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March 6, 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)

**Application for the Regional Gas Supply Diversity (RGSD) Development
Account Cost Recovery (Application)**

**Response to the British Columbia Utilities Commission (BCUC) Information
Request (IR) No. 1**

On December 20, 2024, FEI filed the Application referenced above. In accordance with the regulatory timetable established in BCUC Order G-4-25 for the review of the Application, FEI respectfully submits the attached response to BCUC IR No. 1.

FEI has filed the response to BCUC IR1 1.2 and Attachments 2.1 and 2.2 on a confidential basis as identified in those responses and has provided redacted versions for the public record of this proceeding. With regard to the response to BCUC IR1 1.2, for the reasons described in that response, FEI requests that the response only be accessible to the BCUC.

For convenience and efficiency, if FEI has provided an internet address for referenced reports instead of attaching the documents to its IR responses, FEI 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,

FORTISBC ENERGY INC.

Original signed:

Sarah Walsh

Attachments

cc (email only): Registered Interveners

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4

5 **A. PROJECT DEVELOPMENT**

6 **1.0 Reference: CONCLUSION ON THE RGSD PROJECT DEVELOPMENT WORK**

7 **Exhibit B-1, Section 4.3, p. 22**

8 **Development Work Conclusion**

9 On page 22 of FortisBC Energy Inc's (FEI) application to the British Columbia Utilities
10 Commission (BCUC) for Regional Gas Supply Diversity (RGSD) Development Account
11 Cost Recovery (Application), FEI states:

12 The development work completed on the RGSD Project [Project], including the
13 screening assessment (as described above), has been valuable to mitigate risks
14 for FEI's customers and support options for a regional infrastructure solution with
15 other market participants. [...]

16 There is the potential for FEI to explore a regional infrastructure solution with other
17 market participants, and FEI expects that the development work undertaken for
18 the RGSD Project (as described above) will be useful for informing future
19 discussions. This new option, which would be a new project, would require co-
20 commitments and support from other market participants. Thus, FEI will need to
21 undertake commercial discussions to explore ways to best integrate FEI's existing
22 pipeline infrastructure.

23 1.1 Please identify the risks for FEI's customers referred to in the preamble and explain
24 how each has been mitigated through completion of development work on the
25 RGSD Project, including the financial value ascribed.

26

27 **Response:**

28 For clarity, the work performed did not *itself* mitigate risks for FEI's customers (i.e., those risks
29 still exist), but rather allowed FEI to understand those risks and to explore options for mitigating
30 them. The work performed kept a potential mitigation option open that would otherwise no longer
31 exist.

32 FEI described the risks to its customers in Section 3 of the Application. In particular, at the time
33 that FEI sought approval from the BCUC to establish the RGSD Development Account, FEI
34 anticipated that, in light of growing regional demand, its customers would end up underwriting a
35 costly T-South expansion by virtue of rolled-in tolls that provided little benefit for FEI's customers.

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1 Thus, FEI considered it important to explore an alternative to Enbridge's Sunrise Project using
2 the Southern Crossing Pipeline (SCP) (i.e., the RGSD Project).

3 As described in Section 3.1.4 of the Application, because Enbridge's T-South pipeline has a
4 rolled-in tolling structure and FEI is the largest shipper on T-South, FEI will bear the bulk of
5 financial burden and risk (through higher tolls on its entire holdings on T-South) on any capital
6 costs for expansions or improvements to the pipeline. The cost that FEI incurs for tolls on T-South
7 and other regional infrastructure gets passed through directly to FEI's customers. At the original
8 estimate of \$2.5 billion for Enbridge's Sunrise Project, FEI expected its customers' costs would
9 increase by 45 percent or approximately \$65 million per year in comparison to the T-South
10 system's 2022 interim tolls. FEI expected this preliminary cost estimate to increase, and in
11 November 2022, Enbridge announced a subsequent increase in the cost estimate to \$3.6 billion.
12 With this increase, FEI's customers' costs could potentially increase by approximately 65 percent
13 or \$94 million per year. Given the impact to FEI's customers, it was reasonable for FEI to
14 investigate the potential for an alternative regional pipeline solution that might avoid some of those
15 costs and/or provide other readily apparent benefits (e.g., diversity of supply, resiliency) that
16 expanding the capacity of T-South could not provide.

17 As described in Section 3.2 of the Application, FEI reasonably ceased further investigation of its
18 own regional pipeline solution because the development work indicated that the RGSD Project's
19 timeline would extend beyond short-term market needs and that it would be more beneficial for
20 FEI's customers to collaborate with other regional market participants on an integrated solution.
21 FEI made the prudent decision to cease the RGSD Project development work, thus minimizing
22 the overall development costs incurred on the RGSD Project.

