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September 24, 2026

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

Dear Registrar:

Re: FortisBC Inc. (FBC)
2027 Annual Review of Rates (Application)
Response to the British Columbia Utilities Commission (BCUC) Information
Request (IR) No. 1

On July 31, 2026, FBC filed the Application referenced above. In accordance with the regulatory timetable established in BCUC Order G-151-26 for the review of the Application, FBC respectfully submits the attached response to BCUC IR No. 1.¹

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC INC.

Original signed:

Sarah Walsh

Attachments

cc (email only): Registered Interveners

¹ For convenience and efficiency, if FBC has provided an internet address for referenced reports instead of attaching the documents to its IR responses, FBC intends for the referenced documents to form part of its IR responses and the evidentiary record in this proceeding.

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7

8 A. FORMULA DRIVERS

9 1.0 Reference: FORMULA DRIVERS

10 Exhibit B-2 (Application), Section 2.4, Table 2-3, p. 10, Section 6.2,
11 Table 6-2, pp. 39–40

12 Net Inflation Factor

13 On page 10 of the Application, FortisBC Inc. (FBC) provides Table 2-3 showing the factors
14 used to determine the Formula Operations and Maintenance (O&M) for 2027. The net
15 Inflation Factor presented in Table 2-3 is 2.034 percent based on Statistics Canada's BC
16 Consumer Price Index and BC Average Weekly Earnings (AWE-BC) data from July 2025
17 through June 2026, with the May 2026 result for AWE-BC used as a placeholder for the
18 June 2026 result which had not been released at the time the Application was prepared
19 by FBC.

20 However, in Table 6-2 and on pages 39 and 40 of the Application, FBC shows that the net
21 Inflation Factor used to calculate the 2027 Formula O&M of \$86.974 million is 2.064
22 percent.

23 1.1 Please explain why the net Inflation factor shown in Table 2-3 of the Application
24 (2.034 percent) is not the same as the net Inflation factor (2.064 percent) that is
25 used to calculate the 2027 Formula O&M of \$86.974 million. As part of the
26 response, please confirm which net inflation factor is correct in accordance with
27 FBC's approved Rate Setting Framework.¹

28 1.1.1 With consideration to FBC's response to the preceding information
29 request (IR), please provide an evidentiary update to the Application as
30 necessary and confirm the resulting impact (i.e. increase, decrease or no
31 change) on FBC's proposed 2027 rate increase.
32

¹ FortisBC Energy Inc. and FortisBC Inc. 2025 to 2027 Rate Setting Framework, Decision and Orders G-69-25 and G-70-25 dated March 18, 2025.

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1 **Response:**

2 The correct 2027 net inflation factor is 2.034 percent which is shown in Table 2-3 of the Application
3 as well as in Section 11, Schedule 3, Line 9 of the Application. The formula O&M of
4 \$86.974 million (after rounding) is correct, which is reflected in Section 11, Schedule 20, Line 12
5 of the Application (with the calculation also shown in Schedule 20).

6 The net inflation factor of 2.064 percent shown in Table 6-2 was an error but is restricted to Table
7 6-2 only. As such, there is no change to the proposed 2027 rate increase.²

8 Given there is no change to the proposed 2027 rate increase and also no change to the financial
9 schedules provided in Section 11 for the calculation of the 2027 rate increase, an evidentiary
10 update is not required for the error in Table 6-2.

11

² As identified in the response to CEC IR1 3.1, there was an error in the calculation of the 2027 Forecast wheeling expense. The proposed 2027 rate increase after correcting the wheeling expense is 6.39 percent. FBC will correct this error in the compliance filing to the decision on this Application.

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1 **B. OTHER REVENUE**

2 **2.0 Reference: OTHER REVENUE**

3 **Exhibit B-2, Section 5.3, p. 36**

4 **Contract Revenue**

5 On page 36 of the Application, FBC explains that it receives contract revenues from the
6 third-party facilities it operates and maintains through its non-regulated affiliate company
7 FortisBC Pacific Holdings (FPHI). FBC states that the 2027 Forecast contract revenues
8 are lower than 2026 Approved amount due to the termination of the management
9 agreements, effective April 1, 2027, initiated by the owner of the facilities managed by
10 FPHI.

11 2.1 Please discuss whether the lower 2027 Forecast contract revenues compared to
12 the 2026 Approved amount are expected to be a temporary or permanent
13 decrease. As part of the response, please discuss whether FBC plans to replace
14 the third-party work noted in the preamble above and the associated management
15 fees earned in the future, and if so, when.

16
17 **Response:**

18 The termination of the management agreements in place between FPHI and external third parties
19 is expected to be permanent. Therefore, FBC expects there to be a permanent decrease in
20 transfer price profit revenue earned on services provided by FBC to FPHI for these management
21 agreements. At this time, FBC has not identified any immediate opportunities to replace the third-
22 party contracts that have been terminated. Other third-party agreements remain in place between
23 FBC and external third parties for the Waneta and Brilliant hydroelectric generating facilities,
24 which will continue to provide Contract Revenue to FBC.

