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January 30, 2023

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC
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Attention: Ms. Sara Hardgrave, Acting Commission Secretary

Dear Ms. Hardgrave:

**Re: FortisBC Energy Inc. (FEI)
Regional Gas Supply Diversity (RGSD) Project Development Account
Quarterly Progress Report No. 1 for the Period ending December 31, 2022 in
Compliance with British Columbia Utilities Commission (BCUC) Order G-253-22**

In compliance with BCUC Order G-253-22, dated September 14, 2022, granting approval, pursuant to section 60(1)(b) of the *Utilities Commission Act* (UCA), for the RGSD Project Development Account. Directive 2 of Order G-253-22 directed FEI as follows:

FEI is directed to file quarterly progress reports to the BCUC on work completed, anticipated work, and material developments on the potential RGSD Project, starting with the fourth quarter ending December 31, 2022, by no later than 30 days after the date of the quarter end.

Directive 3 of Order G-253-22 further directed as follows:

In lieu of the July 2023 quarterly report, FEI must provide as part of the FEI 2024 Annual Review:

- a. reporting to the BCUC on work completed, anticipated work, and material developments on the potential RGSD Project;
- b. an update of the costs incurred to date; and
- c. a proposal for the method and timing of the recovery of those incurred costs.

Attached is the first Quarterly Progress Report for the RGSD Project, for the period ending December 31, 2022.

Request for Confidential Treatment of Appendix A

FEI requests that Appendix A included with this Quarterly Progress Report be filed and held confidential by the BCUC, pursuant to Section 19 of the BCUC's Rules of Practice and Procedure regarding confidential documents as set out in Order G-178-22. FEI respectfully requests that the BCUC hold Appendix A confidential as the information is commercially sensitive, and if disclosed could harm, hamper, or prejudice active engagement with Indigenous communities and First Nations. Further, FEI requests that the confidential information remain confidential even after the development work on the RGSD Project is completed.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments



FORTISBC ENERGY INC.

Regional Gas Supply Diversity Project

**Quarterly Progress Report for the Period
Oct 1, 2022 to Dec 31, 2022**

**Submitted to the
British Columbia Utilities Commission**

January 30, 2023

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1. PROJECT DEVELOPMENT STATUS AND ANTICIPATED WORK

1.1 PROJECT BACKGROUND

On June 1, 2022, pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA), FortisBC Energy Inc. (FEI) filed an application (Application) with the British Columbia Utilities Commission (BCUC), for approval of a new non-rate base deferral account called the Regional Gas Supply Diversity (RGSD) Development Account, to capture actual development costs incurred for a potential RGSD Project (Project). In the Application, FEI proposed to file quarterly progress reports to the BCUC on work completed, anticipated work, and material developments, starting with the quarter ending at least three months after the BCUC's decision on the Application.

On September 14, 2022, the BCUC issued Order G-253-22 granting approval to establish the RGSD Development Account, a non-rate base deferral account attracting FEI's WACC return, to capture actual development costs incurred with respect to the potential RGSD Project, with disposition of the deferral account balance to be determined in a future proceeding.

Order G-253-22 directed FEI to provide Quarterly Progress Reports to the BCUC on work completed, anticipated work, and material developments on the potential RGSD Project, starting with the fourth quarter ending December 31, 2022, by no later than 30 days after the date of the quarter end. Order G-253-22 further directed that in lieu of the July 2023 quarterly report, FEI was to provide the update in the Annual Review for 2024 rates process, including an update of costs incurred to date and a proposal for the method and timing of the recovery of those incurred costs.

This is the first Quarterly Progress Report for the Project (Report) which covers the period up to December 31, 2022.

1.2 PROJECT DEVELOPMENT WORK COMPLETED IN THIS PERIOD

The Project development work is on schedule with FEI focussed on project planning activities to initiate expenditures as outlined in the Application. In this period, FEI appointed a full-time Project Director who will be responsible to oversee the development activities on the Project. FEI advanced some preliminary discussions with prospective shippers for potential capacity on the RGSD Project pipeline.