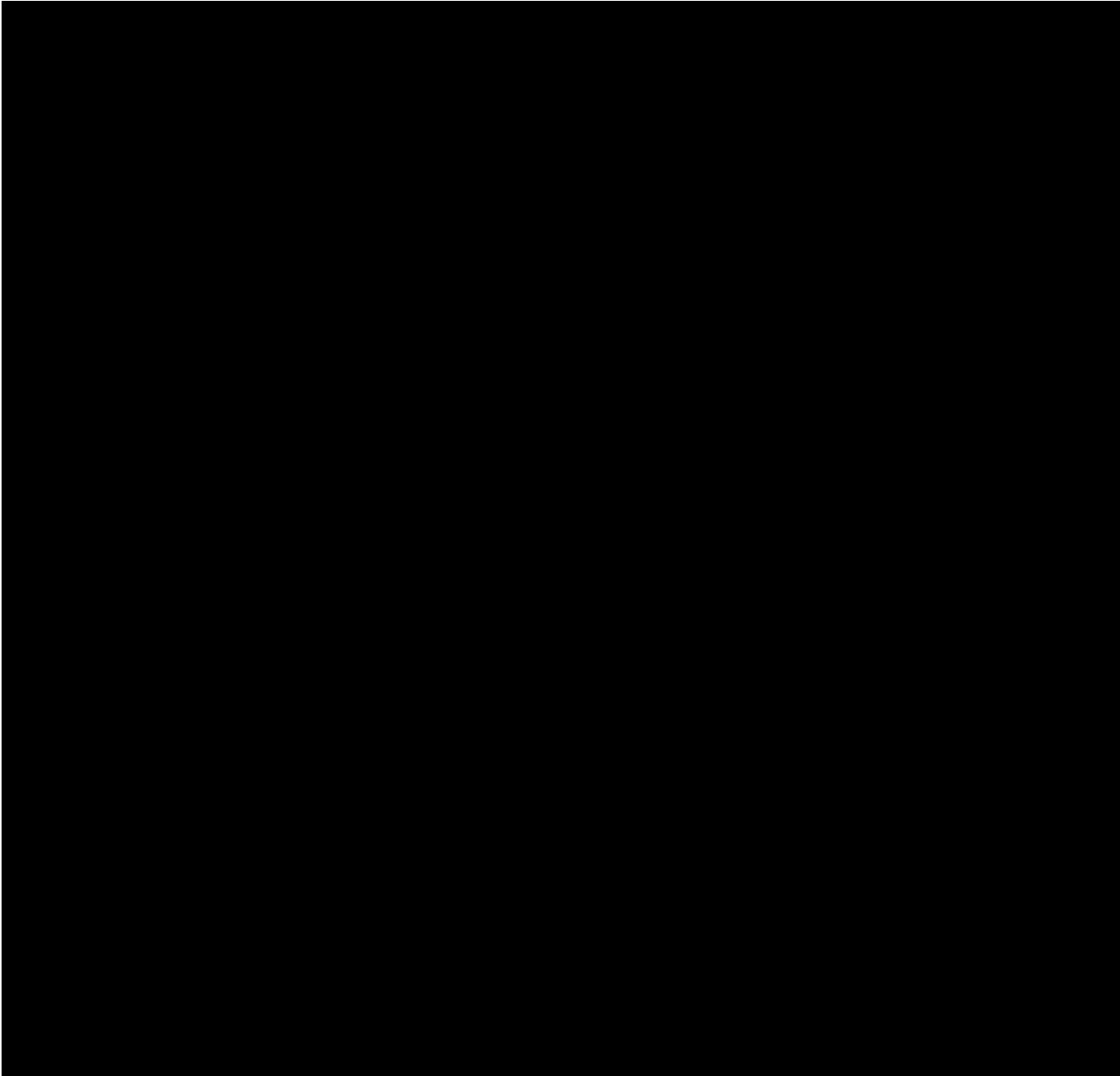
23 While FEI cannot ascribe a specific financial value to the development work and the conclusions
24 that the work yielded, FEI considers that the relatively small amount of costs incurred (\$4.91
25 million including AFUDC) in comparison to the anticipated cost increases that will be experienced
26 by FEI's customers due to the Enbridge Sunrise Project were reasonable. FEI notes that,
27 regardless of any ongoing value, the work had to be undertaken to understand the risks facing
28 customers and options available to mitigate those risks. The work (and the costs incurred) was
29 predominantly related to early engagement with Indigenous groups. This type of early
30 engagement is widely considered to be best practice and essential whenever a company like FEI
31 begins to contemplate a potential capital project. FEI could not have explored the viability of a
32 potentially beneficial project for customers without it.

