



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-159-14**

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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

FortisBC Energy Inc.
Biomethane Interconnection Test
Compliance Filing

BEFORE: L.F. Kelsey, Commissioner
H.G. Harowitz, Commissioner
K.A. Keilty, Commissioner
N.E. MacMurchy, Commissioner
I.F. MacPhail, Commissioner
B.A. Magnan, Commissioner
C. van Wermeskerken, Commissioner

October 16, 2014

O R D E R

WHEREAS:

- A. On December 19, 2012, FortisBC Energy Inc. (FEI) filed an application with the British Columbia Utilities Commission (Commission) seeking approval of the Continuation and Modification of the Biomethane Program on a Permanent Basis (Application);
- B. On December 11, 2013, the Commission issued its decision in Order G-210-13 (Decision) for the Application, approving the continuance of the Biomethane Program on a permanent basis with certain modifications;
- C. In Order G-210-13, the Commission directed FEI to file a new, more comprehensive proposal for a two-part Interconnection Test by March 31, 2014, which addresses metering and the pipe separately;
- D. On March 31, 2014, FEI submitted a compliance filing for approval. FEI devised two tests methods: Discounted Cash Flow Test and the Average Cost Test;
- E. On August 14, 2014, the Commission issued one round of information requests to FEI. In the response to the Commission's information requests, FEI states "FEI would use the threshold value for the Pipe cost per GJ that the Commission orders or determines to be used."; and
- F. The Commission reviewed the compliance filing and FEI responses to the Commission information requests, and considers that a determination is required.

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NOW THEREFORE as set out in the Reasons for Decision attached as Appendix A, pursuant to sections 59-61 of the *Utilities Commission Act*, the British Columbia Utilities Commission orders as follows:

1. Fortis Energy Inc. must file a revised compliance filing based solely on the Average Cost Test on or before Friday, November 21, 2014.
2. Fortis Energy Inc. must revise the threshold of the Main Cost per GJ value on or before Friday, November 21, 2014.

DATED at the City of Vancouver, In the Province of British Columbia, this 22nd day of October 2014.

BY ORDER

Original signed by:

L.F. Kelsey
Commissioner

Attachment

FortisBC Energy Inc.
Biomethane Interconnection Test
Compliance Filing

REASONS FOR DECISION

BACKGROUND

On December 19, 2012, FortisBC Energy Inc. (FEI) filed an application with the British Columbia Utilities Commission (Commission) seeking approval for the Continuation and Modification of the Biomethane Program on a Permanent Basis. By Order G-210-13 dated December 11, 2013, the Commission approved the continuance of the Biomethane Program on a permanent basis with some modifications. In Order G-210-13, the Commission directed FEI to file a new, more comprehensive proposal for a two-part interconnection test by March 31, 2014, which addresses metering and pipe separately.

In compliance with Commission Order G-210-13, on March 31, 2014, FEI submitted two different interconnection test options. Each option provided a different method for evaluating future biomethane interconnection facilities, described briefly as follows:

1. *Discounted Cash Flow Test* - This test evaluates new projects from the perspective of keeping the impact on the Biomethane Energy Recovery Charge (BERC) at or below the Commission approved maximum biomethane price of \$15.28 per GJ for new projects. The test compares the BERC revenues using the approved maximum price per GJ, net of the contracted supply cost and the operating costs for the project, to the forecast interconnection capital costs of the project on a discounted basis.
2. *Average Cost Test* - This test sets an absolute capital threshold based upon the average costs (and main lengths) of previously approved projects. An additional comparison is made based upon the total capital costs of the main and the minimum contracted supply volume (a cost per GJ). The Average Cost Test is a two part test looking at both the Station Costs (equipment and meters) and Main Costs (pipeline). The Main Costs are further broken down into two elements: (i) pipe length, and (ii) pipe cost per GJ. The pipe cost per GJ is calculated by the average Main Costs of the seven previously approved projects by the Commission divided by the average 20 year minimum contract volume for five of the seven previously approved projects. In the event that Station Costs or Main Costs exceed the threshold, a Contribution in Aid of Construction (CIAC) from the supplier is required; favorable variance on either Station or Main Costs can be used to offset any CIAC.

Commission Determination

Following a review of the application and responses to Commission Information Request No. 1, the Commission determines that the Average Cost Test is a more comprehensive test and addresses both metering and pipe costs separately as directed by the Commission in the Decision issued December 11, 2013: "FEI is directed to file a new, more comprehensive, proposal for a two-part interconnection Test by March 31, 2014, which addresses

metering and the pipe separately.”¹ However, the Commission recognize that the capital thresholds derived for this test are not appropriate in achieving a fair allocation of interconnection costs between biomethane suppliers and FEI, and do not reduce the stranded assets risk to FEI and the subsequent cost risk to the biomethane customer.

The Commission directs FEI to file an update of the application based solely on the Average Cost Test and incorporate the following changes:

1. FEI to revise Main Cost per GJ threshold

FEI’s proposal of \$0.55 per GJ for the Main Cost threshold only requires relatively high cost projects to contribute in aid of construction, therefore projects of average cost (based on the seven pilot projects) or slightly above average will not contribute at all. In the Decision it is stated that “The panel considers the issue of cost allocation to be germane to the design of the program.”² A \$0.55 per GJ threshold is high and it is evident that a majority of the stranded asset risk will continue to be carried by FEI biomethane rate payers. The Commission is also aware that too low a threshold would require all projects to make a CIAC, with some suppliers ending up contributing more than half of the Main Costs. The Commission recognizes that a high CIAC has potential to place the program at risk if a greater portion of the financial burden is placed on suppliers.

In response to the Commission Information Request No. 1, on determining the Cost per GJ threshold scenarios, FEI states that “FEI would use the threshold value for the Pipe Cost per GJ that the Commission orders or determines to be used.”³ Through a series of cost iterations between \$0 per GJ and \$0.55 per GJ the Commission determines that a value of \$0.30 per GJ is suitable in achieving a fair allocation of cost between the supplier and FEI. The \$0.30 per GJ best represents a threshold which allows for a fair assessment of future projects and an appropriate distribution of risk, while continuing to contribute to the success of the Biomethane Program.

2. Main Cost is to be evaluated on a Cost per GJ only eliminating the Pipe length threshold.

The Commission believes the test can be further simplified by evaluating Main Cost on a Per GJ basis only, instead of two parts: (i) pipe length, and (ii) pipe cost per GJ as proposed by FEI. It is evident that all pipe costs, including length, are already accounted for in the pipe cost per GJ, therefore pipe length does not need to be addressed as an individual threshold.

¹ FortisBC Energy Inc. Biomethane Service Offering: Post Implementation Report and Application for Approval of the Continuation and Modification of the Biomethane Program on a Permanent Basis: Decision, December 11, 2013, p. 52

² FortisBC Energy Inc. Biomethane Service Offering: Post Implementation Report and Application for Approval of the Continuation and Modification of the Biomethane Program on a Permanent Basis: Decision, December 11, 2013, p. 50

³ Response to BCUC Information Request September 9, 2014, p. 12 IR 1.3.4.1,