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October 27, 2021

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

Attention: Mr. Patrick Wruck, Commission Secretary

Dear Mr. Wruck:

Re: FortisBC Energy Inc. (FEI)
Project No. 1599232
Annual Review for 2022 Delivery Rates (Application)
Regional Gas Supply Diversity Project Development Costs Deferral Account

In the Application, FEI requested approval from the British Columbia Utilities Commission (BCUC) for the creation of a non-rate base deferral account titled the Regional Gas Supply Diversity (RGSD) Project Development Costs deferral account, attracting a weighted average cost of capital (WACC) return, with the amortization period to be proposed in a future application. FEI's estimate to develop the RGSD Project to the point of CPCN filing is \$49.3 million. The RGSD Project will provide significant benefits with respect to system resiliency, gas supply, decarbonization, and Indigenous reconciliation. While FEI believes there is strong evidence supporting the need to carry out project development work for a pipeline solution for the entire scope of work identified to be funded by the deferral account, FEI recognizes that the magnitude of development costs and the size of the ultimate project are significant compared to FEI's typical major projects.

In light of the concerns expressed by the Panel in the Annual Review workshop, and in recognition that further process may be required to satisfy the Panel that FEI should proceed with the development of the project, FEI is amending its request to propose that the BCUC approve the RGSD Project Development Costs deferral account only for the purpose of developing the project up to an amount of \$11.1 million, so that initial development work may commence and FEI can proceed with the critical work of engaging with Indigenous groups. For this purpose, FEI has split the development spending into three sub-phases – a \$1.1 million phase (Pre-Phase 1), a \$10 million phase (Phase 1A) and a \$38.2 million phase (Phase 1B), as detailed below. To be responsive to the Panel, by seeking this approval, FEI is seeking tacit approval from the BCUC to initiate development of the Project up to the limited amount of \$11.1 million which encompasses the Pre-Phase 1 and Phase 1A spending. However, FEI

recognizes that recovery of the \$11.1 million is still subject to a retrospective prudence review regarding how FEI actually spent the dollars to develop the Project.

In the first quarter of 2022, FEI proposes to file a separate RGSD Project Development application seeking BCUC approval of the balance of the RGSD project development spending for Phase 1B, currently estimated at \$38.2 million. This separate RGSD Project Development application will include a more detailed RGSD Project business case but will not be the equivalent of a CPCN application, as FEI will only be seeking approval of the remainder of the RGSD project development cost spending. The timing of filing the separate RGSD Project Development application would be aligned with the filing of FEI's 2022 Long-Term Gas Resource Plan (anticipated to be filed in March 2022), which will provide further evidence on the long-term strategy for resources in the region. In this separate RGSD Project Development application, FEI expects to request approval of the balance of development spending by June 1, 2022, so that RGSD project development can continue without delay.

It is Important to Commence Pre-Phase 1 and Phase 1A Development Work Without Delay

Proceeding with the Pre-Phase 1 and Phase 1A RGSD Project development work immediately, without delay, is important given the long timelines for major project development. Early Indigenous engagement is a key pillar for a successful project and, as a result, FEI has initiated introductory dialogue with Indigenous groups.

The Pre-Phase 1 and Phase 1A work will move the RGSD Project from a desktop review to a more detailed project development phase. This initial development work will focus on Indigenous engagement and corresponding route and compressor siting evaluation, along with initial project description preparation, which FEI would plan to have concluded by May 2022. At the conclusion of this Pre-Phase 1 and Phase 1A work, the probability of securing key Indigenous group support and avoiding extraordinary costs for route alternatives would be better understood but not definitive.

FEI has introduced the concept of a pipeline solution in a number of previous applications to the BCUC, including FEI's Long-Term Gas Resource Plans and Annual Contracting Plans. More recently, in the L-31-20 Compliance Filing to its Annual Contracting Plan, which provided an assessment of risks to gas supply resiliency and discussion of alternatives available to mitigate these risks, as directed by the BCUC, FEI identified the Southern Crossing Pipeline (SCP) Expansion to Huntingdon as FEI's preferred choice of pipeline development from a resiliency standpoint, given that this solution would entail an entirely different path from the T-South system. FEI also discussed this preferred solution in the recent Tilbury LNG Storage Expansion CPCN Application, which is currently before the BCUC. FEI's more recent work also suggests that regional gas infrastructure will continue to be vital in delivering energy and new pipeline infrastructure can complement the regional clean energy transition. Based on FEI's preliminary business case findings, which include the evaluation of regional market alternatives, FEI believes that there is significant customer benefit with proceeding with this project. In its separate RGSD Project Development application to be filed in the first quarter of 2022, FEI will present its case for proceeding with the Phase 1B RGSD Project development spending.

