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February 27, 2025

British Columbia Public Interest Advocacy Centre
Suite 803 - 470 Granville Street
Vancouver, B.C.
V6C 1V5

Attention: Leigha Worth, Executive Director

Dear Leigha Worth:

Re: FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) (together, FortisBC or the Companies)

Application for Establishment of Equity Issuance Cost Deferral Accounts and Recovery of Equity Issuance Costs (Application)

Response to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, Together Against Poverty Society, and the Tenant Resource and Advisory Centre *et al.* (BCOAPO) Information Request (IR) No. 1

On December 11, 2024, FortisBC filed the Application referenced above. In accordance with the regulatory timetable established in British Columbia Utilities Commission Order G-5-25 for the review of the Application, FortisBC respectfully submits the attached response to BCOAPO IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

on behalf of FORTISBC

Original signed:

Sarah Walsh

Attachments

cc (email only): Commission Secretary
Registered Interveners

FortisBC Energy Inc. and FortisBC Inc. (together, FortisBC or the Companies) Application for Establishment of Equity Issuance Cost Accounts and Recovery of Equity Issuance Costs (Application)	Submission Date: February 27, 2025
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1.0 Reference: Exhibit B-1, pages 6-7 and 12

Preamble: The Application states:

“The DRIP program allows shareholders of public companies to reinvest their cash dividends into additional shares which are bought directly from the public companies and are often offered at a discount. This enables public companies to retain the cash, that otherwise would have been paid out as cash dividends, to support equity requirements of their operating subsidiaries. As discussed below, there is an observable issuance cost for DRIP programs, which is the discount a shareholder receives on reinvestment of dividends.” (page 6)

and

“The Fortis Inc. DRIP program shares are issued at a discount to incentivize shareholder participation. This discount essentially represents a recurring cost that is paid every time shares are reinvested under the DRIP program.” (pages 6-7)

and

“FortisBC is requesting to recover the DRIP discount of 2.0 percent after-tax as this is the actual issuance cost incurred by Fortis Inc. to fund FEI’s and FBC’s equity injections.” (page 12)

1.1 Since there is no actual cash outlay by FortisBC, other than what would be required for the dividend payments, please explain how/why there is an actual issuance cost associated with the DRIP programs.

Response:

While there is no cash outlay, the DRIP discount is a recurring cost that Fortis Inc. incurs every time shares are reinvested under the DRIP program since it effectively reduces the cash received from the shares sold through the DRIP program.

As explained in the Application, the DRIP program allows Fortis Inc. to retain the funds, instead of paying out cash dividends, and use them for the equity injections and other operational needs. The DRIP discount is considered a cost to Fortis Inc. because it represents a reduced price per share that Fortis Inc. is selling its shares at to its existing shareholders through its DRIP program, meaning Fortis Inc. is receiving less per share sold compared to the market price. In other words, if there was no discount and the shares were reinvested at the market price, Fortis Inc. would have generated more funding through the DRIP program to use for equity injections and other operational purposes.

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- 1 Further, as explained in the Application, this discount along with all other equity issuance costs is
- 2 netted against the equity funds raised on the balance sheet and leads to a permanent reduction
- 3 in Fortis Inc.'s shareholder's equity, all else equal.

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FortisBC Energy Inc. and FortisBC Inc. (together, FortisBC or the Companies) Application for Establishment of Equity Issuance Cost Accounts and Recovery of Equity Issuance Costs (Application)	Submission Date: February 27, 2025
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1 **2.0 Reference: Exhibit B-1, page 13 (Table 4-1)**

2 2.1 At what point(s) in time during 2023 and 2024 were the \$400 M and \$275 M
3 respectively in equity injections for FortisBC Energy Inc. made?

4
5 **Response:**

6 The dates and dollar amounts of equity injections for FEI are provided in the table below.

Equity Injection Date	Equity Injection Amount
March 22, 2023	\$100 million
December 19, 2023	\$300 million
September 23, 2024	\$275 million

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10 2.2 At what point(s) in time during 2023 and 2024 were the \$40 M and \$30 M
11 respectively in equity injections for FortisBC Inc. made?

