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February 27, 2025

British Columbia Utilities Commission  
Suite 410, 900 Howe Street  
Vancouver, B.C.  
V6Z 2N3

Attention: Patrick Wruck, Commission Secretary

Dear Patrick Wruck:

**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 Utilities Commission (BCUC) Information Request (IR) No. 1**

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

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

If further information is required, please contact the undersigned.

Sincerely,

**on behalf of FORTISBC**

***Original signed:***

Sarah Walsh

Attachments

cc (email only): Registered Interveners

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**1.0 Reference: RECOVERY TIME PERIOD**

**Exhibit B-1 (Application), pp. 2, 13; British Columbia Utilities Commission (BCUC) Generic Cost of Capital Stage 1 Decision accompanying Order G-236-23 dated September 5, 2023 (GCOC Stage 1 Decision), p. 141; FortisBC Energy Inc (FEI) 2024 Annual Review of Rates proceeding, Exhibit B-13; FortisBC Inc. (FBC) 2024 Annual Review of Rates proceeding, Exhibit B-13; Order G-340-23 dated December 12, 2023; Order G-41-24 dated February 16, 2024**

On page 141 of the GCOC Stage 1 Decision, the BCUC stated:<sup>1</sup>

The Panel determines that the deemed capital structure and allowed [return on equity] for FEI and FBC as set out in Section 6.3 of this decision be implemented, effective January 1, 2023. Each of FEI and FBC is directed to file, within 30 days of the date of this decision, a compliance filing for January 1, 2023 permanent rates, and if applicable, an evidentiary update for each utility's 2024 Annual Review proceedings to reflect and implement the deemed capital structure and allowed [return on equity] as approved.

On October 10, 2023, FEI and FBC submitted an evidentiary update to their respective 2024 Annual Review of Rates proceeding following the GCOC Stage 1 decision.<sup>2</sup> The BCUC approved permanent rates for 2024 on December 12, 2023 for FBC and on February 16, 2024 for FEI.<sup>3</sup>

On page 2 of the Application, FortisBC is seeking approval to record the actual after-tax flotation costs attributable to each of FEI and FBC from equity injections from their parent company, Fortis Inc. incurred in 2023 and 2024 in the Flotation Costs deferral account. A breakdown is provided on page 13 in Table 4-1.

1.1 Please discuss whether FortisBC's request to recover actual flotation cost incurred in 2023 gives rise to any retroactive ratemaking concerns, considering FortisBC's application to establish the Flotation Costs deferral account is made after permanent rates has been established.

1.1.1 Please discuss whether the same issue arises for the recovery of actual flotation costs incurred in 2024.

<sup>1</sup> GCOC Stage 1 Decision, p. 141,

<sup>2</sup> FEI 2024 Annual Review of Rates proceeding, Exhibit B-13; FBC 2024 Annual Review of Rates proceeding, Exhibit B-13;

<sup>3</sup> Order G-340-23 dated December 12, 2023; Order G-41-24 dated February 16, 2024

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1    **Response:**

2    FortisBC submits that, by virtue of the specific circumstances that gave rise to this Application, its  
3    request to recover the actual flotation costs incurred in 2023 and 2024 is appropriate and avoids  
4    issues of retroactive ratemaking for the following reasons:

- 5           1. The BCUC's 2023 Stage 1 GCOC Decision contemplated the recording and recovery of  
6           these costs in 2023 and subsequent years, and this is required to comply with the Fair  
7           Return Standard.
- 8           2. The BCUC's direction in the 2023 Stage 1 GCOC Decision to record and recover "actual  
9           costs incurred" would make it impractical for the flotation costs incurred in any given year  
10          to be reflected in the rates for the same year.
- 11          3. Regardless, FortisBC brought this Application for deferral accounts before the conclusion  
12          of 2024, which provides an additional basis for recovery of 2024 flotation costs.