If, during the initial development work under Pre-Phase 1 and Phase 1A, a “showstopper” issue arises, FEI would stop work on the project development. Given the importance of early Indigenous engagement for any infrastructure solution, FEI believes that the Pre-Phase 1 and Phase 1A work will be useful in the future, even in the unlikely event the RGSD Project is delayed or there are routing adjustments that come to light, given the need for gas infrastructure on FEI’s system in the interior of British Columbia.

Project Development Activities and Costs

As set out in the Annual Review proceeding, FEI has prepared a project development cost budget for planned activities that are expected to culminate in the preparation and filing of a CPCN application for the RGSD Project. The estimated development costs for these preliminary stage activities are summarized in the table below, separated into Pre-Phase 1, Phase 1A and Phase 1B project development activities.

Table 1: Estimated RGSD Project Development Costs (\$ millions)

Line Item (\$M)	Pre-Phase 1	Phase 1A	Phase 1B	Total
Pipeline Engineering		\$0.2	\$3.9	\$4.1
Compressor Engineering		\$0.4	\$8.5	\$8.9
Geotechnical Engineering	\$0.3	\$0.1	\$2.0	\$2.4
Environmental Application		\$0.4	\$1.9	\$2.3
Land and Right-of-Way			\$7.5	\$7.5
Indigenous & External Relations	\$0.7	\$5.5	\$4.8	\$11.0
Legal	\$0.1	\$1.1	\$1.1	\$2.3
Contingency		\$1.5	\$5.7	\$7.2
Management Cost		\$0.8	\$2.8	\$3.6
Total Costs	\$1.1	\$10.0	\$38.2	\$49.3

As shown in Table 1 above, the Pre-Phase 1 costs of \$1.1 million are largely focused on External Relations, and more specifically on engaging in initial engagement activities with Indigenous communities in 2021.

The Phase 1A costs (\$10.0 million) are mainly associated with ongoing Indigenous engagement. FEI has received positive feedback in support of assessing the RGSD Project thus far from early introduction discussions conducted with key Indigenous Nations along the pipeline’s route corridor. The Phase 1A development activities are further explained below:

- **Pipeline Engineering:** Provide assistance and support for preliminary route development work.
- **Geotechnical assessment:** Preliminary geotechnical assessment based on the route development work.

- **Compression Engineering:** Site identification and conceptual design for four new compressor stations.
- **Environmental Assessment (EA) and Archeology:** Develop the Initial Project Description (IPD) and initiate the BC EA early engagement process.
- **External Relations:** Undertake early engagement and opportunity development activities with Indigenous Nations. The early engagement phase also includes engagement and relationship building with local governments, regulatory agencies, and other stakeholders.
- **Land and Right of Way:** Preliminary contact with selected landowners.

The Phase 1B costs (currently estimated at \$38.2 million) are planned to be spent in 2022 and 2023, leading to the preparation of a CPCN application. Based on initial estimated timelines, FEI continues to anticipate that the earliest possible date for a CPCN filing would be mid-2023. However, the project development schedule will be largely influenced and driven by the Indigenous engagement discussions and will be adjusted as needed to meet the expectations and support required from Indigenous groups and other stakeholders.

Attached in Appendix A is a revised draft order reflecting the amendments to the approvals sought outlined in this submission.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachment

cc (email only): Registered Parties

Appendix A

REVISED DRAFT ORDER



ORDER NUMBER

G-xx-xx

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

and

FortisBC Energy Inc.
Annual Review for 2022 Delivery Rates

BEFORE:

[Panel Chair]
Commissioner
Commissioner

on **Date**

ORDER

WHEREAS:

- A. On June 22, 2020, the British Columbia Utilities Commission (BCUC) issued its Decision and Orders G-165-20 and G-166-20 approving a Multi-Year Rate Plan (MRP) for 2020 through 2024 (2020-2024 MRP Decision) for FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC), respectively. In accordance with the 2020-2024 MRP Decision, FEI is to conduct an annual review (Annual Review) process to set the delivery rates for each year;
- B. By letter dated July 13, 2021, FEI proposed a regulatory timetable for the Annual Review of its 2022 delivery rates;
- C. By Order G-227-21 dated July 27, 2021, the BCUC established the regulatory timetable for the Annual Review for FEI's 2022 delivery rates, which included FEI filing its Annual Review materials, intervener registration, one round of information requests, a workshop, FEI's response to undertakings at the workshop, and written final and reply arguments;
- D. On July 30, 2021, FEI submitted its materials for the Annual Review for 2022 Delivery Rates Application (Application). In the Application, FEI forecasts an 8.07 percent delivery rate increase over the 2021 delivery rates, effective January 1, 2022;
- E. The Application also requests the following deferral account approvals as described in Sections 7.5 and 12.4 of the Application:
 - 1. Creation of rate base deferral accounts for the following regulatory proceedings:
 - i. Transportation Service Report, with the amortization period to be determined in a future proceeding;

