file blacklined GT&Cs and Rate Schedules for the BCUC's endorsement following receipt of the BCUC's Decision and final order in this proceeding.

[17] Delivery Margin Related Rate Rider.
[18] Storage and Transport Related Rate Rider.

6. CONCLUSION

In response to the Carbon Tax Ruling, FEI will be taking the mitigation measures described in Section 4 and has proposed adjustments to the Application as set out in Section 5 to enable FEI to maximize carbon tax refunds under the current carbon tax regime. In particular, FEI will be redirecting and/or selling RNG outside of BC and setting a Renewable Gas Blend percentage monthly, which will allow FEI to more closely match supply and demand for RNG on a monthly basis in an effort to maximize the recovery of carbon tax refunds from government on behalf of its customers.

FEI has set out the changes to FEI's approvals sought in Section 1 of this Evidentiary Update and has included a revised draft order in Appendix A.

FEI remains supportive of the Province's policy direction to decarbonize buildings and industry, and the changes proposed to FEI's Renewable Gas Program through this Application remain an effective and important means of achieving Provincial emissions reduction targets. FEI considers that implementing the proposed Renewable Gas Blend service through this Application as amended by this Evidentiary Update to be the most efficient and effective means of enabling FEI to continue growing the Renewable Gas Program, while prudently managing supply and demand in a way that maximizes benefits for its customers.

Appendix A

REVISED DRAFT ORDER

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ORDER NUMBER
G-xx-xx

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

FortisBC Energy Inc.
Stage 2 Comprehensive Review and Application for Approval of a Revised Renewable Gas Program

BEFORE:
[Panel Chair]
Commissioner
Commissioner

on Date

ORDER

WHEREAS:

A. On December 17, 2021, in accordance with British Columbia Utilities Commission (BCUC) Orders G-35-21 and G-242-21, FortisBC Energy Inc. (FEI) filed its Stage 2 Comprehensive Review and Application for Approval of a Revised Renewable Gas Program (Application);

B. By Orders G-3-22, G-103-22, G-165-22A, G-28-23, G-86-23, G-112-23 and G-142-23, the BCUC established a regulatory timetable for review of the Application;

C. On August 1, 2023, FEI filed an Evidentiary Update amending its approvals sought. In the Application, as amended by the Evidentiary Update (collectively referred to as the Application), FEI seeks approval pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA) for the following revisions to the Renewable Gas Program:

1. Effective the first of the month, at least two months after the date the BCUC issues its final decision in this proceeding:

    a) Approval of FEI's proposed Renewable Gas Blend and related tariff changes as described in Sections 7 and 8 of the Application and as amended in the Evidentiary Update to reflect FEI's proposal to set the blend percentage on a monthly basis;

    b) Approval to discontinue the Biomethane Variance Account delivery rate rider and to begin the use of the Storage and Transport Low Carbon (S&T LC) rider;

    c) Approval to discontinue the Biomethane Variance Account (BVA) Balance Transfer Account;

d) Approval to change the name of the Biomethane Variance Account to the Low Carbon Gas Account;

e) Approval to capture and record any carbon tax credits that FEI has granted or grants to customers but that are not refunded from the Province in the Low Carbon Gas Account; and

f) Approval to change the name of FEI's Biomethane Energy Recovery Charge (BERC) to the Low Carbon Gas Charge;

2. The proposed Renewable Gas Connections service and changes to the Voluntary Renewable Gas services effective on an implementation date FEI will propose in a compliance filing at least 30 days before the effective date:

   a) Approval of the Renewable Gas Connections service as described in Sections 7 and 8 of the Application and as set out in the corresponding new rate schedules in Appendix D-2; and

   b) Approval of changes to the Voluntary Renewable Gas service as described in Sections 7 and 8 of the Application, and the corresponding new and amended rate schedules in Appendix D-2; and

D. The BCUC has reviewed the Application, evidence and arguments filed in the proceeding and makes the following determinations.

