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February 27, 2025

Commercial Energy Consumers Association of British Columbia
c/o Owen Bird Law Corporation
Vancouver Centre II
2900 – 733 Seymour Street
Vancouver, BC
V6B 0S6

Attention: Christopher P. Weafer

Dear Christopher P. Weafer:

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 Commercial Energy Consumers Association of British Columbia (CEC) 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 CEC 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

1. Reference: Exhibit B-1, page 8

> FortisBC notes that Table 3-1 above only shows the discount paid to the shareholders and does not include additional costs that are incurred in maintaining a DRIP program. For example, companies issuing shares under the DRIP program can often experience market pressure costs which are costs to the public companies in the form of a lower share price in anticipation of large volume of shares being issued under the DRIP program. This leads to dilution of shareholder value. As explained earlier, FortisBC may in the future propose a methodology to capture these costs for future equity issuances. Other costs to maintain a DRIP program that are not reflected in Table 3-1 above are legal, administration, rating agency, auditor fees and filing fees.

> FortisBC notes that if FEI and FBC were public companies, they could on a standalone basis pursue a DRIP program to raise equity but they likely would not have access to as many shareholders as Fortis Inc., who are willing to accept additional equity in lieu of cash dividends for a 2.0 percent discount. Therefore, FortisBC would likely not be able to solely fund the equity portion of its capital structure via a similar DRIP and would have to either increase the discount or resort to other potentially more costly methods of raising equity. This reinforces that FortisBC ratepayers are benefitting from FortisBC being part of the Fortis group of companies, with Fortis Inc. as its ultimate parent.

1.1 Approximately what is the $ or % value of 'market pressure costs' that are not being recovered in this application?

1.1.1 Would FEI or FBC seek, at a future date, to recover the 'market pressure costs' in 2023 and 2024 that are not being recovered in this application? Please explain.

Response:

As explained by FortisBC's expert in the 2023 Stage 1 Generic Cost of Capital (GCOC) proceeding[1] (Mr. Coyne of Concentric Energy Advisors), flotation costs comprise both equity issuance costs (financing costs) and market pressure cost arising at the time of the sale of new shares. While FEI's and FBC's equity injection costs can be calculated based on their parent's actual incurred issuance costs in any given year, market pressure costs are complex to quantify and attribute, and require specialized expertise to calculate. As such, the dollar amount and percentage value of market pressure costs for 2023 and 2024 have not been determined.

Although FortisBC believes that the Fair Return Standard requires giving the Companies an opportunity to recover market pressure costs for 2023 and 2024, in light of the practical considerations noted above, the Companies have determined not to exercise that opportunity in this Application or a future application with respect to the 2023 and 2024 costs. However, as noted in footnote 2 of the Application, FortisBC may, in the future, propose and apply for BCUC approval of a methodology to capture market pressure costs for future equity issuances (i.e., for equity injections for years after 2024).

1 Exhibit B1-8-1.

1.2 Please confirm, or otherwise explain, that the market pressure costs to maintain a DRIP program would be actual costs experienced by FortisBC Inc., but not by FEI and FBC.

Response:

Not confirmed. The market pressure costs to maintain a DRIP program are borne by FEI's and FBC's ultimate parent company, Fortis Inc. (rather than FortisBC Inc. as noted in the question), which is a publicly traded company on the Toronto Stock Exchange and the New York Stock Exchange. As described in the Application, the market pressure costs negatively impact Fortis Inc.'s share price and dilute shareholder value. FEI and FBC are not publicly traded and, therefore, do not have a listed share price.

As explained in the Application, in the 2023 Stage 1 GCOC Decision, the BCUC stated that "FEI and FBC can request recovery of actual costs incurred by the parent by providing applicable invoices or other supporting documentation from the parent when FEI and FBC issue additional equity". Market pressure costs are actual costs incurred by Fortis Inc., and FortisBC considers that these costs would be eligible for recovery, although, as noted in the response to CEC IR1 1.1, at this time FortisBC has not sought approval to recover market pressure costs.