FEI put considerable focus on the Indigenous engagement activities, as early engagement and developing Indigenous support for the Project is key to its success. During the quarter, FEI continued its engagement with Indigenous communities nearest to the proposed pipeline corridor and provided capacity funding to facilitate engagement. In its meetings to date, FEI introduced the Project, discussed and sought input on the locations of the proposed compressor stations and pipeline alignment and began discussions on environmental and cultural studies, approaches to community engagement and economic opportunities.

1 FEI began engagement activities with Indigenous communities in 2021 and has continued to build
 2 on those discussions. To date, FEI has engaged with 14 First Nations directly – most multiple
 3 times - and six Tribal Councils. Of those, five First Nations have signed capacity funding
 4 agreements. The capacity funding agreements support Indigenous communities in their
 5 engagement with FEI on the Project, including supporting technical and economic working groups
 6 and engagement with community leaders and members.

7 In Q4 2022, FEI conducted a total of 19 meetings of which, seven were introductory meetings
 8 where FEI presented the Project concept; three were Chief and Council meetings where FEI
 9 provided further information on the Project; two were Project progress updates with First Nation
 10 staff; four were technical meetings to review the potential corridor alignment and compressor site
 11 locations in more detail; and three were to discuss economic opportunities on the Project.

12 Please see Confidential Appendix A for a summary of Indigenous engagement to date.

13 **1.2.1 Project Schedule Summary**

14 Table 2-1 below provides a summary of development activities that have been ongoing to the end
 15 of 2022 and will continue in Q1 to Q3 of 2023. At this time, FEI has no further updates to the
 16 RGSD Project schedule filed as Figure 5-1 in the Application. FEI plans to update the overall
 17 Project schedule in subsequent reports.

18 **Table 1-1: Status of Project Development Activities**

Timing	Activities	Status
Q3 2022 to Q3 2023	Advance Indigenous Nations engagement and stakeholder consultation efforts	In Progress
	Initiate and advance Indigenous Nations Partnership understandings	In Progress
	Initiate Pre-Front End Engineering Design to assist with Indigenous Nations input on pipeline route selection	In Progress
	Advance commercial discussions with prospective shippers for potential capacity on RGSD Project pipeline	In Progress
	Develop Project Risk Register	To Start Q1 2023
	Develop project description and engagement plan	To Start Q1 2023

19

20 **1.2.2 Project Development Cost Summary**

21 Of the \$23.7 million that was forecast in the Application for the combined Pre-Phase 1 and Phase
 22 1A , FEI has incurred \$1.88 million as of the end of 2022, with the bulk of the spending on First
 23 Nations engagement and related activities.

1 FEI anticipates an increase in First Nations engagement activities related to a development of an
 2 a Project description and engagement plan that will be coupled with the start of the pre front end
 3 engineering (Pre-FEED), geotechnical and environmental work that will result in a higher
 4 development costs spending profile in Q1 to Q3 of 2023.

5 The estimated vs actual Project development costs inclusive of Pre-Phase 1 and Phase 1A to the
 6 end of December 2022 are summarized in Table 1-2 below.

7 **Table 1-2: Project Development Cost Summary (Pre-Phase 1 and Phase 1A)**

Line Item	Estimated Total (\$ millions)	Actual to Dec 2022 (\$ millions)
Pipeline Pre FEED	\$3.00	\$0.01
Compressor Pre FEED	\$2.00	\$0.03
Geotechnical Assessment	\$0.80	\$0.20
Environmental Application	\$1.40	\$0.04
Land and Right-of-Way	\$1.00	\$0.00
Indigenous & Community Relations	\$9.50	\$1.16
Legal	\$1.90	\$0.22
Application Development Costs	\$0.60	\$0.00
Subtotal	\$20.20	\$1.66
Contingency	\$2.60	\$0.00
Project Management Cost	\$0.90	\$0.22
Total	\$23.70	\$1.88

8 *Cells with zero value indicate costs below \$10,000*

9 **1.3 ANTICIPATED WORK PLAN FOR NEXT PERIOD**

10 The next quarterly reporting period will cover the period from January 1 to March 31, 2023. FEI
 11 intends to commence or continue the following key activities during this period.