NOW THEREFORE pursuant to section 59 to 61 of the UCA, and for the reasons set out in the decision issued concurrently with this order (Decision), the BCUC orders as follows:

1. FEI is approved to implement the Renewable Gas Blend service as described in Sections 7 and 8 of the Application, and the Evidentiary Update. Specifically, FEI is approved, effective [month] 1, 2023 to:

   a. Implement the Blended Low Carbon Gas service and to set the blend percentage on a monthly basis;

   b. Discontinue the Biomethane Variance Account rate rider (Rider 3) and to begin the use of the Storage and Transport Low Carbon (S&T LC) rider (Rider 8);

   c. Discontinue the Biomethane Variance Account (BVA) Balance Transfer Account;

   d. Change the name of the Biomethane Variance Account to the Low Carbon Gas Account;

   e. Capture and record any carbon tax credits that FEI has granted or grants to customers but that are not refunded from the Province in the Low Carbon Gas Account; and

   f. Change the name of FEI's Biomethane Energy Recovery Charge (BERC) to the Low Carbon Gas Charge.

2. In a compliance filing at least 30 days prior to the effective date, FEI is directed to file with the BCUC for review and approval of all amendments to FEI's GT&Cs of its Tariff and Rate Schedules required to implement the Blended Low Carbon Gas service.

3. FEI is approved to implement the Renewable Gas Connections service and changes to the Voluntary Renewable Gas service, as described in Sections 7 and 8 and Appendix D-2 of the Application, including amendments to FEI's GT&Cs of its Tariff and amended and new Rate Schedules.

4. In a compliance filing at least 30 days prior to the effective date, FEI is directed to file with the BCUC for review and approval of all amendments to FEI's GT&Cs of its Tariff and amended and new Rate Schedules required to implement the Renewable Gas Connections service and changes to the Voluntary Renewable Gas service.

5. FEI is directed to comply with all other directives identified in the Decision.

DATED at the City of Vancouver, in the Province of British Columbia, this (XX) day of (Month Year).

BY ORDER

(X. X. last name)
Commissioner

Appendix B

CARBON TAX RULING

Ministry of Finance
Tax Bulletin

BRITISH COLUMBIA

Bulletin CT 001 **Issued: June 2014** **Revised: April 2023**

Subscribe

Natural Gas and Biomethane Sellers

Carbon Tax Act

Latest Revision: The revision bar (|) identifies changes to the previous version of this bulletin dated April 2022. For a summary of the changes, see Latest Revision at the end of this document.

This bulletin explains the obligation for natural gas and biomethane sellers to charge, collect and remit carbon tax. Natural gas and biomethane sellers are not required to collect motor fuel taxes on their sales.

Other fuel sellers should read Bulletin MFT-CT 001, Fuel Sellers.

This bulletin does not apply to natural gas and biomethane sellers who may be required to collect provincial sales tax (PST) and the Innovative Clean Energy (ICE) Fund tax. For information, see Bulletin PST 203, Energy, Energy Conservation and the ICE Fund Tax.

If you use, flare or incinerate natural gas you import into B.C. or extract from the ground, you are responsible for self-assessing any motor fuel or carbon tax due and should read Bulletin MFT-CT 006, Self-Assessing Motor Fuel and Carbon Tax.

Table of Contents

Overview

Carbon tax is a broad based tax that applies to the purchase or use of fuels, such as gasoline, diesel, heating oil, natural gas, propane and coal, unless a specific exemption applies (for information on specific exemptions, see our exemptions page). The use of fuels includes all uses, even if the fuel is not combusted.

Carbon tax also applies to combustibles (specifically peat, tires, and asphalt shingles), when they are burned to produce heat or energy.

For a complete list of the fuels and combustibles subject to carbon tax, and their tax rates, see Bulletin MFT-CT 005, Tax Rates on Fuels.

Definitions

You are a **wholesale dealer** if you sell natural gas in B.C. to someone other than a purchaser (e.g. another wholesale dealer or a retail dealer). To purchase natural gas in B.C. exempt of carbon tax for resale, give your supplier a completed Certificate of Exemption as a Natural Gas Wholesale Dealer (FIN 187).

You are a **retail dealer** if you sell natural gas to a purchaser in B.C. To purchase natural gas in B.C. exempt of carbon tax for resale, give your supplier either a copy of your natural gas retail dealer certificate, or the certificate number.

You are a **purchaser** if you buy or receive delivery of natural gas in B.C. for your own use. Purchasers must pay carbon tax to their supplier.