12
13 **Response:**

14 The dates and dollar amounts of equity injections for FBC are provided in the table below.

Equity Injection Date	Equity Injection Amount
March 22, 2023	\$40 million
November 26, 2024	\$30 million

15

FortisBC Energy Inc. and FortisBC Inc. (together, FortisBC or the Companies) Application for Establishment of Equity Issuance Cost Accounts and Recovery of Equity Issuance Costs (Application)	Submission Date: February 27, 2025
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3.0 Reference: Exhibit B-1, page 1

FortisBC Energy Inc., 2023 Annual Information Form, page 8
https://www.cdn.fortisbc.com/libraries/docs/default-source/about-us-documents/fei-aif-2023-b2-pa-sedar.pdf?sfvrsn=61773853_1)

**FortisBC Energy Inc., 2023 Audited Annual
Financial Statement, page 6**

[https://www.cdn.fortisbc.com/libraries/docs/default-source/about-us-documents/fortisbc-\(gas\)-fs-with-notes-q4-2023-c2-audit-sedar.pdf?sfvrsn=e1bd54dd_1](https://www.cdn.fortisbc.com/libraries/docs/default-source/about-us-documents/fortisbc-(gas)-fs-with-notes-q4-2023-c2-audit-sedar.pdf?sfvrsn=e1bd54dd_1))

Preamble: The Application states:

“On September 5, 2023, the British Columbia Utilities Commission (BCUC) issued its Decision and Order G-236-23 in the Stage 1 Generic Cost of Capital (GCOC) proceeding (2023 GCOC Decision), establishing a deemed equity component of 45.0 percent and an allowed return on equity (ROE) of 9.65 percent for FortisBC Energy Inc. (FEI), and a deemed equity component of 41.0 percent and an allowed ROE of 9.65 percent for FortisBC Inc.” (page 1)

FortisBC Energy Inc.’s 2023 Annual Information Form indicates that the company’s Rate Base is \$5,945 M as of December 31, 2023.

Note: If FortisBC Energy Inc. considers it more appropriate to respond to the following questions, using the 2023 mid-year rate base, please do so.

3.1 Please provide (with supporting calculations using the values from FortisBC Energy Inc.’s 2023 Audited Annual Financial Statement (page 6)) FortisBC Energy Inc.’s actual equity as a percentage of its rate base as of December 31, 2023.

Response:

To clarify, the calculation of FEI’s actual equity as a percentage of its rate base cannot be directly tied to its financial statements or the amounts reported in the Annual Information Form.

For example, while the opening 2023 shareholder’s equity of \$3,304 million and ending 2023 shareholder’s equity of \$3,801 million are both shown on page 6 of FEI’s 2023 Audited Annual Financial Statements, it is the 13-month average equity that is used to determine FEI’s actual equity as a percentage of its rate base. Similarly, FEI used the actual 2023 mid-year rate base value reported in its Annual Report to the BCUC (filed on April 29, 2024), as the basis for determining its actual equity as a percentage of its rate base, not the amount shown in its 2023 Annual Information Form.

Consequently, the calculation of FEI’s 2023 actual equity as a percentage of its rate base is provided below:

FortisBC Energy Inc. and FortisBC Inc. (together, FortisBC or the Companies) Application for Establishment of Equity Issuance Cost Accounts and Recovery of Equity Issuance Costs (Application)	Submission Date: February 27, 2025
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1	Financial Statement Average Equity:	\$3,444,039,000
2	Less: Equity attributable to non-rate base/non-regulated items:	<u>(\$1,073,971,000)</u>
3	Average Equity remaining to finance rate base:	\$2,370,068,000 (A)
4	Actual Mid-Year Rate Base:	<u>\$5,911,852,000 (B)</u>
5	Actual Equity as a Percentage of Actual Rate Base (A / B):	40.09%

6 As shown above, FEI's actual average equity as a percentage of rate base for 2023 of 40.09
7 percent was lower than the 45.0 percent required by FEI's ring-fencing provisions. However, as
8 discussed in the FEI and FBC Compliance Filing to the 2023 Stage 1 Generic Cost of Capital
9 (GCOC) Decision and Order G-236-23, given the timing and effective date of the 2023 Stage 1
10 GCOC Decision, FEI was unable to meet the actual 45.0 percent equity thickness level for 2023.
11 Therefore, FEI applied for and received BCUC approval pursuant to Order G-275-23 for a
12 variance for 2023 only which relieved FEI of the requirement to maintain an actual average equity
13 structure of at least 45.0 percent equity.