33
34
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36 1.2 Please describe FEI's plans for future discussions with other market participants,
37 including the anticipated timeline for any discussions to take place and explain how
38 the development work completed will inform these discussions.
39

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1 **Response:**

2 For this response, FEI has redacted certain information for which FEI is requesting be filed on a
3 confidential basis and be held confidential by the BCUC in perpetuity, pursuant to Section 18 of
4 the BCUC's Rules of Practice and Procedure regarding confidential documents as set out in Order
5 G-296-24. The information is commercially sensitive. FEI requests that the information only be
6 accessible to the BCUC.



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11 1.3 Please confirm, or explain otherwise, should future discussions with market
12 participants lead to a capital project, that FEI will not seek to capitalize any costs
13 incurred for the scope of the RGSD development work completed to date.

14

15 **Response:**

16 Confirmed. Any future discussions with market participants leading to a new capital project would
17 not constitute a continuation of the RGSD Project.

18

19

20

21 1.4 Please explain how a “new option” informed by future discussions with market
22 participants would warrant classification as a new project and not a continuation of
23 the RGSD Project. In the response, please highlight any differences between the
24 two projects.

25

26 **Response:**

27 Please refer to the response to BCUC IR1 1.2 which provides a description of the new option
28 referenced in the question. That information demonstrates the extent to which the new option is
29 a fundamentally different project.

30

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2.0 Reference: INDIGENOUS ENGAGEMENT

Exhibit B-1, Section 4.1, p. 15, Section 4.3, p. 17

Results of Indigenous Engagement

On page 17 of the Application, FEI states:

FEI engaged with Indigenous communities nearest to the proposed pipeline corridor and provided capacity funding to facilitate engagement. FEI engaged with 30 Indigenous communities directly and six Tribal Councils. FEI held over 55 meetings with First Nations representatives, participated in a community open house, conducted two helicopter route tours, and exchanged numerous emails and phone calls to review the Project with Indigenous communities.

Of the 30 communities engaged, six signed capacity funding agreements. These agreements supported Indigenous communities in their engagement with FEI on the Project, including providing input on potential pipeline routes and compressor station locations, identifying environmental and cultural studies, engaging with community leaders and members, and exploring economic opportunities.

2.1 Please provide a log of Indigenous engagement activities and explain how FEI determined which Indigenous Nations to engage with. In the response, please explain whether the Indigenous engagement approach taken for the Project is similar to that taken for other FEI projects of a similar scope and stage of development.

Response:

FEI views early engagement with Indigenous communities to be key to project success. The purpose of early engagement is to allow for an opportunity to share information on the project concept, understand Indigenous interests and impacts, discuss potential mitigations, and build relationships and trust. Effective early engagement occurs well-before the project application, which improves the overall effectiveness of engagement, as it occurs at an early stage where flexibility is highest and changes or adjustments can more easily be made. Early engagement is not only part of FEI's approach but is also a core part of the BC Energy Regulator¹ and BC Environmental Assessment Office² approval processes and policies.

The RGSD Project utilized a similar early engagement approach that has been taken for other FEI projects of a similar scope and stage of development. FEI determined which Indigenous communities to pre-engage with by generating a Consultative Area Database (CAD) report, reviewing publicly available information, and utilizing internal Company knowledge from established relationships.

¹ <https://www.bc-er.ca/files/first-nations/Other/Guidance-for-Pre-engaging-Indigenous-First-Nations.pdf>

² https://www2.gov.bc.ca/assets/gov/environment/natural-resource-stewardship/environmental-assessments/guidance-documents/2018-act/early_engagement_policy_version_1.pdf

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1 Please refer to Confidential Attachment 2.1 for a log of Indigenous engagement activities. FEI is
2 requesting that Attachment 2.1 be filed on a confidential basis and be held confidential by the
3 BCUC in perpetuity, pursuant to Section 18 of the BCUC's Rules of Practice and Procedure
4 regarding confidential documents as set out in Order G-296-24 as the information may prejudice
5 future negotiations with Indigenous communities. Given the preliminary nature of the engagement
6 activities, FEI did not obtain permission from the Indigenous communities to publicly disclose this
7 information.

8
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11 2.2 Please discuss the outcome of the Indigenous Nations engagement activities
12 including: (i) which Nations were supportive of the project and their reasons for
13 support; (ii) which Nations were opposed to the Project and their reasons for
14 opposition; and (iii) whether any alternative Project ideas or pipeline routes were
15 proposed.