Natural Gas Retail Dealers

If you make retail sales of natural gas or biomethane to purchasers, you must be registered as a natural gas retail dealer under the Carbon Tax Act, prior to making sales of natural gas. If you are not registered as a natural gas retail dealer and you sell natural gas or biomethane to purchasers, you may be subject to a penalty equal to the difference between the tax you remitted, and the amount of tax you were required to collect, as well as additional penalties and interest. For more information see Bulletin CTB 005, Penalties and Interest.

You must collect carbon tax on all sales of natural gas or biomethane at the time of sale to a purchaser, unless a specific exemption applies (see Non-Taxable Sales below). All carbon tax collected must be remitted to us. For more information, see Filing Returns and Making Payments below.

You are **not** required to register under the Motor Fuel Tax Act or collect motor fuel tax on any natural gas you sell. However, your customer may be required to self-assess motor fuel tax if they use the natural gas in an internal combustion engine. For more information, your customer should see Bulletin MFT-CT 006, Self-Assessing Motor Fuel and Carbon Tax.

Applying to be a Natural Gas Retail Dealer

To apply for registration as a natural gas retail dealer, you must complete an Application for Registration as a Natural Gas Retail Dealer (FIN 115).

Before we approve your registration, you may be required to enter into an agreement with us that sets out the duties and conditions of your registration. You may also be required to provide an unconditional letter of credit from a recognized Canadian financial institution.

If an agreement is required, we will send you two copies of the agreement. If you agree with the duties and conditions outlined in the agreement, you must sign and return both copies to us. We will sign and return one copy to you along with a certificate authorizing you to sell natural gas. If an agreement is not required, you will simply receive a certificate.

If you are not approved for registration, we will send you a letter explaining why your application was denied and how to appeal the decision if you disagree. If your application is denied, you are not authorized to sell natural gas to purchasers in B.C.

If you have not been registered as a natural gas retail dealer, you must not sell natural gas to purchasers.

Suspension or Cancellation of Registration

Your registration as a natural gas retail dealer may be suspended or cancelled for not complying with the Carbon Tax Act or regulations, or for not meeting the duties and conditions set out in your agreement (if applicable). You may appeal the cancellation of your registration if you disagree with the decision. If your registration is suspended or cancelled, you are not authorized to sell natural gas to purchasers in B.C.

Non-Taxable Sales and Exempt Sales

Non-taxable sales

You are not required to collect carbon tax on natural gas you export from B.C. for sale outside B.C.

Fully exempt sales

Natural gas sold in B.C. is **fully** exempt from carbon tax if:

- The natural gas is intended for use outside B.C. and you, or a person acting on your behalf (i.e. not the purchaser), remove the natural gas from B.C.
- You sell the natural gas to a purchaser who, at the time of sale, has entered into a contract with a common carrier to remove the natural gas from B.C.
- You sell the natural gas to a registered natural gas consumer who provides you with either a copy of their Registered Consumer Certificate specifying they may buy natural gas exempt of carbon tax, or their registered consumer number and fuel type (see Bulletin MFT-CT 004, Registered Consumers)
- You sell the natural gas to a wholesale dealer of natural gas who, at or before the time of sale, provides you with a signed Certificate of Exemption as a Natural Gas Wholesale Dealer (FIN 187) indicating they are purchasing the fuel for resale
- You sell the natural gas to a retail dealer of natural gas who, at or before the time of sale, provides you with either a copy of their natural gas retail dealer certificate, or the certificate number
- You sell the natural gas in sealed, pre-packaged containers of four litres or less
- You sell the natural gas on First Nations land to eligible First Nations purchasers (see Bulletin MFT-CT 002, Sales to First Nations and the Fuel Tax Exemption Program)
- You sell the natural gas to visiting military forces
- You sell the natural gas to a member of a diplomatic and consular corps (see Bulletin CTB 007, Exemption for Members of the Diplomatic and Consular Corps)

Partially exempt sales

Effective April 1, 2023, you can sell natural gas in B.C. **partially** exempt from carbon tax to a person who, at or before the time of the sale, provides you with a Certificate of Partial Exemption – Greenhouse Growers (FIN 463). This partial exemption equals 80% of the carbon tax in effect at the time of the sale. For more information, see our partial exemption from carbon tax for greenhouse growers page.