25

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1 **C. TAXES**

2 **3.0 Reference: TAXES**

3 **Exhibit B-2, Section 9.2, pp. 61–62**

4 **Property Taxes**

5 On page 61 of the Application, FBC states that its actual 2026 property taxes are projected
6 (2026 Projected) to decrease by 2.9 percent from the 2026 Approved property taxes. FBC
7 attributes the majority of this decrease to lower assessed values on its substation
8 equipment.

9 On pages 61 and 62 of the Application, FBC states that it forecasts an increase in 2027
10 property taxes of approximately 8.0 percent from the 2026 Projected amount, which it
11 attributes to higher assessed values expected for its distribution and transmission lines,
12 generating facilities and substations, among other reasons.

13 3.1 Please explain why FBC expects an increase in the assessed values for substation
14 assets for 2027, given the lower assessed values for those same assets in 2026.

15

16 **Response:**

17 The decrease from 2026 Approved to 2026 Projected property tax for substations was largely
18 driven by the 2026 assessment information available at the time of the Annual Review for 2025-
19 2026 Rates, which did not include certain folio exemptions on substations. This resulted in an
20 overstatement of some taxable assessed values used in the calculation of the 2026 Approved
21 property taxes. FBC incorporated the correct folio exemption data in the 2026 Projected property
22 tax calculation.

23 For the 2027 Forecast, FBC used 2026 substation assessed values which also incorporated the
24 correct folio exemption data. However, once factoring in the forecast assessment for 2027 and
25 the forecast tax rate increases into the calculation, the 2027 Forecast for substation property tax
26 is higher than the 2026 Projected level.

27 Consistent with the approved flow-through treatment for property taxes, variances between actual
28 and forecast amounts will be trued-up in the Flow-through deferral account and returned to or
29 recovered from customers in the following year.

30

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D. ACCOUNTING MATTERS

4.0 Reference: ACCOUNTING MATTERS

**Exhibit B-2, Section 12.2.1, pp. 97–98; FortisBC Energy Inc. and FBC
2025 to 2027 Setting Framework, Decision and Orders G-69-25 and
G-70-25 dated March 18, 2025 (Rate Setting Framework Decision),
pp. 15, 18**

**Exogenous Factor Treatment for the Midway Substation Fire
Insurance Deductible**

On pages 97 and 98 of the Application, FBC seeks Exogeneous Factor (Z-Factor) treatment for an insurance deductible amounting to \$0.250 million for a fire that occurred at its Midway Substation site due to a fault in Transformer 2 (T2). FBC states that the incident began with a fault in the low-voltage connection of T2 and that the “type of protection in place allowed the fault to persist for an extended duration” and resulted in damage and a fire that also spread to Transformer 1 (T1).

On page 98 of the Application, FBC submits that the insurance deductible meets all the criteria to qualify for Z-Factor treatment. In support, FBC explains that the cost is entirely attributable to an event that was outside its control and that the damage could not be reasonably preventable through standard operating practices, among other explanations.

On pages 15 and 18 of the Rate Setting Framework Decision, the BCUC approved the criteria that must be met for a cost to qualify for Z-Factor treatment. One of these criteria is that the cost “must be attributable entirely to events outside the control of a prudently operated utility.”

4.1 Please confirm, or explain otherwise, whether all equipment at the Midway Substation site, including the transformer and the voltage protection associated with T2 and T1, was operating properly prior to the fault in the voltage connection of T2.

Response:

Confirmed. The station is subject to quarterly inspections to identify safety concerns, equipment deterioration, and emerging reliability risks. A visual and infrared inspection was completed at the Midway substation on January 31, 2024, which was less than three months before the incident occurred on April 23, 2024. No deficiencies indicating impending failure were identified during that inspection.

4.2 Please explain why the “type of protection [for T2] in place allowed the fault to persist for an extended duration” and spread the resulting fire to T1, instead of

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mitigating the ensuing damage and spread to T1. As part of the response, please discuss whether an alternate protection system or design may have detected the T2 fault sooner and/or avoided the damage to T1.

4.2.1 With consideration to the response to BCUC IR 4.2 above, please explain how the Z-Factor criteria, as approved in the Rate Setting Framework Decision, have been met for the insurance deductible of \$0.250 million.

Response:

The T1 and T2 transformers at the Midway substation were protected on the high voltage side with fuses. Given the single-phase operation of the fuses, the T2 C-phase opened in response to the transformer fault condition, while the B-phase and A-phase did not operate until 14 minutes and 15 minutes later, respectively. During this time the fault condition resulted in extensive damage and the fire. Due to the shared oil containment between T1 and T2, the fire was able to spread from T2 to T1.