16
17 **Response:**

18 FEI conducted early engagement with Indigenous communities as RGSD Project development
19 was in the early preliminary stages. Through these activities, FEI introduced the Project at a high
20 level to gain feedback and input into early Project concepts, including Indigenous ownership
21 concepts. FEI did not request expressions of support at that time, but did ask whether, based on
22 the initial discussions, there was any opposition or immediate concerns FEI should be made
23 aware of. The communities who responded to FEI were interested in learning more about the
24 Project and continuing discussions, and none indicated that they opposed the Project concept.
25 Early engagement was focused on a route from Oliver to Huntingdon, and the Oliver to Kingsvale
26 route was introduced to some of the most impacted communities already being engaged.

27 Please refer to Confidential Attachment 2.2 for a summary of the engagement activities with the
28 Indigenous communities. FEI is requesting that Attachment 2.2 be filed on a confidential basis
29 and be held confidential by the BCUC in perpetuity, pursuant to Section 18 of the BCUC's Rules
30 of Practice and Procedure regarding confidential documents as set out in Order G-296-24, as the
31 information may prejudice future negotiations with Indigenous communities. Given the preliminary
32 nature of the engagement activities, FEI did not obtain permission from the Indigenous
33 communities to publicly disclose the considerations raised.

34
35
36
37 On page 15 of the Application, in Table 4-2, FEI provides a breakdown of the Project
38 development costs by component. FEI indicates that the Actual Project Development
39 Costs Incurred for Indigenous and Community Engagement was \$1.89 million.

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1 2.3 Please provide a breakdown of the Project activities that account for the \$1.89
2 million incurred for Indigenous & Community Engagement and explain why they
3 were necessary for RGSD Project development.
4

5 **Response:**

6 Please refer to the following breakdown of the Indigenous and Community Engagement activities
7 totaling \$1.890 million. Please also refer to the response to BCUC IR1 2.2 for a more general
8 discussion about how early engagement with Indigenous communities is critical for the success
9 of any project, and how FEI's approach in this case aligned with its standard approach.

Project Activity	Amount (\$000s)	Reason for Expenditure
Labour	1,387	To support Project engagement planning and activities, respond to community requests and advance discussions regarding the Project by meeting with communities in person throughout the province (inclusive of travel).
Consulting Fees	183	Engagement of external expertise to develop an engagement strategy and communication plan in support of early Project engagement.
Community Investment	173	To support local Indigenous community initiatives that contribute to relationship building and trust.
Capacity Funding Agreements	91	To support the capacity of Indigenous communities to participate and provide feedback regarding the Project concept and route options.
Administrative Expenditures	54	Administrative costs of FEI personnel associated with Indigenous engagement to define the Project route options in the development phase.
Total	1,890	

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3.0 Reference: FEI TOOK A MEASURED APPROACH TO DEVELOPMENT WORK

Exhibit B-1, Section 4.1, pp. 14-15, Appendix A, p. 51

Screening Assessment

On page 14 of the Application, FEI states:

In total, FEI incurred \$4.28 million (\$3.75 million net of income tax recovery and including AFUDC) on RGSD development activities. This compares to the \$52.4 million that FEI forecast at the time of the RGSD Account Application for work up to Q3 of 2024 to complete the Pre-FEED [Pre-Front End Engineering Design] work. As FEI explains below, before advancing the full scope of the Pre-FEED work as contemplated in the RGSD Account Application, FEI instead completed a detailed screening assessment on all three delivery options for the RGSD Project.

On page 51 of Appendix A to the Application, in a description of the anticipated development work from the RGSD Project Development Account Application, FEI states:

Project development work has been divided into Phase 1A and Phase 1B, each anticipated to be one year in duration. Phase 1A development work will focus on the Indigenous Nations engagement and collaboration on the pipeline route and compressor stations siting. Such work will be supported by Pre-Front Engineering End Design activities.

[...]

As well as progressing the Project development including entering the BC EA process, Phase 1B will focus on continuing development of the Indigenous Nations partnership approach leading to readiness to file an Indigenous-Fortis Partnership application with the BCUC. A Pre-FEED with Indigenous Nation input will also be completed that will be used as the basis for a Class 4 cost estimate.

3.1 Please explain when FEI decided that a screening assessment on all three delivery options for the RGSD Project would be necessary prior to completing the Pre-FEED work contemplated in the RGSD Account Application and discuss the factors that led to the decision. In the response, please contrast the approach taken with the planned approach described in the RGSD Project Development Account Application.

Response:

FEI determined in Q2 of 2023 that a screening assessment on all three delivery options for the RGSD Project would be necessary prior to completing the Pre-FEED work contemplated in the RGSD Account Application. The timing of this decision was primarily driven by the information gathered as part of FEI's early engagement with Indigenous groups.