Supporting full and partial exemptions

You must report your exempt sales and provide a breakdown by exemption type on your carbon tax return. You also need to keep documentation in your records to show why you did not collect carbon tax. Documentation includes copies of carbon tax registration certificates, certificates of exemption, registered consumer and registered air or marine service certificates, or the name and registry number shown on a customer's Certificate of Indian Status card.

Biomethane

Biomethane is a carbon-neutral renewable fuel produced from biomass (e.g. agricultural and other organic wastes) that is indistinguishable from natural gas when blended (e.g. in a gas pipeline).

Carbon tax does not apply to purchases of 100% biomethane or to the portion of biomethane in a blend of biomethane and another fuel if the actual amount of biomethane in the blend is known. If the actual amount of biomethane in the blend cannot be determined, carbon tax at the rate of tax of the other fuel applies to the blended fuel, unless it qualifies for a biomethane credit.

Biomethane Credit

The Biomethane Credit Program provides a benefit to purchasers of biomethane blended with natural gas if the purchase occurs under a qualifying biomethane contract.

You must provide a biomethane credit to your purchaser if you:

- sell natural gas or a blend of natural gas and biomethane if you cannot determine the proportions of biomethane and natural gas, and
- sell the natural gas or blend under a biomethane contract.

A biomethane contract is a written contract that:

- provides for the sale of natural gas or a blend of biomethane and natural gas,
- specifies a notional biomethane content for the fuel you sell under the contract,
- provides that a portion of the consideration payable under the contract is attributable to the purchase of the notional biomethane content specified in the contract (regardless of the actual amount of biomethane, if any, supplied), and
- does not provide that the portion of the consideration attributable to the purchase of the notional biomethane content will increase or decrease based on the actual amount of biomethane, if any, supplied.

The credit is equal to the carbon tax payable on the specified volume or percentage of biomethane. You must provide purchasers with the biomethane credit at the time of purchase on their natural gas bills. Your invoice must indicate all of the following:

- The date of the sale
- The name and address of the seller
- The name and address of the purchaser
- The total amount of fuel sold
- The applicable carbon tax rate
- The amount of the biomethane credit as a separate item

To recover the amount of the biomethane credit, you may deduct the amount of the credit provided from the amount of tax you are required to remit using Line 7b (Tax Adjustments – Other) on your Carbon Natural Gas Tax Return through your CNG account in eTaxBC. You are eligible for a credit equal to the sum of the biomethane credits you provide during the reporting period. However, regardless of the sum of the credits provided, you may only claim a credit to a maximum of the amount of biomethane you blend with natural gas in the reporting period multiplied by the tax rate for natural gas.

If you provide the credit, you must keep all records related to the credit including:

- Copies of all your biomethane contracts
- A record of the date each contract was entered into
- A record of the name and address of each purchaser
- Records related to the amount of biomethane that you, in each reporting period, blended with natural gas for sale in B.C. for the biomethane contracts

- Records related to the total amount of biomethane that you, in each reporting period, blended with natural gas in B.C.
- Records related to each biomethane credit provided, including the amount of fuel sold and the amount of the biomethane credit provided

Reporting and Remitting Tax

Reporting Periods

Once you are registered as a natural gas dealer, we assign your reporting period based on the annual amount of carbon tax you must remit as follows:

- Less than $120,000 – quarterly reporting (January 1 – March 31, April 1 – June 30, July 1 – September 30, October 1 - December 31)
- $120,000 or more – monthly reporting

Once your reporting period is assigned, you will receive email reminders prior to each remittance due date

Filing and Paying Tax Returns On Time

To report your sales, you must file your Carbon Natural Gas Tax Return through your CNG account in eTaxBC. Also, you can pay your carbon tax due or make any account payments using eTaxBC. If you do not have access to eTaxBC, find out how to enrol.

You must file your return and remit the carbon tax due to us by the 15th day of the first month following the reporting period in which you sold natural gas to a purchaser in B.C. This includes nil returns (i.e. no sales or tax due).

Your tax return and payment are considered on time if they are posted to eTaxBC by 11:59 pm (Pacific Time) on the due date. If the due date for the tax return and payment falls on a weekend or a B.C. statutory holiday, the due date is the next business day.

Although you must file your tax return online using eTaxBC, if you choose to send payment by mail, it is considered on time if the envelope is postmarked by Canada Post (or national equivalent if outside Canada) on or before the due date. A business postage meter mark is not sufficient. If you mail your payment on or near the due date, ask Canada Post to postmark the envelope immediately.