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17 3.2 If FortisBC Energy Inc.'s actual equity as a percentage of its rate base as of
18 December 31, 2023 is greater than 45%:
19 3.2.1 Please indicate the level of equity injection for 2023 that would have been
20 required to produce an actual equity as percentage of rate base of 45%.
21 3.2.2 Please explain why the full cost FortisBC Energy Inc. has identified as
22 being associated with the actual equity infusion of \$400 M should be
23 recorded in the proposed Flotation Costs deferral account.
24

25 **Response:**

26 FEI notes that, as shown in the response to BCOAPO IR1 3.1, FEI's actual average equity as a
27 percentage of actual mid-year rate base was lower than 45.0 percent.

28 Assuming FEI was able to increase its equity injection in the last month of 2023 in order to achieve
29 an exact actual average equity amount for 2023 of 45.0 percent, FEI would have had to inject an
30 additional approximately \$3.773 billion (\$3.773 billion x 1/13 = \$290.265 million) in equity, with
31 the calculations shown below:

32	Actual Mid-Year Rate Base:	\$5,911,852,000
33	Deemed Equity Thickness:	<u>45.0%</u>
34	Actual Equity Required to finance Rate Base:	\$2,660,333,000
35	Actual Equity Available to finance Rate Base:	<u>\$2,370,068,000</u>

FortisBC Energy Inc. and FortisBC Inc. (together, FortisBC or the Companies) Application for Establishment of Equity Issuance Cost Accounts and Recovery of Equity Issuance Costs (Application)	Submission Date: February 27, 2025
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1 Shortfall in Available Equity: \$290,265,000

2 In a typical year, FEI maintains an actual average equity percentage that is slightly higher (i.e.,
3 an equity cushion) than the amount required to finance rate base (i.e., 45.0 percent), and would
4 not request an equity injection for the sole purpose of achieving an actual equity percentage of
5 exactly 45.0 percent on a forecast basis. This is because there are many variables related to the
6 timing and amounts of earnings and capital expenditures that could influence the actual equity
7 percentage amount and FEI must ensure that it remains onside of its ring-fencing provision. In
8 times of increasing rate base and capital expenditures, any actual equity cushion in one year is
9 effectively negated in the following year, as it is then required to finance the additional capital
10 expenditure/rate base amounts from that year. As such, FEI normally seeks new equity injections
11 on an annual basis, and given the full amount of each equity injection is required to finance its
12 rate base, the full costs of each equity injection should be recorded in FEI's proposed Flotation
13 Costs deferral account.

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4.0 Reference: Exhibit B-1, page 1

FortisBC Inc., 2023 Annual Information Form, page 9

(https://www.cdn.fortisbc.com/libraries/docs/default-source/about-us-documents/fbc-aif-2023-b2-pa-sedar.pdf?sfvrsn=d91e95c3_1)

FortisBC Inc., 2023 Audited Annual Financial Statement, page 6

([https://www.cdn.fortisbc.com/libraries/docs/default-source/about-us-documents/fortisbc-\(electric\)-fs-with-notes-q4-2023-c2-audit-sedar.pdf?sfvrsn=a13ac586_1](https://www.cdn.fortisbc.com/libraries/docs/default-source/about-us-documents/fortisbc-(electric)-fs-with-notes-q4-2023-c2-audit-sedar.pdf?sfvrsn=a13ac586_1))

Preamble: The Application states:

“On September 5, 2023, the British Columbia Utilities Commission (BCUC) issued its Decision and Order G-236-23 in the Stage 1

Generic Cost of Capital (GCOC) proceeding (2023 GCOC Decision), establishing a deemed equity component of 45.0 percent and an allowed return on equity (ROE) of 9.65 percent for FortisBC Energy Inc. (FEI), and a deemed equity component of 41.0 percent and an allowed ROE of 9.65 percent for FortisBC Inc.” (page 1)

FortisBC Inc.’s 2023 Annual Information Form indicates that the company’s Rate Base is \$1,676 M as of December 31, 2023.