2. Reference: Exhibit B-1, page 3 and page 12 and page 13

> Flotation costs occur when new issues of stock or debt are sold to the public. The firm usually incurs several kinds of flotation or transaction costs, which reduce the actual proceeds received by the firm. Some of these are direct out-of-pocket outlays, such as fees paid to underwriters, legal expenses, and prospectus preparation costs. Because of this reduction in proceeds, the firm's required returns on these proceeds equate to a higher return to compensate for the additional costs. Flotation costs can be accounted for either by amortizing the cost, thus reducing the cash flow to discount, or by incorporating the cost into the cost of capital. Because flotation costs are not typically applied to operating cash flow, one must incorporate them into the cost of capital.

> The 2.0 percent DRIP discount is expressed on an after-tax basis as this cost is not deductible for tax purposes and tax expense would have to be incurred when these costs are recovered. This means that in order to recover 2.0 percent on an after-tax basis, the recovery of the cost needs to be expressed in before-tax terms. Using FortisBC's Canadian federal and BC combined statutory income tax rate of 27.0 percent, 2.0 percent after-tax is equivalent to approximately 2.74

Table 4-1: Equity Injections and Flotation Cost Calculation

FortisBC Energy Inc.	2023	2024	Total
Equity Injections	$ 400,000,000	$ 275,000,000	**$ 675,000,000**
Benchmark Flotation Cost Requested (before-tax)	2.74%	2.74%	**2.74%**
Total Amount for Recovery in Customer Rates (before-tax)	$ 10,958,904	$ 7,534,247	**$ 18,493,151**
FortisBC Inc.	**2023**	**2024**	**Total**
Equity Injections	$ 40,000,000	$ 30,000,000	**$ 70,000,000**
Benchmark Flotation Cost Requested (before-tax)	2.74%	2.74%	**2.74%**
Total Amount for Recovery in Customer Rates (before-tax)	$ 1,095,890	$ 821,918	**$ 1,917,808**

2.1 Please confirm or otherwise explain that underwriter costs, legal expenses and prospectus preparation costs would be tax deductible.

<u>Response:</u>

Confirmed. Underwriter costs, legal expenses and prospectus preparation costs in respect of stock or debt issuances sold to the public are deductible for tax purposes. FortisBC notes, however, that in this Application, FEI and FBC are requesting approval to recover the equity issuance costs computed based on Fortis Inc.'s DRIP costs, which are not deductible for tax purposes.

3. Reference: Exhibit B-1, page 7

> are reinvested under the DRIP program. Under the terms of the Fortis Inc. DRIP program,[18] Fortis Inc. can elect to issue the equity to shareholders at up to a 5.0 percent discount to incentivize participation in the program. Since 2009, when the Fortis Inc. Amended and Restated DRIP Dividend Reinvestment Plan (Appendix B) became effective, the discount has been set at 2.0 percent.[19] This discount along with all other equity issuance costs is netted against the equity funds raised on the balance sheet and leads to a permanent reduction in a utility's shareholder's equity. The discount is not deductible for tax purposes.

3.1 Please confirm that Fortis Inc. has deciding control over the discount offered, and that neither FEI nor FBC have influence over this cost.

Response:

Confirmed. Neither FEI nor FBC have influence over the discount offered. The Board of Directors of Fortis Inc. (FEI's and FBC's ultimate parent company) have deciding control over the appropriate DRIP discount which is set based on market conditions and the company's equity financing needs.

As described in Appendix B to the Application ("Company" is defined as Fortis Inc.):[2]

> The Board of Directors of the Company may from time to time approve a discount (the "Discount") of up to 5% on the Average Market Price of Common Shares issued pursuant to a Treasury Purchase under Section 5.5(b). The Board of Directors may alter or eliminate the Discount at any time in its sole discretion. If the Discount is altered or eliminated by the Board of Directors of the Company, the Company shall publish a press release notifying Participants of such change. The Discount, if any, will not apply to purchases made pursuant to Optional Cash Payments.

FEI's and FBC's customers are each benefitting from being part of Fortis Inc. because if FEI and FBC were public companies on a standalone basis, they would likely not be able to solely fund the equity portion of their capital structures via a similar DRIP. FEI and FBC would have to either increase the discount or utilize other potentially more costly methods of raising equity.

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2 Appendix B, Fortis Inc. DRIP Agreements, First Amendment to the Second Amended and Restated Dividend Reinvestment and Share Purchase Plan, Effective February 14, 2020, page 36.