12 **Indigenous Engagement**

13 Indigenous engagement is a priority for advancing this Project and FEI will continue to actively
 14 further dialogue with Indigenous Nations that have already been contacted, and prioritize
 15 engagement with Indigenous communities that FEI was not been able to connect with in 2022.
 16 Engagements will continue to focus on FEI sharing preliminary Project information and gathering
 17 preliminary feedback on the Project, setting up mutually agreed upon pre-application engagement
 18 processes with First Nations, and continuing engagement according to those plans including
 19 discussion of early partnership understandings and technical items such as engineering,
 20 geotechnical and environmental work that is required for the development of a Project description
 21 and engagement plan to support Project applications.

1 **Engineering and Project Support**

2 FEI anticipates that the following activities will be initiated and developed during the next quarterly
3 reporting period

4 • Pre-FEED activities that will include:

5 ○ Pipeline

6 ○ Compressor stations

7 ○ Geotechnical

8 • Environmental and Archeological activities related to the pipeline routing and compressor
9 stations siting

10 • Preliminary land acquisition assessment for the proposed compressor sites and where
11 right-of-ways may be required

12 • Capital cost development

13 • Recruitment and filling of key functions in project organization

14 **Public Consultation**

15 FEI plans to commence engagement with local governments in 2023 beginning with communities
16 anticipated to be most impacted by the Project. Please see attached Appendix B that provides
17 the list of potentially impacted local governments that FEI has identified at this time.

18 **Renewable and Low Carbon Gas Supply**

19 FEI plans to advance feasibility work for the production of low carbon hydrogen and renewable
20 gas, that would flow on the RGSD. FEI has several confidential projects that fit with RGSD project
21 concept.

22

2. MATERIAL DEVELOPMENTS ON THE PROJECT

2.1 MARKET DEVELOPMENTS RELATED TO THE RGSD PROJECT

2.1.1 Regional Pipeline Infrastructure Update

Developments with respect to regional infrastructure have an impact on FEI and the Pacific Northwest operating marketplace. In the Application, FEI described three potential pipeline options in the region – a T-South Expansion, a Northwest Pipeline (NWP) Gorge Expansion, and the RGSD Project.

In the following sections, FEI provides the BCUC with an update on the T-South Expansion and the NWP Gorge Expansion, followed by an update on recent market conditions.

2.1.1.1 T-South Expansion Update

FEI's RGSD Application had indicated that Enbridge intended to announce a \$2.5+ billion expansion of its T-South pipeline in 2022 from its Station 2 compressor facility to the Huntingdon area. On August 10, 2022, FEI filed a letter with the BCUC advising that on July 29, 2022, Enbridge formally commenced the process to garner shipper support to expand the T-South pipeline by way of conducting a Binding Open Season process that would commit successful qualified bidders for a minimum term of twenty years for the new expansion capacity, and that the earliest in-service date for the expansion capacity would be November 1, 2028. The expansion capacity is anticipated to increase the volume of the T-South pipeline by 300 MMscfd, which is in-line with the amount of capacity that is expected to be utilized by Woodfibre LNG when it comes in-service.

Further, on November 4, 2022, Enbridge announced that its open season was fully subscribed by shippers and the average length of firm contracting was 65 years. In that announcement, Enbridge also provided the market with an updated cost estimate for its 300 MMscfd expansion which has now increased to \$3.6 billion from \$2.5+ billion. As explained in the Application, the significant additional cost that FEI customers will pay for any expansion(s) of T-South comes with little, if any, upside in terms of access to supply, supply cost, resiliency or support for FEI's move towards a renewable and low-carbon gas future.

2.1.1.2 Northwest Pipeline's Gorge Expansion Update

The NWP Gorge Pipeline Expansion described in the Application would transport gas sourced from the Rockies basin via NWP or Alberta basin for westbound delivery on TC Foothills and US GTN pipeline into the US PNW as far north as Seattle.