Note: If FortisBC Inc. considers it more appropriate to respond to the following questions, using the 2023 mid-year rate base, please do so.

4.1 Please provide (with supporting calculations using the values from FortisBC Inc.’s 2023 Audited Annual Financial Statement (page 6)) FortisBC Inc.’s actual equity as a percentage of its rate base as of December 31, 2023.

Response:

To clarify, the calculation of FBC’s actual equity as a percentage of its rate base cannot be directly tied to its financial statements or the amounts reported in the Annual Information Form.

For example, while the opening 2023 shareholder’s equity of \$891 million and ending 2023 shareholder’s equity of \$946 million are both shown on page 6 of FBC’s 2023 Audited Annual Financial Statements, it is the 13-month average equity that is used to determine FBC’s actual equity as a percentage of its rate base. Similarly, FBC used the actual 2023 mid-year rate base value reported in its Annual Report to the BCUC (filed on April 29, 2024), as the basis for determining its actual equity as a percentage of its rate base, not the amount shown in its 2023 Annual Information Form.

Consequently, the calculation of FBC’s 2023 actual equity as a percentage of its rate base is provided below:

FortisBC Energy Inc. and FortisBC Inc. (together, FortisBC or the Companies) Application for Establishment of Equity Issuance Cost Accounts and Recovery of Equity Issuance Costs (Application)	Submission Date: February 27, 2025
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1	Financial Statement Average Equity:	\$908,364,000
2	Less: Equity attributable to non-rate base/non-regulated items:	<u>(\$227,418,000)</u>
3	Average Equity remaining to finance rate base:	\$680,946,000 (A)
4	Actual Mid-Year Rate Base:	<u>\$1,667,238,000 (B)</u>
5	Actual Equity as a Percentage of Actual Rate Base (A / B):	40.84%

6 As shown above, FBC's actual average equity structure for 2023 of 40.84 percent was lower than
7 the 41.0 percent approved equity thickness. While FBC does not have the same ring-fencing
8 conditions as FEI (please refer to the response to BCOAPO IR1 3.1 for further discussion), FBC
9 targets to have total average common equity in place for each year in an amount approximately
10 equal to the approved equity percentage. However, as discussed in the FEI and FBC Compliance
11 Filing to the 2023 Stage 1 GCOC Decision and Order G-236-23, given the timing and effective
12 date of the 2023 Stage 1 GCOC Decision, FBC was unable to meet the actual 41.0 percent equity
13 thickness level for 2023.

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17 4.2 If FortisBC Inc.'s actual equity as a percentage of its rate base as of December 31,
18 2023 is greater than 41%:

19 4.2.1 Please indicate the level of equity injection for 2023 that would have been
20 required to produce an actual equity as percentage of rate base of 41%.

21 4.2.2 Please explain why the full cost FortisBC Inc. has identified as being
22 associated with the actual equity infusion of \$40 M should be recorded in
23 the proposed Flotation Costs deferral account.

24

25 **Response:**

26 FBC notes that, as shown in the response to BCOAPO IR1 4.1, FBC's actual average equity as
27 a percentage of actual mid-year rate base was lower than 41.0 percent.