13   Each of these points is discussed further below.

14   ***1. The BCUC's 2023 Stage 1 GCOC Decision contemplated the recording and recovery of***  
15   ***flotation costs in 2023 and subsequent years, and this is required to comply with the***  
16   ***Fair Return Standard:***

17   As discussed in the Application, in the 2023 Stage 1 GCOC Decision, the BCUC deviated from  
18   its long-standing ROE adder approach to compensate the Companies for flotation costs. As an  
19   alternative, the BCUC stated that FEI and FBC can recover the actual flotation costs incurred by  
20   their parent in future revenue requirement proceedings:<sup>4</sup>

21           The Panel finds that the proposed flotation cost adder is too vague to be a just and  
22           reasonable expense recoverable from ratepayers. It is a very rough estimate of the  
23           actual flotation costs of shares issued by the parent when it issues its own shares  
24           to obtain the funds used to purchase the shares of its subsidiaries. Therefore, we  
25           reject the proposal to use the flotation cost adder.

26           FEI and FBC can request recovery of actual costs incurred by the parent by  
27           providing applicable invoices or other supporting documentation from the parent  
28           when FEI and FBC issue additional equity. That supporting documentation should  
29           provide enough detail to enable the BCUC to review it to determine that is a just  
30           and reasonable expenditure. Those expenditures, if and as incurred, can be  
31           recovered from the ratepayers of FEI, or FBC as the case may be, following review  
32           and approval as part of each utility's Revenue Requirement process in the normal  
33           course. [Emphasis added.]

34   The 2023 Stage 1 GCOC Decision acknowledged that flotation costs were a legitimate cost of  
35   service. Having declined to compensate FortisBC for flotation costs in 2023 and future years

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<sup>4</sup> 2023 Stage 1 GCOC Decision and Order G-236-23, pp. 126-127.

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1 through an ROE adder, FortisBC required an opportunity to file an application for recovery of  
2 flotation costs for 2023 as well as for future years. Otherwise, the 2023 Stage 1 GCOC Decision  
3 would have violated the Fair Return Standard. Also, the BCUC's statements referenced above,  
4 notably the underlined portion, suggested that FortisBC would have this opportunity consistent  
5 with the Fair Return Standard.

6 The 2023 Stage 1 GCOC Decision was issued in September of 2023, i.e., with only three months  
7 remaining in the year. Since this decision, FortisBC has been working to develop an appropriate  
8 methodology for determining the actual flotation costs incurred for FEI's and FBC's equity  
9 injections based on its parent company's equity issuance costs. With the benefit of the 2023 and  
10 2024 equity issuances (i.e., the first equity issuances to occur since the BCUC directed the new  
11 approach to recovering issuance costs), FortisBC was able to provide the necessary evidence as  
12 contained in this Application and to propose a practical approach for recovering both the 2023  
13 and 2024 equity issuance costs as well future equity issuance costs.

14 FortisBC also notes that a similar question regarding retroactive ratemaking was raised by the  
15 BCUC in the BC Hydro Application for Approval of Two New Regulatory Accounts and Changes  
16 to the Storm Restoration Costs Regulatory Account proceeding. In that application,<sup>5</sup> BC Hydro  
17 sought approval for an account and to record costs after the year end, given that consideration of  
18 the request had been procedurally delayed. BC Hydro described the circumstances in its  
19 response to the BCUC's information request about retroactive ratemaking (BCUC IR 1.1.2):<sup>6</sup>

20 As the PBR Plan Application was ultimately not considered by the BCUC, BC  
21 Hydro has simply refiled these regulatory account requests in a new application to  
22 facilitate their review, rather than requesting that only the regulatory account  
23 component of the PBR Plan Application related to these requests be considered  
24 by the BCUC. In other words, the approvals sought in this application were filed  
25 with and were properly before the BCUC in fiscal 2024, and their consideration has  
26 simply been procedurally delayed. BC Hydro submits that its request to defer these  
27 costs starting in fiscal 2024 cannot and should not be prejudiced by this procedural  
28 delay. BC Hydro expands on these points below. [Emphasis added.]

29 BC Hydro's application was approved by the BCUC,<sup>7</sup> and FortisBC submits that its situation is  
30 similar. FortisBC's request for compensation for flotation costs was made as part of the 2023  
31 Stage 1 GCOC proceeding, and it was only by virtue of the BCUC's change in approach to  
32 recovery of flotation costs that another follow-up application is necessary. This Application in  
33 respect of 2023 and 2024 is a necessary extension of the 2023 Stage 1 GCOC proceeding when  
34 considering the absolute obligation to meet the Fair Return Standard in those years.