If you courier your payment, it must be received by us by the close of business (4:30 pm) on the due date to be considered on time.

Your payments must be negotiable on or before the due date to be considered on time (e.g. if your payment is submitted on time but is post-dated after the due date, it will be considered late). If you are paying by cheque, it must be payable in Canadian funds to the Minister of Finance.

If your return and payment are not received on time, penalties and interest may be applied. Nil tax returns and amended tax returns are treated the same as other late tax returns in evaluating filing history.

Note:

- If you identify an error in a tax return from a previous reporting period, you must submit an amended return for that reporting period.
- If you are a natural gas retail dealer and sell natural gas through a third party and the third party does not provide the volume of natural gas delivered to your customers until after your return due date, you may report the sales and remit tax based on your billing cycle. You must obtain approval from us prior to reporting based on a billing cycle.

  For example:

  - Natural gas is delivered to your customer in June by a third-party common carrier (e.g. a pipeline company).
  - You get a customer delivery statement from the pipeline company on July 17 and issue a July billing/sales invoice to your customer.
  - Instead of reporting the June deliveries on your June return, which was due July 15, you report these billings on your July return, which is due August 15.

Additional Responsibilities for Natural Gas Sellers

Reporting Carbon Tax on Sales Invoices

You must report the amount of carbon tax charged on your sales invoices if you sell natural gas:

- From a bulk storage facility, cardlock or terminal rack
- For resale
- To a registered consumer, registered air service or registered marine service
- To a customer that requests an invoice

If you are required to issue an invoice to your customer, it must include all of the following information:

- The date of the sale
- Your name and address
- The location of the sale if different than above and, if applicable, where the natural gas was delivered
- The name and address of the person you sold the natural gas to
- The quantity of natural gas sold
- The rate of carbon tax for the natural gas sold as a separate line or column on the invoice

Refunds

You may apply for a refund using your carbon tax return if you have remitted carbon tax to us on your sales of natural gas or biomethane but have not collected the tax because credit was extended to a customer and the account, or portion of the account, later became uncollectable and was written off as bad debt. For more information, see Bulletin CTB 001, Bad Debts.

If you purchase natural gas for your own use and you sell any of that natural gas to another wholesale dealer or retail dealer, you may apply for a refund of the carbon tax paid using an Application for Refund of Carbon Tax – Purchaser of Fuel (FIN 108).

Your refund claim must be received by us within four years of the date you paid the tax (i.e. the date you purchased the natural gas). Claims for amounts of less than $10 are not eligible for a refund.

Need more info?

Online: gov.bc.ca/fuelandcarbontax
Toll free: 1-877-388-4440
Email: CTBTaxQuestions@gov.bc.ca

Subscribe to our What's New page to receive email updates when information changes.

The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation.

Latest Revision
April 2023

- Revised the "Non-Taxable Sales" section and added information about the new partial exemption from carbon tax for greenhouse growers
- Other minor revisions

Appendix C

LETTER TO MINISTER OF FINANCE, DATED JUNE 16, 2023

Doug Slater
Vice President
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June 16, 2023

Honourable Katrine Conroy
Minister of Finance
British Columbia Ministry of Finance

sent via email: FIN.Minister@gov.bc.ca

RE: Addressing the treatment of biomethane under the *Carbon Tax Act* and Carbon Tax Regulation

Dear Minister Conroy,

I write to request your assistance in resolving an urgent matter in relation to the Carbon Tax Act and Regulation, which is hindering progress towards BC's climate and economic objectives and inhibiting the advancement of clean fuels in our province.

A key pillar of the CleanBC plan and our strategy is to reduce greenhouse gas (GHG) emissions by replacing conventional natural gas with renewable natural gas (RNG, or biomethane) and hydrogen. We are aiming to meet the 15 per cent RNG content outlined in the original 2018 CleanBC plan and we have been rapidly adding to this amount in support of the 2021 CleanBC Roadmap to 2030 (CleanBC). However, the *Carbon Tax Act* (the "Act") and Regulations have not kept pace with the advancement of these clean fuels and we have now reached a point where they are limiting progress towards CleanBC.