28 Assuming FBC was able to receive an equity injection in the last month of 2023 in order to achieve
29 an exact actual average equity amount for 2023 of 41.0 percent, FBC would have had to inject an
30 additional of approximately \$34.086 million (\$34.086 million x 1/13 = \$2.622 million) in equity, with
31 the calculations shown below:

32	Actual Mid-Year Rate Base:	\$1,667,238,000
33	Deemed Equity Thickness:	<u>41.0%</u>
34	Actual Equity Required to finance Rate Base:	\$683,568,000
35	Actual Equity Available to finance Rate Base:	<u>\$680,946,000</u>

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1 Shortfall in Available Equity: \$2,622,000

2 In a typical year, FBC maintains an actual average equity percentage that is slightly higher (i.e.,
3 an equity cushion) than the amount required to finance rate base (i.e., 41.0 percent), and would
4 not request an equity injection for the sole purpose of achieving an actual equity percentage of
5 exactly 41.0 percent on a forecast basis. This is because there are many variables related to the
6 timing and amounts of earnings and capital expenditures that could influence the actual equity
7 percentage amount. In times of increasing rate base and capital expenditures, any actual equity
8 cushion in one year is effectively negated in the following year, as it is then required to finance
9 the additional capital expenditure/rate base amounts from that year. As such, FBC normally seeks
10 new equity injections on an annual basis, and given the full amount of each equity injection
11 required to finance its rate base, the full costs of each equity injection should be recorded in FBC's
12 proposed Flotation Costs deferral account.

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5.0 Reference: Exhibit B-1, page 1

Preamble: The Application states:

“On September 5, 2023, the British Columbia Utilities Commission (BCUC) issued its Decision and Order G-236-23 in the Stage 1 Generic Cost of Capital (GCOC) proceeding (2023 GCOC Decision), establishing a deemed equity component of 45.0 percent and an allowed return on equity (ROE) of 9.65 percent for FortisBC Energy Inc. (FEI), and a deemed equity component of 41.0 percent and an allowed ROE of 9.65 percent for FortisBC Inc.” (page 1)

Note: If FortisBC Energy Inc. considers it more appropriate to respond to the following questions, using the 2024 mid-year rate base, please do so.

5.1 Based on the \$275 M 2024 equity infusion and its anticipated 2024 year end results, what does FortisBC Energy Inc. expect its actual equity as a percentage of rate base to be as of December 31, 2024.

Response:

In FEI's August 9, 2024 Application for Approval to Issue Common Shares to Maintain the Approved Capital Structure, FEI was forecasting its 2024 equity as a percentage of rate base to be 45.76 percent. FEI is unable to provide the actual equity as a percentage of rate base for 2024 at this time as the information is not yet available.

Please refer to the response to BCOAPO IR1 3.2 for an explanation of why FEI would not normally request an equity injection for the sole purpose of achieving an exact equity percentage of 45.0 percent on a forecast basis and why it is appropriate to record the full cost of the equity injection in FEI's proposed Flotation Costs deferral account.

5.2 If FortisBC Energy Inc.'s actual equity as a percentage of its rate base as of December 31, 2024 is anticipated to be greater than 45%:

5.2.1 Please indicate the level of equity injection for 2024 that would have been required to produce an actual equity as percentage of rate base of 45%.

5.2.2 Please explain why the full cost FortisBC Energy Inc. has identified as being associated with the actual equity infusion of \$275 M should be recorded in the proposed Flotation Costs deferral account.

Response:

Please refer to the response to BCOAPO IR1 5.1.

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1 **6.0 Reference: Exhibit B-1, page 1**

2 **Preamble:** The Application states:

3 “On September 5, 2023, the British Columbia Utilities Commission (BCUC)
4 issued its Decision and Order G-236-23 in the Stage 1 Generic Cost of
5 Capital (GCOC) proceeding (2023 GCOC Decision), establishing a
6 deemed equity component of 45.0 percent and an allowed return on equity
7 (ROE) of 9.65 percent for FortisBC Energy Inc. (FEI), and a deemed equity
8 component of 41.0 percent and an allowed ROE of 9.65 percent for
9 FortisBC Inc.” (page 1)

10 Note: If FortisBC Inc. considers it more appropriate to respond to the
11 following questions, using the 2023 mid-year rate base, please do so.

12 6.1 Based on the \$30 M 2024 equity infusion and its anticipated 2024 year end results,
13 what does FortisBC Inc. expect its actual equity as a percentage of rate base to
14 be as of December 31, 2024.