Early discussions with Indigenous groups revealed that constructing a greenfield pipeline on a new route to the Lower Mainland (i.e., Option 1 – Oliver to Huntingdon and Option 2 – Oliver to

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Hope) involved significant risks, especially in identifying a viable route that would gain their support in the Lower Mainland portion of the Project. This led FEI to focus on further exploring the Option 3 route from Oliver to Kingsvale. In particular, FEI concluded that undertaking a detailed screening analysis on the three delivery options of the RGSD Project would be necessary prior to advancing Pre-FEED work to: (1) enable meaningful and comprehensive engagement and collaboration with Indigenous groups and stakeholders prior to beginning regulatory approval processes; and (2) provide an opportunity to increase support for the Project concept and design from Indigenous groups and stakeholders.

Further, FEI's project phase gate processes required that the RGSD Project go through a detailed screening analysis to evaluate all RGSD Project sub-variants (i.e., evaluating other delivery points, such as tie-ins to T-South at Kingsvale or Hope as described in Section 4.1.2 of the RGSD Account Application) prior to further advancing the Pre-FEED work. Undertaking the screening assessment was a measured response to the feedback received during the early engagement phase and prudently limited spending prior to any further development work being undertaken.

3.2 Please explain when FEI became aware that Project development activities would not proceed as originally scheduled and budgeted. Please discuss the rationale for modifying the approach.

Response:

FEI became aware in Q2 of 2023 that the Project development activities would not proceed as originally scheduled and budgeted. Please refer to the response to BCUC IR1 3.1 which discusses FEI's rationale for modifying the approach outlined in the RGSD Account Application.

On page 15 of the Application, in Table 4-2, FEI provides a breakdown of RGSD Project development costs by component. FEI indicates that the Actual Project Development Costs Incurred for Pre-Phase 1 and Phase 1 Pipeline Assessment is \$1.04 million.

On page 51 of Appendix A to the Application, in Table 6-2, FEI provides the estimated project development costs by line item and phase. FEI indicates that Pipeline Pre-FEED was anticipated to be \$7.0 million for Pre-Phase 1 and Phase 1.

3.3 Please provide a breakdown of the Project activities that account for the \$1.04 million incurred for Pre-Phase 1 and Phase 1 Pipeline Assessment and explain why they were necessary for RGSD Project development.

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1 **Response:**

2 The table below provides a breakdown of the \$1.04 million incurred for the Pre-Phase 1 and
3 Phase 1 Pipeline Assessment shown in Table 4-2 of the Application. All of the activities listed
4 spanned both the Pre-Phase 1 and Phase 1 periods and are indicative of the costs that were
5 allocated to the pipeline assessment portion of the RGSD Project.

Activity	Total Cost (\$ million)
Project Management, Controls & Admin	0.548
Procurement and Engineering Design	0.138
Commercial Assessment & Permitting	0.200
Project Assurance	0.028
Project Gate Review	0.122
Total	1.036

6

7 The difference between the costs shown in Table 4-2 on page 15 of the Application and the costs
8 shown in Table 6-2 on page 51 of Appendix A to the Application reflects FEI's shift to complete a
9 screening assessment starting in Q2 of 2023 prior to completing the Pre-FEED work
10 contemplated in the RGSD Account Application. For additional information, please refer to the
11 response to BCUC IR1 3.1.

12 These costs supported the work to assess the pipeline component of the Project, including
13 pipeline routing and alternatives, pipeline sizing, compression requirements, etc. The costs were
14 a necessary component of development activities as they informed FEI's overall assessment of
15 the RGSD Project's technical feasibility and cost.

16

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B. COST RECOVERY

4.0 Reference: PROPOSED RECOVERY OF RGSD DEVELOPMENT ACCOUNT COSTS

Exhibit B-1, Section 5.1, p. 23, Table 5-1; BCUC Order G-253-22

Breakdown of RGSD Development Account Deferral Costs

On page 23 of the Application, in Table 5-1, FEI provides the breakdown of deferral costs in the existing non-rate base RGSD Development Account, including the total Project spend, allowance for funds using during construction (AFUDC) (forecast to December 31, 2025), and income tax recovery.

4.1 Please explain why the breakdown of deferral costs in the existing non-rate base RGSD Development Account includes AFUDC and provide the calculation of the AFUDC (forecast to December 31, 2025), specifying the applicable rate(s) of AFUDC and how the rate(s) is determined.