In its current state, the Act and specifically section 22.4 of the Carbon Tax Regulation (the "Regulation") do not reflect the operational realities of the gas system, which uses inventory to meet its customers' seasonal demand, nor FortisBC's need to establish an inventory of low carbon gases to facilitate the transition from conventional natural gas to low carbon gases such as RNG and hydrogen. Attached to this letter is recent correspondence between FortisBC and the Ministry of Finance (the Ministry) that discusses these issues in more detail (Attachments 1 and 2). Accordingly, FortisBC is seeking amendments to the Regulation, as well as – as an interim measure – permission to file carbon tax returns on an annual basis in order to continue advancing our programs. This issue risks unfairly burdening our customers with carbon tax on carbon neutral energy (i.e. RNG) and compromises our ability to continue investing in the energy transition to meet our shared GHG reduction and economic goals.

We are currently nearing the conclusion of a regulatory proceeding – the Biomethane Energy Recovery Charge (BERC) Rate Methodology and Review of Revised Renewable Natural Gas (RNG) Program – filed in 2021 with the BC Utilities Commission (BCUC). The BCUC's decision is required before FortisBC can continue moving swiftly to significantly expand and invest in low-carbon solutions for its customers in support of CleanBC, including making clean fuels part of its standard service. However, we recently paused this critical BCUC proceeding, as the current carbon tax issue may impact the evidence on record. FortisBC is required to provide an update to the BCUC by August 1, 2023 and would like to put forward an interim solution while also continuing to work with the Province toward a permanent, long-term legislative solution as part of the Budget 2024 process.

Interim solution: Permission to file carbon tax returns for biomethane on an annual basis

In recognition that it will take some time for the Ministry to consider and implement changes to the Act and/or Regulation, FortisBC is seeking permission, as an interim solution, to file carbon tax returns on an annual basis. FortisBC highlights section 10(2) of the Regulations, under which the director may allow a retail dealer to deliver returns and remit tax on a quarterly or annual basis. An annual reporting period, in conjunction with the sale of excess biomethane inventories to third parties, would partially address the issue of month-to-month discrepancies in biomethane supply and demand that arises under section 22.4 of the Regulation. This solution does not require legislative change and can be actioned swiftly, allowing FortisBC to restart the above-noted BCUC proceeding later this summer and receive a decision from the BCUC.

Given that FortisBC remits large carbon tax amounts to the Province, we understand that there may be hesitancy to move from monthly to annual returns. Accordingly, we propose FortisBC continues to remit monthly installments of carbon tax based on estimates with an annual reconciliation that coincides with FortisBC's carbon tax return to mitigate impacts to the provincial government.

Long-term solution: Regulatory amendments allowing for notional blending of biomethane or establishing a biomethane pool (effectively recognizing inventorying of biomethane)

It is important to emphasize that FortisBC views an annual reporting period and selling off excess biomethane inventory as a short-term solution as significant challenges persist. As the volume of biomethane grows in relation to FortisBC's total energy supplied it will become increasingly difficult to match biomethane supply with our customers' seasonal demand without allowing biomethane to be inventoried, like the rest of our energy supply. Furthermore, the sale of biomethane to other utilities and/or third parties outside of BC will impact the achievement of CleanBC's objectives. As such, Regulatory amendments are required as a long-term solution to reflect the gas system's operational reality of using inventory to meet the seasonal nature of customer energy demand and allows FortisBC to build an inventory of RNG to facilitate the transition from conventional natural gas to low carbon gases. In the Appendix to this letter, we outline two potential approaches to regulatory amendments for your consideration.

Our understanding is the Revenue Division will consider the interim solution while the Policy and Legislative Division will consider the long-term solution. I want to emphasize our appreciation for the work of staff at the Ministry and for the attention they have afforded this issue to date. However, we urgently seek your assistance to find a solution to this issue so that we can continue to invest and advance our renewable gas program and continue helping achieve CleanBC's goals. I have asked my staff to request a meeting with you as soon as possible to discuss the enclosed.

Sincerely,

Doug Slater
Vice-President, Indigenous Relations and Regulatory Affairs

CC: Minister George Heyman, email: ENV.minister@gov.bc.ca
Minister Josie Osborne, email: EMPR.minister@gov.bc.ca
Renée Mounteney, email: Renee.Mounteney@gov.bc.ca
Jordan Goss, email: Jordan.Goss@gov.bc.ca
Les MacLaren, email: Les.Maclaren@gov.bc.ca
Jeremy Hewitt, email: Jeremy.Hewitt@gov.bc.ca

Appendix: Proposed Legislative Changes with draft amendments

We propose two potential amendments that can address the issue identified in section 22.4 of the Regulation. FortisBC does not have preference for one over the other and is submitting both for consideration by the Ministry.