NWP has initiated confidential discussions over the past few months with regional parties to explore interest in advancing this expansion. As outlined in the Application, this expansion concept could be of benefit to FEI from a pipeline resiliency standpoint under no-flow and major

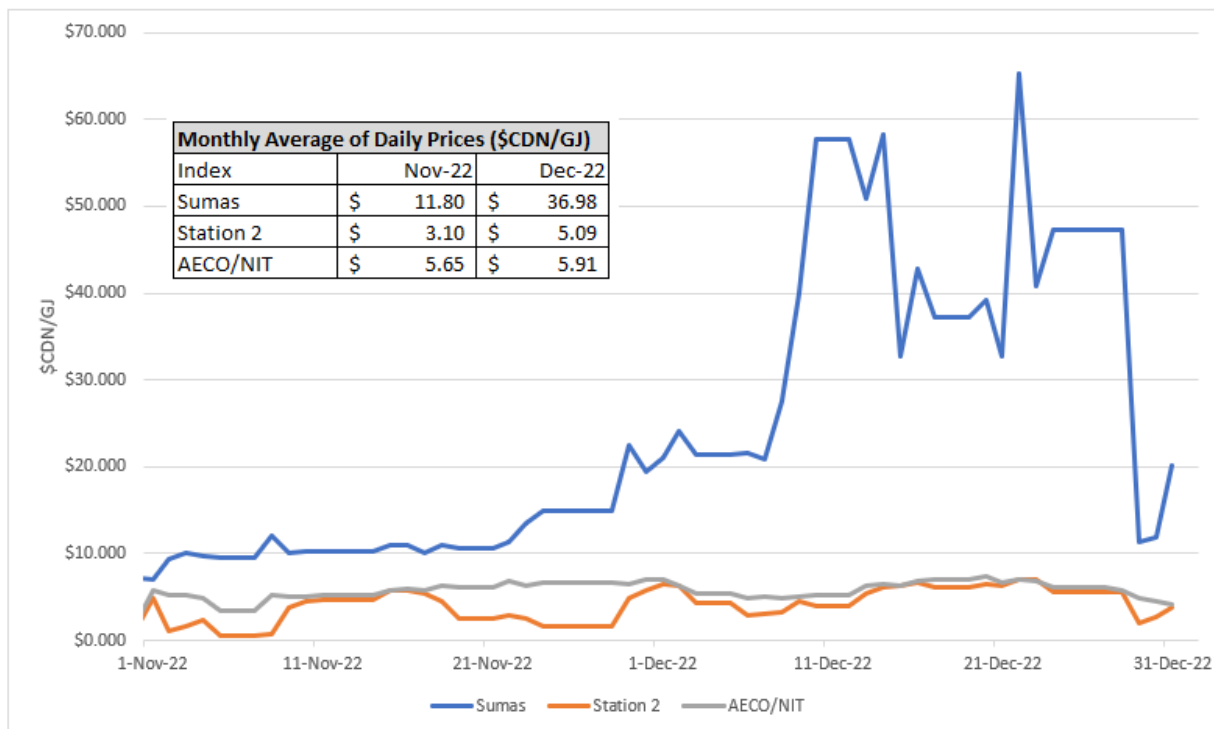
1 outage conditions on T-South if the configuration of the NWP system can be modified to physically
 2 deliver gas northward to Huntingdon/Sumas.

3 **2.1.2 Regional Market Update**

4 The majority of FEI’s natural gas supply is contracted at the supply hubs of Station 2 in Northeast
 5 BC, and AECO/NIT (NOVA Inventory Transfer) in Alberta. Alternative considerations when
 6 purchasing supply would be at delivered market hubs that are on the international border at
 7 Huntingdon/Sumas and Kingsgate. Purchasing supply at these market hubs allows regional
 8 shippers to avoid contracting for pipeline resources, although at the disadvantage of increased
 9 supply risks and pricing volatility under certain market conditions. Strong winter demand and
 10 disruption events that have negatively impacted pipeline capacity in the past few years have
 11 increased the level of pricing volatility at the Huntingdon/Sumas market. As discussed and
 12 illustrated in Section 2 of the Application, these periods of volatile pricing typically occur when
 13 demand in the Pacific Northwest (PNW) exceeds the delivery capacity of pipelines and supply
 14 from storage resources which then causes Sumas prices to rise significantly above other market
 15 hubs.