Response:

FEI clarifies that the AFUDC amount, as shown in Table 5-1 of the Application, is the same as FEI's after-tax weighted average cost of capital (WACC), and FEI confirms that the applicable AFUDC rates (which are the same as FEI's after-tax WACC as mentioned above) from 2021 to 2025 were only applied once for the amount presented in Table 5-1 (i.e., AFUDC is not applied in addition to FEI's WACC return). FEI acknowledges the confusion created by its use of the term AFUDC in the Application as opposed to WACC; however, as the use of the word AFUDC does not have any impact on the amounts or calculations in the Application, FEI does not consider it necessary to seek a variance to Order G-253-22.

The WACC return (or AFUDC) is calculated on a monthly basis using the approved rates and capital structure for FEI each year from 2021 to 2025.³ Please refer to Table 1 below for the calculation of the WACC return, forecast to December 31, 2025. FEI notes that while responding to this information request it discovered an excel error. The result of the error is that the total forecast WACC return should be approximately \$630 thousand instead of approximately \$623 thousand as presented in Table 5-1 of the Application. A revised Table 5-1 is provided below with the corrected WACC return amount shown. As a result of correcting this error, there is also a small change to the incremental delivery margin in 2026 that was presented in Table 5-2 of the Application; however, there is no change to the delivery rate impact when rounded to two decimal places. A revised Table 5-2 is also provided below.

³ Due to the timing of the Application, FEI used its 2024 approved rates for 2025.

Table 1: Calculation of WACC Return (or AFUDC) Each Year for 2021 to 2024 Actual and 2025 Forecast for the RGSD Development Account

Year	Month	Opening (a)	Additions (b)	Less Tax (c) = -(b) x 27%	WACC (d) = [(a) + ((b)+(c))/2] x (f) x Days/365	Ending (e) = (a) + (b) + (c) + (d)	Approved WACC Rate (f)	TOTAL WACC (Annual)
2021	9	-	29,965	(8,090)	49	21,923	5.47%	
2021	10	21,923	34,597	(9,341)	161	47,340	5.47%	
2021	11	47,340	32,172	(8,686)	266	71,091	5.47%	
2021	12	\$ 71,091	\$ 382,088	\$ (103,164)	\$ 978	\$ 350,994	5.47%	\$ 1,453
2022	1	350,994	101,533	(27,414)	1,786	426,899	5.42%	
2022	2	426,899	58,780	(15,871)	1,864	471,673	5.42%	
2022	3	471,673	164,532	(44,424)	2,448	594,230	5.42%	
2022	4	594,230	119,029	(32,138)	2,841	683,962	5.42%	
2022	5	683,962	125,437	(33,868)	3,359	778,890	5.42%	
2022	6	778,890	65,222	(17,610)	3,576	830,078	5.42%	
2022	7	830,078	98,251	(26,528)	3,986	905,787	5.42%	
2022	8	905,787	114,737	(30,979)	4,362	993,907	5.42%	
2022	9	993,907	72,293	(19,519)	4,545	1,051,226	5.42%	
2022	10	1,051,226	121,307	(32,753)	5,043	1,144,823	5.42%	
2022	11	1,144,823	174,543	(47,127)	5,384	1,277,623	5.42%	
2022	12	\$ 1,277,623	\$ 203,120	\$ (54,842)	\$ 6,223	\$ 1,432,123	5.42%	\$ 45,417
2023	1	1,432,123	287,038	(77,500)	8,132	1,649,793	6.23%	
2023	2	1,649,793	171,543	(46,317)	8,184	1,783,203	6.23%	
2023	3	1,783,203	202,574	(54,695)	9,827	1,940,909	6.23%	
2023	4	1,940,909	221,777	(59,880)	10,353	2,113,160	6.23%	
2023	5	2,113,160	(54,541)	14,726	11,076	2,084,420	6.23%	
2023	6	2,084,420	200,943	(54,255)	11,049	2,242,158	6.23%	
2023	7	2,242,158	172,228	(46,501)	12,196	2,380,080	6.23%	
2023	8	2,380,080	295,742	(79,850)	13,165	2,609,136	6.23%	
2023	9	2,609,136	253,776	(68,520)	13,835	2,808,228	6.23%	
2023	10	2,808,228	117,563	(31,742)	15,086	2,909,134	6.23%	
2023	11	2,909,134	204,059	(55,096)	15,278	3,073,375	6.23%	
2023	12	\$ 3,073,375	\$ 91,029	\$ (24,578)	\$ 16,438	\$ 3,156,264	6.23%	\$ 144,618
2024	1	3,156,264	102,814	(27,760)	16,926	3,248,245	6.24%	
2024	2	3,248,245	79,106	(21,359)	15,687	3,321,679	6.24%	
2024	3	3,321,679	43,900	(11,853)	17,689	3,371,415	6.24%	
2024	4	3,371,415	(6,791)	1,833	17,278	3,383,736	6.24%	
2024	5	3,383,736	670	(181)	17,934	3,402,159	6.24%	
2024	6	3,402,159	-	-	17,449	3,419,608	6.24%	
2024	7	3,419,608	-	-	18,123	3,437,731	6.24%	
2024	8	3,437,731	-	-	18,219	3,455,950	6.24%	
2024	9	3,455,950	-	-	17,725	3,473,675	6.24%	
2024	10	3,473,675	-	-	18,410	3,492,084	6.24%	
2024	11	3,492,084	-	-	17,910	3,509,995	6.24%	
2024	12	\$ 3,509,995	\$ -	\$ -	\$ 18,602	\$ 3,528,597	6.24%	\$ 211,952
2025	1	3,528,597	-	-	18,701	3,547,297	6.24%	
2025	2	3,547,297	-	-	16,980	3,564,278	6.24%	
2025	3	3,564,278	-	-	18,890	3,583,167	6.24%	
2025	4	3,583,167	-	-	18,377	3,601,544	6.24%	
2025	5	3,601,544	-	-	19,087	3,620,632	6.24%	
2025	6	3,620,632	-	-	18,569	3,639,201	6.24%	
2025	7	3,639,201	-	-	19,287	3,658,488	6.24%	
2025	8	3,658,488	-	-	19,389	3,677,877	6.24%	
2025	9	3,677,877	-	-	18,863	3,696,740	6.24%	
2025	10	3,696,740	-	-	19,592	3,716,331	6.24%	
2025	11	3,716,331	-	-	19,060	3,735,392	6.24%	
2025	12	\$ 3,735,392	\$ -	\$ -	\$ 19,797	\$ 3,755,188	6.24%	\$ 226,592
TOTAL			\$ 4,281,036	\$ (1,155,880)	\$ 630,032			\$ 630,032