<sup>5</sup> [https://docs.bcuc.com/documents/proceedings/2024/doc\\_77585\\_b-1-bch-regulatoryaccounts-application.pdf](https://docs.bcuc.com/documents/proceedings/2024/doc_77585_b-1-bch-regulatoryaccounts-application.pdf)

<sup>6</sup> [https://docs.bcuc.com/documents/proceedings/2024/doc\\_78182\\_b-3-bch-bcuc-ir1-responses.pdf](https://docs.bcuc.com/documents/proceedings/2024/doc_78182_b-3-bch-bcuc-ir1-responses.pdf)

<sup>7</sup> [https://docs.bcuc.com/documents/other/2024/doc\\_78402\\_g-236-24-bch-new-expanded-regulatory-accounts-final.pdf](https://docs.bcuc.com/documents/other/2024/doc_78402_g-236-24-bch-new-expanded-regulatory-accounts-final.pdf)

**2. Compliance with the BCUC's direction for recovery of "actual costs incurred" requires that the recovery of flotation costs in any given year occurs in a future year:**

The BCUC's direction for recovery of "actual costs incurred", in lieu of a flotation cost adder, means that the recovery of equity issuance costs can only occur after the size and actual cost of issued equity in each year is known. In other words, it would be impractical for the flotation costs incurred in any given year to be reflected in the rates for the same year. This is why FEI and FBC are each seeking approval to establish the Flotation Costs deferral account to record these costs for future approval<sup>8</sup> and recovery.

Given the timing of the 2023 Stage 1 GCOC Decision and the timing of equity injections in 2023 and 2024, as well as considering the time FortisBC needed to develop a completely new approach for recovery of flotation costs, it would have been impractical, if not impossible, for FEI and FBC to seek approval for recovery of these costs in 2023 and 2024 rates. While the Companies could potentially have requested deferral accounts sooner than the current Application, FortisBC did not consider it necessary given the BCUC's determination in the 2023 Stage 1 GCOC Decision and the requirements of the Fair Return Standard (as discussed in point 1 above). Additionally, FortisBC considered it more appropriate to seek approval of the deferral accounts with the supporting evidence for how the flotation costs were calculated.

For instance, as referenced by the BCUC in the preamble, FEI and FBC filed evidentiary updates to the Annual Reviews for 2024 Rates on October 10, 2023, and the BCUC issued its decisions on FEI's and FBC's 2024 Annual Reviews on December 7, 2023 and December 12, 2023, respectively. In the case of FEI, as shown in Table 1 below, the Company had not even issued its December 19, 2023 equity injection by the date of the 2024 Annual Review Decision. Further, consistent with how the annual review processes work, 2024 rates were approved and in place prior to January 1, 2024. Thus, there would have been no opportunity to incorporate the 2024 equity injections for either utility in 2024 rates.

The table below provides the timing and size of FEI's and FBC's equity injections in 2023 and 2024.

**Table 1: FEI's and FBC's Equity Injections in 2023 and 2024**

|            | Equity Injection Date | Equity Injection Amount |
|------------|-----------------------|-------------------------|
| <b>FEI</b> | March 22, 2023        | \$100 million           |
|            | December 19, 2023     | \$300 million           |
|            | September 23, 2024    | \$275 million           |
| <b>FBC</b> | March 22, 2023        | \$40 million            |
|            | November 26, 2024     | \$30 million            |

<sup>8</sup> In this Application, FortisBC is seeking approval to establish the Flotation Costs deferral accounts and recover the actual flotation costs for 2023 and 2024. FortisBC is also seeking approval to continue the use of the Flotation Costs deferral accounts to record future flotation costs and will seek approval to recover those costs in future revenue requirements processes.

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1 **3. FortisBC brought this Application for deferral accounts before the conclusion of 2024,**  
2 **which provides an additional basis for recovery of 2024 flotation costs:**

3 While FortisBC considers the above points to be determinative, FortisBC also notes that it brought  
4 this Application for a deferral account before the conclusion of 2024. This provides an additional  
5 basis for recovery of 2024 flotation costs. It is not uncommon for the BCUC to approve deferral  
6 accounts after the establishment of permanent rates to capture costs that ought to fairly be  
7 recovered from customers. Flotation costs, the recovery of which is necessary for meeting the  
8 Fair Return Standard, fall within that category.