16 The start of the 2022/23 winter season (November 1, 2022 to March 31, 2023) has provided
 17 another example of the supply risks and pricing volatility at the Huntingdon/Sumas market. The
 18 Figure below shows the Sumas daily price settling well above the Station 2 and AECO/NIT price
 19 throughout the months of November and December 2022.

20 **Figure 2-1: Daily Market Spot Prices (November 1, 2022 to December 31, 2022)**



21

1 As indicated in the chart, the difference between the Sumas daily price versus the Station 2 and
2 AECO/NIT prices has started to widen since the beginning of November and the difference
3 continued to widen much more significantly in December 2022. The difference in hub pricing
4 between the Huntingdon/Sumas market versus Station 2 and AECO/NIT hubs shows that Sumas
5 daily prices were completely disconnected from the other two regional hubs. The sustained price
6 volatility and widening difference displayed by the Sumas price were due to several factors
7 including the following:

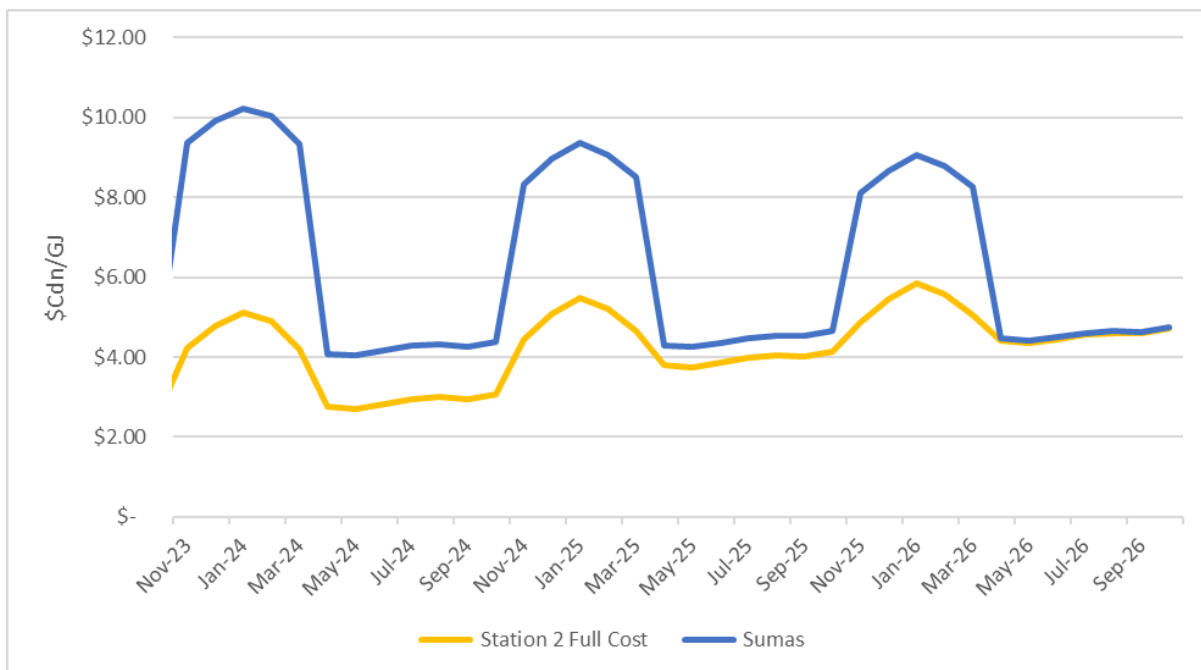
- 8 • Widespread below normal temperatures in BC and the western United States over a
9 sustained period of time caused high demand for natural gas throughout November and
10 December 2022. For example, FEI's Core market demand (i.e., Rate Schedule 1-7 and
11 46) was 15 percent higher than normal during this period;
- 12 • Strong demand for gas from a variety of sectors has led to significant infrastructure
13 constraints in the past few years over large portions of the heating season. The natural
14 gas and power markets in the region continue to become increasingly interconnected as
15 demand from gas-fired electricity generation continues to be strong especially after coal-
16 fired generation plants were retired in the past few years around the US PNW. During
17 November and December 2022, there was high demand for electricity not only in the PNW
18 but the West in general including California. This resulted in competing demand for natural
19 gas supply to generate electricity;
- 20 • Scheduled summer pipeline maintenance activities on Westcoast's T-South system
21 extended into the start of the winter during November, causing temporary pipeline
22 restrictions to Huntingdon.