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16 **Response:**

17 In FBC’s October 30, 2024 Application for Approval to Issue Common Shares to Maintain the
18 Approved Capital Structure, FBC was forecasting its 2024 equity as a percentage of rate base to
19 be 41.39 percent. FBC is unable to provide the actual equity as a percentage of rate base for
20 2024 at this time as the information is not yet available.

21 Please refer to the response to BCOAPO IR1 4.2 for an explanation of why FBC would not
22 normally request an equity injection for the sole purpose of achieving an exact equity percentage
23 of 41.0 percent on a forecast basis and why it is appropriate to record the full cost of the equity
24 injection in FBC’s proposed Flotation Costs deferral account.

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28 6.2 If FortisBC Inc.’s actual equity as a percentage of its rate base as of December 31,
29 2024 is anticipated to be greater than 41%:

30 6.2.1 Please indicate the level of equity injection for 2024 that would have been
31 required to produce an actual equity as percentage of rate base of 41%.

32 6.2.2 Please explain why the full cost FortisBC Inc. has identified as being
33 associated with the actual equity infusion of \$30 M should be recorded in
34 the proposed Flotation Costs deferral account.

35
36 **Response:**

37 Please refer to the response to BCOAPO IR1 6.1.

38

FortisBC Energy Inc. and FortisBC Inc. (together, FortisBC or the Companies) Application for Establishment of Equity Issuance Cost Accounts and Recovery of Equity Issuance Costs (Application)	Submission Date: February 27, 2025
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7.0 Reference: Exhibit B-1, page 2

Preamble: The Application sets out one of the requested approvals as:

“To each establish a new non-rate base deferral account, titled the Flotation Costs deferral account, attracting a WACC return, to capture the actual flotation costs attributable to FEI and FBC from their parent company Fortis Inc.”

7.1 Assuming the equity infusion is not made on January 1st of the year, please explain how the carry costs will be calculated for the year that the equity infusion is made. As part of the response, please provide an illustrative calculation assuming a \$10 M equity infusion is made on September 15th of the year.

Response:

Carrying costs are calculated monthly based on the actual balance of the non-rate base Flotation Costs deferral accounts on a mid-month basis at each Company's weighted average cost of capital (WACC).

Please refer to Table 1 below which illustrates how the WACC return will be calculated in the proposed Flotation Costs deferral account for each of FEI and FBC using the example suggested in this question (i.e., a flotation cost addition on September 15th of the year). FortisBC notes that the illustration below was prepared assuming an equity injection was made on September 15 that resulted in \$7.3 million of flotation costs (\$10 million grossed-up for taxes), and not the equity injection value itself being \$10 million. The equity injection itself is not captured in the requested deferral accounts, thus it would have no impact on the calculation of the carrying costs. FortisBC also notes that the below calculation uses FEI's current WACC return of 6.21 percent for illustrative purposes.

Given the assumptions listed above, the total WACC carrying costs added to FEI's deferral account for that year would be approximately \$132,221.

Table 1: Illustration of WACC Return Calculation on the Requested Deferral Account for \$10 million in Grossed-up Flotation Costs Incurred on September 15th of the Year

	Opening (a)	Additions (b)	Less Tax (c) = -(b) x 27%	Ending (d) = (a) + (b) + (c)	Mid-Mth Avg (e) = [(a) + (d)]/2	WACC Rate (f)	WACC (g) = (e)x(f)/12
January	\$ -	\$ -	\$ -	\$ -	\$ -	6.21%	\$ -
February	-	-	-	-	-	6.21%	-
March	-	-	-	-	-	6.21%	-
April	-	-	-	-	-	6.21%	-
May	-	-	-	-	-	6.21%	-
June	-	-	-	-	-	6.21%	-
July	-	-	-	-	-	6.21%	-
August	-	-	-	-	-	6.21%	-
September	-	10,000,000	(2,700,000)	7,300,000	3,650,000	6.21%	18,889
October	7,300,000	-	-	7,300,000	7,300,000	6.21%	37,778
November	7,300,000	-	-	7,300,000	7,300,000	6.21%	37,778
December	7,300,000	-	-	7,300,000	7,300,000	6.21%	37,778
Total WACC Return							\$ 132,221