1. **Notional blending**

This proposed approach addresses biomethane that is blended in a previous month but is not notionally sold under a biomethane contract until a subsequent month. Under this option, if there is not enough notional biomethane available at the time the credit is given, the refund is reduced. The proposed amendments are as follows:

22.1 Definitions - (1) *In this Part:*

*<u>**“biomethane blended in the reporting period”** means biomethane that has been blended during the reporting period, and which the qualifying retail dealer sells to a qualifying purchaser under a biomethane contract during the reporting period.</u>*

*<u>**“biomethane notionally blended in respect of the reporting period”** means biomethane that has been blended prior to the reporting period, and which is the notional biomethane content that is deemed to be supplied under a biomethane contract during the reporting period.</u>*

*<u>**“blended”** means biomethane that has been physically injected into and mixed with natural gas in a pipeline, by a qualified retail dealer or by a third party, whether inside or outside of British Columbia.</u>*

"qualifying retail dealer" *means a retail dealer of natural gas who*

(a) purchases or manufactures biomethane <u>or blended biomethane</u>, and

(b) ~~blends the biomethane with natural gas for sale in British Columbia~~ <u>sells blended biomethane to a qualifying purchaser in British Columbia under a biomethane contract.</u>

22.4 Refund amount - *The amount of the refund payable to a qualifying retail dealer under section 14.2 of the Act in respect of tax remitted for sales made in each reporting period is the lesser of the following amounts:*

(a) the sum of the biomethane credits provided by the qualifying retail dealer to qualifying purchasers for sales made during the reporting period; and

~~(b) the amount equal to the total amount of biomethane that the qualifying retail dealer blends with natural gas in the reporting period for sale within British Columbia in respect of biomethane contracts multiplied by the tax rate for natural gas under the Act that applies at the time the biomethane is blended.~~

(b) <u>the sum of the biomethane blended in the reporting period and the biomethane notionally blended in respect of the reporting period, that is sold by a qualifying retail dealer to qualifying purchasers in respect of biomethane contracts in the reporting period, multiplied by the rate of tax for natural gas under the Act that applies at the time the biomethane is sold.</u>

2. **Establish a biomethane pool**

Under this option, biomethane is tracked from one period to the next and ensures that a refund cannot be given where there has not been sufficient biomethane injected into the system. This approach would likely require some transitional rules to account for biomethane that is acquired but not yet notionally sold at the time the proposed provisions are enacted. The proposed amendments are as follows:

22.1 Definitions - (1) *In this Part:*

"available biomethane pool balance" *in respect of a reporting period is the amount determined by the following formula:*
A + B
where

A is the closing biomethane pool balance in respect of the previous reporting period, and

B is the total amount of biomethane blended in the reporting period.

"biomethane blended in the reporting period" *means biomethane that has been blended during the reporting period.*

"blended" *means biomethane that has been physically injected into and mixed with natural gas in a pipeline, by a qualified retail dealer or by a third party, whether inside or outside of British Columbia.*

"closing biomethane pool balance" *in respect of a reporting period is the greater of:*

> ***(a)*** *the total of the available biomethane pool balance at the end of the reporting period less the total amount of biomethane sold in the reporting period, and*
>
> ***(b)*** *nil.*

"qualifying retail dealer" *means a retail dealer of natural gas who*
(a) purchases or manufactures biomethane or blended biomethane, and
(b) ~~blends the biomethane with natural gas for sale in British Columbia~~ sells blended biomethane to a qualifying purchaser in British Columbia under a biomethane contract.

22.4 Refund amount - *The amount of the refund payable to a qualifying retail dealer under section 14.2 of the Act in respect of tax remitted for sales made in each reporting period is the lesser of the following amounts:*

(a) the sum of the biomethane credits provided by the qualifying retail dealer to qualifying purchasers for sales made during the reporting period; and

(b) the available biomethane pool balance determined at the end of the reporting period, multiplied by the rate of tax for natural gas under the Act that applies at the time the biomethane is sold.