Revised Table 5-1: Summary of Deferral Costs (\$000s)

Line	Particular	Total
1	Actual Project Spend (pre-tax)	4,281
2	WACC Return (or AFUDC)	630
3	Subtotal (\$000s)	4,911
4	Income Tax Recovery	(1,156)
5	Total Deferral Costs (\$000s)	3,755

Revised Table 5-2: Delivery Rate Impact for One- to Five-Year Amortization Periods for Deferral Costs

	Amortization Period				
	1 Year	2 Years	3 Years	4 Years	5 Years
Incremental Delivery Margin in 2026 (\$ millions)	5.304	2.617	1.765	1.339	1.083
Delivery Rate Impact in 2026, compared to 2024 Approved (%)	0.46%	0.23%	0.15%	0.12%	0.09%

4.2 Please clarify whether the existing non-rate base RGSD Development Account also attracts FEI's weighted average cost of capital (WACC) in accordance with Order G-253-22 (Directive 1) (e.g. in addition to AFUDC).

4.2.1 If yes, please provide a revised Table 5-1, that is also inclusive of FEI's WACC carrying cost and provide the calculation of the amount for each year of the RGSD Development Account (i.e. 2021 to 2024).

4.2.2 If no, please provide the rationale for why not, including FEI's views on whether a variance to Order G-253-22 is necessary. As part of the response, please confirm the difference, if any, between FEI's WACC return and AFUDC, and provide the balance of the non-rate base RGSD Development Account (forecast to December 31, 2025) with FEI's WACC return only.

Response:

Please refer to the response to BCUC IR1 4.1.

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5.0 Reference: PROPOSED RECOVERY OF RGSD DEVELOPMENT ACCOUNT COSTS

Exhibit B-1, Section 5.2, pp. 23–24

Proposed Amortization Period for the RGSD Development Account

5.1 Please clarify why it is necessary (e.g. benefits or avoided drawbacks) for FEI to transfer the balance in the existing non-rate base RGSD Development Account to rate base, and provide the rationale for why FEI proposes to begin amortizing the rate base account from January 1, 2026 as opposed to January 1, 2025, given that the deferral account is no longer active since either March 2024 or mid-2024.

Response:

FEI's request to transfer the balance from the existing non-rate base RGSD Development Account to rate base is consistent with the treatment of previous deferral accounts approved by the BCUC.⁴ The reason why the transfer is necessary is that, while the financing costs associated with a non-rate base deferral account attracting WACC versus a rate base deferral account attracting a rate base return are generally equal, the calculation and accounting of the return is fundamentally different.