9  
10  
11  
12 1.2 Please discuss the impact to FortisBC if the request to record actual flotation costs  
13 for (i) 2023 or (ii) 2024 to the Flotation Costs deferral account is denied.  
14

15 **Response:**

16 As in past cost of capital decisions, the BCUC recognized in the 2023 Stage 1 GCOC Decision  
17 that issuance costs, and the impact on the allowed return on equity, are legitimate costs of  
18 providing service. If the BCUC denied the recovery of FEI's and FBC's respective incurred  
19 issuance costs for 2023 and 2024 (i.e., by denying the request to record actual flotation costs for  
20 2023 and 2024 in the Flotation Costs deferral accounts) without providing an alternative  
21 compensation methodology (such as the ROE adder approach which has historically been in  
22 place prior to the 2023 Stage 1 GCOC Decision), the result would be that FEI and FBC would not  
23 be provided the opportunity to recover their full cost of capital. Therefore, a BCUC denial resulting  
24 in an inability of FortisBC to recover reasonable issuance costs, all else equal, would violate the  
25 Fair Return Standard.

26 As explained in the Application, the Fair Return Standard requires that the investors must be  
27 compensated not only for the risk of the investment, but also the cost of the equity issuance itself.  
28 Otherwise, the utility will not have the opportunity to recover its full cost of capital and its earned  
29 return will always, all else equal, be lower than its authorized return.

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## 2.0 Reference: AMORTIZATION PERIOD PROPOSAL

### Exhibit B-1, Appendix D, p. 3; The BCUC Regulatory Account Filing Guidelines<sup>9</sup>, p. 2; FortisBC Application for Approval of a Rate Setting Framework for 2025 through 2027 proceeding, Exhibit B-22, Panel IR 2.1

FortisBC states on page 3 of Appendix D of the Application that it is not proposing an amortization period as part of the Application. FEI and FBC will instead each propose an amortization period for their individual deferral account in a future rate-setting application.

The BCUC Regulatory Account Filing Guidelines states on page 2 under item IX: “Propose a timeline for recovery (e.g. the period over which the regulatory account balance is either collected or refunded; also referred to as the amortization period) and explain why it is appropriate.”

In response to Panel IR 2.1 in the FortisBC Application for Approval of a Rate Setting Framework for 2025 through 2027 proceeding, FortisBC states “FortisBC is planning to file a combined 2025 and 2026 Annual Review for each of FEI and FBC in the typical Annual Review timeframe (i.e., late July or early August).”

2.1 Please explain why FortisBC is not proposing an amortization period for the Flotation Costs deferral account in this Application but prefer to propose an amortization period for its individual deferral account in a future rate-setting application.

### **Response:**

FortisBC considers it more appropriate to propose an amortization period for the Flotation Costs deferral accounts as part of their respective next rate-setting applications, which, if approved by the BCUC as part of its decision regarding the FortisBC Application for a Rate Setting Framework for 2025 through 2027 (Rate Framework), would be FEI’s and FBC’s Annual Reviews for 2025 and 2026 Rates proceedings, anticipated to be filed in July or August of this year. By applying for an amortization period as part of the Annual Review applications, FEI and FBC will be able to consider the overall rate impacts holistically, particularly the expected rate increases for 2026, which will help to inform an appropriate amortization period for recovery of the 2023 and 2024 flotation costs.

Typically, one of the key considerations for determining an appropriate amortization period for a deferral account is the resulting rate impact to customers. However, given that the BCUC’s decision on the Rate Framework has not yet been issued, which will establish many of the revenue requirement components for the years 2025 to 2027 (e.g., the formula O&M funding amount, and the regular forecast capital (and formula for FEI Growth capital) expenditures), any rate impact analysis completed now to assess potential amortization periods for the Flotation Costs deferral

<sup>9</sup> BCUC Regulatory Account Filing Guidelines, p. 2.

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accounts would be less accurate than if this analysis were performed as part of the next rate-setting application, with the benefit of the BCUC's decision on the Rate Framework and the full forecast revenue requirement and rate increases for 2026.