23 Further pricing impacts are also greatly influenced by the operating state and available inventory
24 levels in the US PNW storage facilities (i.e., JPS in Washington and Mist Storage in Oregon).
25 Gas supply from these facilities provide incremental gas supply during cooler winter weather and
26 also assist in balancing the NWP system as needed. The sustained colder than normal weather
27 caused these storage facilities to withdraw higher than normal amounts of supply early in the
28 winter season. Furthermore, the continued cooler weather did not allow for storage inventories
29 to be replenished or refilled, as piped gas supply was still needed to meet high demand.

30 The price difference and level of volatility at the Huntingdon/Sumas market is concerning for FEI's
31 customers, specifically those that operate under the utility's Transportation business model (i.e.,
32 Rate Schedule 22, 23, and 25), who purchase supply from this hub. Significant volatility at the
33 Sumas hub due to lack of capacity could result in customers reverting to FEI as their commodity
34 provider which in turn could lead to FEI requiring incremental pipe capacity. FEI expects that the
35 Huntingdon/Sumas market will continue to pose significant supply risks and exhibit pricing
36 volatility for the foreseeable number of years until a significant resource that delivers continuous
37 daily supply such as a new pipeline is added to serve the region. As Figure 3 below shows, these
38 risks are reflected in the forward market prices denoting that the Sumas price is significantly higher
39 in the winter than the Station 2 price. In order to compare to the Sumas price, the Station 2 price

1 below includes added fixed transportation costs for delivery to the Huntingdon/Sumas market.
 2 Even after adding costs to the Station 2 price, the winter differentials are considerable between
 3 the two hubs.

4 **Figure 2-2: Station 2 Full Cost and Sumas Forward Price Comparison¹**



5
 6 The discussion above reinforces the need for developing incremental pipeline capacity in the
 7 Pacific Northwest region that was discussed in the Application.

8

¹ Graph is based off indicative forward pricing provided by Amerex on January 5, 2023. Station 2 Full Cost includes Station 2 forward monthly price, T-South fuel, Westcoast 2023 Interim Tolls, Motor Fuel and Carbon Tax.

1 **3. CONCLUSION**

2 The Project development work remains on schedule and within the estimated Project
3 development costs. During the next reporting period FEI will focus on engaging with Indigenous
4 communities and local governments, advancing engineering and Project support, and updating
5 the overall Project schedule.

6

Appendix A

INDIGENOUS ENGAGEMENT TO DATE

FILED CONFIDENTIALLY

Appendix B

POTENTIALLY IMPACTED LOCAL GOVERNMENTS

Anticipated Affected Local Governments

City of Grand Forks

City of Rossland

City of Trail

Regional District of Central Kootenay - Area B (Creston & Yahk)

Regional District of Central Kootenay - Area G (Salmo)

Regional District of Kootenay Boundary - Area B (Trail/ Rossland)

Regional District of Kootenay Boundary - Area C (Christina Lake)

Regional District of Kootenay Boundary - Area D (Rural Grand Forks)

Regional District of Kootenay Boundary - Area E (Midway, Rock Creek)

Regional District of Okanagan-Similkameen - Area A (Osoyoos)

Regional District of Okanagan-Similkameen - Area B (Cawston)

Regional District of Okanagan-Similkameen - Area C (Oliver)

Regional District of Okanagan-Similkameen - Area H (Tulameen/ Manning Park)

The Corporation of the Village of Fruitvale

The Corporation of the Village of Salmo

Town of Creston

Town of Oliver

Town of Osoyoos

Town of Princeton

Village of Salmo

City of Abbotsford

City of Chilliwack

District of Hope

District of Kent-Agassiz

Fraser Valley Regional District - Area B (Yale, Choate, Dogwood Valley, Emory Creek, Laidlaw, Othello, Ruby Creek, Spuzzum, and Sunshine Valley)

Fraser Valley Regional District - Area D (Popkum, Bridal Falls)