- ii. 2021 Generic Cost of Capital Proceeding, with the amortization period to be determined in a future proceeding; and
 - iii. 2021 Renewable Gas Program Comprehensive Review, with the amortization period to be determined in a future proceeding;
 2. Creation of a non-rate base deferral account titled the Regional Gas Supply Diversity (RGSD) Project Development Costs deferral account, attracting a weighted average cost of capital (WACC) return, with the amortization period to be proposed in a future application;
 3. Amortization of the residual balance in the Waste Connections Costs and Recoveries deferral account in 2022; and
 4. Approval to transfer the existing non-rate base 2017 & 2018 Revenue Surplus deferral account to rate base in order to eliminate the potential for future variances between actual and projected/forecast allowance for funds used during construction (AFUDC), and to amortize the remaining deferral account balance in 2022;
- F. The Application also requests approval of the following:
 1. Approval to change the frequency of reporting on the COVID-19 Customer Recovery Fund Deferral Account from monthly to quarterly, as described in Section 7.5.2.1;
 2. A Biomethane Variance Account (BVA) Rate Rider for 2022 in the amount of \$0.059 per gigajoule (GJ) as calculated in Section 10.3.1;
 3. Revenue Stabilization Adjustment Mechanism (RSAM) riders for 2022 in the amounts set out in Table 10-5 in Section 10.3.2; and
 4. The 2022 Core Market Administration Expense (CMAE) budget of \$5.575 million, as set out in Appendix B, and the allocation of the CMAE between FEI's Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA) based on the existing allocation percentages of 30 percent and 70 percent, respectively;
- G. By letter dated October 27, 2021, FEI amended its approvals sought in this Application with respect to the creation of the non-rate base deferral account for the RGSD Project Development Costs to record the costs of development activities to a maximum initial amount of \$11.1 million, including Pre-Phase 1 development activities of \$1.1 million and Phase 1A development activities of \$10 million. FEI also committed to filing a separate RGSD Project Development application in the first quarter of 2022 with more detailed RGSD Project information and any request for approval to incur further project development costs in excess of the \$11.1 million maximum; and
- H. The BCUC has reviewed the Application and makes the following determinations.

NOW THEREFORE pursuant to sections 59 to 61 of the UCA, the BCUC orders as follows:

1. FEI is approved to recover the 2022 revenue requirement and the resultant delivery rate changes on a permanent basis, effective January 1, 2022, as filed in the Application, subject to any adjustments identified

by FEI during the regulatory process and from any directives or determinations made in the reasons for decision issued concurrently with this order.

2. The following FEI deferral account treatments are approved:
 - a. Creation of rate base deferral accounts for the following:
 - i. Transportation Service Report, with the amortization period to be determined in a future proceeding;
 - ii. 2021 Generic Cost of Capital Proceeding, with the amortization period to be determined in a future proceeding; and
 - iii. 2021 Renewable Gas Program Comprehensive Review, with the amortization period to be determined in a future proceeding;
 - b. Creation of a non-rate base deferral account titled the Regional Gas Supply Diversity (RGSD) Project Development Costs deferral account, attracting a weighted average cost of capital (WACC) return, to record a maximum of \$11.1 million on project development costs at this time, with the amortization period to be proposed in a future application;
 - c. Amortization of the residual balance in the Waste Connections Costs and Recoveries deferral account in 2022; and
 - d. Approval to transfer the existing non-rate base 2017 & 2018 Revenue Surplus deferral account to rate base, and to amortize the remaining deferral account balance in 2022.
3. FEI is approved to change the frequency of reporting on the COVID-19 Customer Recovery Fund Deferral Account from monthly to quarterly, as described in Section 7.5.2.1 of the Application;
4. A BVA Rate Rider for 2022 in the amount of \$0.059 per GJ as calculated in Section 10.3.1 of the Application is approved.
5. RSAM riders for 2022 in the amounts set out in Table 10-5 in Section 10.3.2 of the Application are approved.
6. The 2022 CMAE budget of \$5.575 million, as set out in Appendix B to the Application, and the allocation of the CMAE between FEI's CCRA and MCRA based on the existing allocation percentages of 30 percent and 70 percent, respectively, are approved; and
7. FEI is directed to file with the BCUC, within 30 days of the issuance of this order, amended tariff pages in accordance with the terms of this order.

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