FortisBC notes that, based on the regulatory timetable established for the review of this Application, a BCUC decision will likely be issued on this Application before FEI and FBC file their respective Annual Review for 2025 and 2026 Rates applications. As such, the Companies should be able to incorporate the determinations in the BCUC's decisions on both this Application and the Rate Framework in their upcoming Annual Review applications, allowing for an assessment of the appropriate amortization period for the Flotation Costs deferral accounts in consideration of additions to the accounts and the overall rate impacts to customers.

2.2 Please confirm, or explain otherwise, that the "future rate-setting application" refers to the combined 2025 and 2026 Annual Review for FEI and FBC, respectively.

2.2.1 If not confirmed, please specify the timing of the "future rate-setting application" in which FortisBC will be proposing an amortization period for the Flotation Costs deferral account, and explain why this is the appropriate rate-setting application for the amortization period proposal.

**Response:**

Confirmed. Please refer to the response to BCUC IR1 2.1.



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### 3.0 Reference: APPROVAL SOUGHT

#### Exhibit B-1, p. 13; GCOC Stage 1 Decision, pp. 126-127

#### Future review process

On page 13 of the Application, FortisBC states it is also seeking approval to utilize these new non-rate base deferral accounts to record future actual flotation costs, as FortisBC expects that equity requirements will be on an annual basis. As the timing of future equity requirements and the amount of the actual flotation costs will vary, utilizing a deferral account is the most appropriate and reasonable approach.

On pages 126 to 127 of the GCOC Stage 1 Decision, the BCUC stated: “[Actual flotation costs], if and as incurred, can be recovered from the ratepayers of FEI, or FBC as the case may be, following review and approval as part of each utility’s Revenue Requirement process in the normal course” [emphasis added]

3.1 Please confirm, or explain otherwise, that FortisBC is only requesting approval to record actual flotation costs incurred in 2023 and 2024 as part of this Application. In other words, FortisBC is not requesting approval to record all future actual flotation cost in the Flotation Cost deferral account without BCUC review.

3.1.1 If confirmed, please discuss FortisBC’s proposed regulatory review process to record future actual flotation costs (e.g. separate application as is done in this Application, in future rate applications for FEI and FBC, respectively, as contemplated in the GCOC Stage 1 decision, other).

3.1.2 If not confirmed, please explain i) why approval to record all future actual flotation costs without further BCUC review is appropriate and ii) what process FortisBC considers appropriate when future actual flotation cost is to be recorded in the Flotation Costs deferral account.

#### Response:

FortisBC is seeking approval to recover the actual flotation costs for 2023 and 2024 by recording them in the Flotation Costs deferral accounts, as well as seeking approval to continue the use of the Flotation Costs deferral accounts to record future flotation costs (i.e., costs incurred beyond 2023 and 2024). While FortisBC will use the deferral accounts (if approved) to record future flotation costs as they are incurred, FortisBC confirms that it would seek approval to recover the future flotation costs recorded in the deferral accounts as part of FEI’s and FBC’s respective future revenue requirements processes by providing information regarding the sources and costs of equity financing by its parent, similar to the information provided in this Application for the 2023 and 2024 equity injections.

Therefore, to clarify, FEI and FBC are seeking approval of the deferral accounting mechanism in this Application; however, for all future flotation costs beyond 2024, FEI and FBC will seek approval to recover the actual costs incurred (and recorded in each deferral account) as part of future revenue requirement applications. The BCUC would thus review the reasonableness of the

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1 flotation costs (i.e., costs incurred beyond 2023 and 2024) through the revenue requirement  
2 processes.

3 FortisBC requires approval of the deferral accounts in this Application because, while FEI and  
4 FBC expect to incur flotation costs regularly, the timing and the amount of when the flotation costs  
5 will be incurred will vary. It would not be practical for FEI and FBC to try to forecast these flotation  
6 costs as part of their respective revenue requirements in advance of the equity issuances.  
7 Instead, the use of the Flotation Costs deferral accounts will enable FEI and FBC to record the  
8 actual flotation costs when they are incurred and then apply for recovery of the flotation costs  
9 (which would include the BCUC's review of the reasonableness of the costs) in future revenue  
10 requirements processes.

11