At the time the Midway Substation was placed in service in 2007, it was designed and constructed in accordance with the relevant industry standards,³ including the application of high side fuse protection designed for pad-mount transformers rated less than 10 MVA. Since then, alternative protection technologies have advanced for application on pad-mount transformers less than 10 MVA. These newer technologies may have detected the fault sooner and/or avoided the damage to T1; however, high side fuse protection is still an acceptable option for pad-mount transformers less than 10 MVA by the relevant industry standards and those used by FBC.

The insurance deductible of \$0.250 million is FBC's remediation cost related to the event that is not covered by insurance. FBC's costs for this event are eligible for exogenous factor treatment, as discussed on pages 98 and 99 of the Application and summarized below:

1. The costs/savings must be attributable entirely to events outside the control of a prudently operated utility:

The costs are entirely attributable to an event that was outside of FBC's control, as the fault in the low-voltage C-phase connection of T2 and the extent of the ensuing damage were not reasonably preventable through standard operating practices. The event and the associated remediation costs were reviewed by FBC's insurers who determined that the actual damages were 100 percent recoverable by FBC (less the insurance deductible).

2. The costs/savings must be directly related to the exogenous event and clearly outside the base upon which the rates were originally derived:

The costs are directly and solely a result of the Midway Substation fire. These costs were not previously incurred and were not known at the time that the RSF Application was filed; therefore, the costs were not included in FBC's 2025-2027 Sustainment capital forecasts.

³ Applicable standards IEEE C37.91-2002: Guide to Selecting Transformer Protection and IEEE C37.48.1-2000: Coordination of Current-Limiting Fuses Rated for Voltages 1-38kV.

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3. The impact of the event was unforeseen:

The impact of the fire and the extent of the damage were unforeseen and could not be reasonably prevented through standard operating practices. Transformer fires of this magnitude are rare events and are not part of normal business operations. The scale and nature of the damage, along with the associated remediation costs, are atypical and non-recurring.

4. The costs must be prudently incurred:

The Midway Substation remains an important asset that supports FBC's ability to provide reliable service to customers. The remediation costs were therefore necessary and FBC acted prudently by successfully submitting an insurance claim to recover all of the remediation costs.

5. The costs/savings related to each exogenous event must exceed the BCUC-defined materiality threshold:

The unrecovered insurance deductible of \$0.250 million exceeds the BCUC-defined materiality threshold of \$0.150 million for FBC. Please refer to the response to BCUC IR1 4.3 for further discussion of the insurance deductible's recoverability.

4.3 Please identify any precedent(s) for approved Z-factor treatment of insurance deductible costs incurred by FBC. If none, please identify any instance(s), within the past 5 years, where FBC has incurred insurance deductible costs but did not seek Z-factor treatment.

Response:

Insurance deductibles are FBC's out-of-pocket costs for events that are otherwise covered by insurance, and it is therefore appropriate for FBC to recover these costs when they are incurred due to an exogenous factor event.

This is the first instance where FBC has made an insurance claim for an event that qualifies for exogenous factor treatment; thus, FBC does not have any previous examples of claiming insurance deductible costs as part of an exogenous factor request. However, in the 2025-2027 RSF Decision, the BCUC approved exogenous factor treatment for FortisBC Energy Inc. (FEI) for the 2021 Flooding event, including a \$1 million insurance deductible.⁴ On page 85 of the RSF Decision, the BCUC stated:

⁴ RSF Decision and Order G-69-25, p. 86.

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1 The sum of the unrecovered remaining balance of \$0.068 million plus the \$1 million
2 deductible totals to \$1.068 million and represents FEI's out-of-pocket costs related
3 to flood remediation.

4 Exogenous factor treatment was first approved by the BCUC as part of FBC's and FEI's 2014-
5 2019 PBR Plans and has subsequently been approved in the 2020-2024 MRP and the 2025-2027
6 RSF. Since 2014, FBC has sought exogenous factor approval for two fire-related incidents: (1)
7 the 2015 wildfires at Rock Creek, Wilson Mountain, and Testalinden; and (2) the 2021 Nk'Mip
8 Creek wildfire. However, there were no insurance claims for these losses because coverage for
9 damages to FBC-owned property, including poles and wires (i.e., first-party property) is excluded
10 under FBC's property insurance policies, except for assets located within 1,000 feet of an insured
11 power station or substation.⁵ FBC's other approved exogenous factor requests were related to
12 Mandatory Reliability Standards (MRS) Assessment Reports, and net savings in 2020 and 2021
13 related to the COVID-19 pandemic, which are not applicable for insurance claim related purposes.

14

⁵ FBC maintains insurance coverage for legal liability arising from third-party damage caused by wildfires. First-party property is excluded except for assets located within 1,000 feet of an insured power station or substation.

1 **E. SERVICE QUALITY INDICATORS**

2 **5.0 Reference: SERVICE QUALITY INDICATORS**

3 **Exhibit B-2, Section 13.2.1.1, p. 108, Table 13-2, p. 109**

4 **Emergency Response Time Service Quality Indicator**

5 On page 108 of the Application, FBC states that its 2025 year-end result for the
6 Emergency Response Time (ERT) Service Quality Indicator (SQI) was 90.4 percent,
7 which is below the threshold of 90.6 percent. FBC attributes this result to an increase in
8 call volumes in remote locations, as well as workforce-related challenges in recruitment
9 and retention in the Grand Forks area.

10 Further, on page 108 of the Application, FBC states that in response to the 2025 year-end
11 ERT SQI result, it has implemented a detailed weekly review of all emergency response
12 orders with response times exceeding two hours. FBC also states that it has increased its
13 resource plan and is actively recruiting for additional positions in the Grand Forks area.
14 On page 109 of the Application, FBC reports that as a result of these measures, its June
15 2026 year-to-date ERT SQI has improved to 91.6 percent.

16 On page 109 of the Application, as part of Table 13-2, FBC shows the historical results for
17 its ERT SQI. For 2024, FBC reported a year-end result of 89.5 percent, which was below
18 the threshold of 90.6 percent.

19 5.1 Please explain, how the measures noted in the preamble above that FBC has
20 implemented are expected to change the 2026 year-end ERT SQI result as
21 compared to the June 2026 year-to-date result. As part of the response, please
22 discuss any additional measure(s) that FBC plans to implement to sustain its ERT
23 SQI at a level above (i.e. better than) the threshold in 2026.

24

25 **Response:**

26 FBC expects that the measures described in the preamble will continue to contribute to a 2026
27 ERT SQI result that is better than the threshold. While the year-end performance remains subject
28 to the number of trouble calls, time of day, number and type of events, available resources,
29 location and weather events, FBC has taken corrective actions and established an ongoing
30 monitoring process to support continued performance throughout 2026.

31 FBC also plans to recruit apprentices in the small communities of Grand Forks, Creston and
32 Princeton in 2026 and 2027. Given the time required to recruit, train and develop apprentices,
33 these initiatives are not expected to contribute to improvements in the 2026 ERT SQI result;
34 however, these targeted recruitments will support long-term ERT performance beyond 2026
35 through improved workforce stability and enhanced local emergency response capabilities in
36 these service areas.

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FBC describes both the actions being undertaken to maintain the 2026 ERT result above (better than) the threshold as well as the challenges that may continue to impact the 2026 and future ERT SQI results further below.

Operational Challenges

Operationally, call volumes in remote locations continue to represent a challenge that may affect FBC's ability to meet the ERT SQI threshold in 2026 and beyond. To mitigate this risk, FBC has implemented several operational measures to improve emergency response performance, including enhancing oversight of emergency response through detailed weekly reviews of all emergency response orders exceeding two hours. As a result of these reviews, FBC has dedicated additional resources in the Kootenay region to strengthen emergency response capabilities, adjusted work assignments between internal and contractor crews to maintain crew availability within local communities, updated the call-out procedures, and reviewed escalation practices to management when call volumes become elevated. All calls over 2 hours are reviewed at multiple levels of management, including senior leadership, and corrective actions are implemented if there are deficiencies identified at any stage of the emergency response process.

Resource Constraints

Resource constraints, including recruitment challenges and employee sick leave in Grand Forks, present a risk to the ERT SQI performance. To address this risk, FBC has successfully recruited a new Power Line Technician (PLT) resource who is scheduled to start in October 2026. As an interim measure, FBC has arranged temporary transfers of qualified employees to provide emergency response coverage until the new employee is fully trained and available for on-call duties. In addition, FBC plans to recruit an apprentice in Grand Forks in 2027 to support long-term resource stability within the community.

Environmental Factors

Environmental factors, particularly extreme weather events, may also affect FBC's ability to meet the ERT SQI threshold. Widespread wind events and other severe weather events can generate simultaneous emergency call volumes across multiple rural services areas, creating challenges for overall emergency response performance. While these events are inherently unpredictable, FBC maintains emergency preparedness through annual emergency response exercises, ongoing Incident Command Systems training for operational leaders, and regular reviews of emergency response procedures. These measures support FBC's ability to respond effectively during significant weather events.

5.2 Please identify whether there are any operational, resource, environmental or other challenge(s) that may affect FBC's ability to meet the ERT SQI threshold in 2026 and beyond. For the identified challenge(s), please describe the measures

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1 that FBC has implemented or plans to implement to mitigate the associated risk to
2 the 2026 year-end ERT SQL result.

3
4 **Response:**

5 Please refer to the response to BCUC IR1 5.1.

6