The return on a rate base deferral account is ultimately embedded in the earned return portion of the current year revenue requirements instead of the deferral account balance; therefore, there is no adjustment required to the balance of the rate base deferral account itself for financing costs (i.e., the deferral account balance reflects the actual amount that is being amortized into customers' rates while the financing costs for carrying the deferral balance is reflected in the earned return of FEI's revenue requirement). With no adjustments (actual or forecast) required to the rate base deferral account, there is no potential for variances. In contrast, the WACC return on a non-rate base deferral account is calculated and recorded monthly using the actual deferral balance and the approved after-tax WACC rate. This amount is recorded directly in the deferral account itself, thereby resulting in a current year addition to the deferral account. This creates the potential for variances to exist between the actual and forecast balances of the non-rate base deferral account, which may occur if the forecast was not produced using the same level of precision as actuals are recorded. Any variance between the forecast and actual additions would leave a residual balance in the deferral account that needs to be recovered from/returned to customers in a future year, where that amount may then also be subject to future variances that may occur. As such, transferring the balance to rate base prior to the commencement of amortization will ensure the balances in the deferral account will be fully depleted in the forecast (depending on the amortization period) while having no adverse impact on customers.

FEI has proposed to commence amortization of the deferral account on January 1, 2026 instead of January 1, 2025 because interim delivery rates for 2025 have already been established by Order G-313-24, and these interim rates did not include the transfer of the RGSD Development

⁴ E.g., As part of the FEI Annual Review for 2022 Delivery Rates Decision and Order G-366-21, FEI was approved to transfer the non-rate base 2017 & 2018 Revenue Surplus deferral account to rate base.

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Account to rate base and amortization of the deferral account. While FEI could make an adjustment to the 2025 revenue requirement to incorporate the rate impact of commencing amortization of the RGSD Development Account when FEI files for permanent 2025 delivery rates, FEI considers it simpler to instead incorporate the forecast amortization of the RGSD Development Account as part of the 2026 revenue requirement and delivery rates.

However, as explained in the FortisBC 2025-2027 Rate Setting Framework proceeding, if approved, FEI proposes to file its Annual Review for permanent 2025 and 2026 delivery rates in late July of 2025. Based on the regulatory timetable established in the RGSD Development Account Cost Recovery proceeding, FEI anticipates a decision on this Application prior to filing the Annual Review for permanent 2025 and 2026 delivery rates. As such, and assuming that the Annual Review process occurs as FEI has proposed, FEI could incorporate the RGSD Development Account into permanent 2025 delivery rates (i.e., commence amortization of the deferral account effective January 1, 2025). While FEI would be amenable to this approach if directed by the BCUC, FEI considers the proposed approach of commencing amortization effective January 1, 2026 to be simpler and less subject to variables such as when FEI may be required to file for permanent 2025 delivery rates.

5.2 Please confirm, or explain otherwise, that the proposed rate base RGSD Development Account will implicitly attract a WACC return and explain why that return is reasonable and appropriate.

Response:

FEI confirms that if transferred to rate base, the RGSD Development Account will attract a WACC return; however, this return will be the same as the return that the RGSD Development Account is already approved to earn. The existing non-rate base RGSD Development Account already attracts a WACC return, as approved by Order G-253-22 (Directive 1). Please also refer to the response to BCUC IR1 4.1 for further discussion.

Therefore, the proposed transfer to rate base effective January 1, 2026 does not change the return already approved to be earned on the RGSD Development Account. The proposed transfer is required for the accounting reasons described in the response to BCUC IR1 5.1.

On page 23 of the Application, in Table 5-2, FEI provides the expected delivery rate impact for one- to five-year amortization periods of the proposed rate base RGSD Development Account. On page 24 of the Application, FEI states: "The delivery rate impact is equivalent to approximately \$0.009 per GJ when compared to FEI's 2024 approved delivery rates,

1 and for an average FEI residential customer consuming 90 GJ per year, this would equate
2 to a total annual bill impact of approximately \$0.79 in 2026.”

3 On page 23 of the Application, FEI states that the balance in the existing non-rate base
4 RGSD Development Account does not include the regulatory and proceeding costs
5 associated with this Application. However, FEI proposes to also include these costs in the
6 deferral account as actual additions to the account once they are incurred (i.e. once the
7 regulatory process has concluded).

8 5.3 Please provide FEI’s best estimate of the forecast regulatory and proceeding costs
9 associated with this Application. Please confirm, or explain otherwise, that the
10 calculated amounts in Table 5-2 and as stated on page 24 of the Application and
11 noted in the preamble above, do not include any forecast regulatory and
12 proceeding costs associated with this Application.

13
14 **Response:**

15 FEI forecasts the regulatory proceeding costs associated with this Application to be approximately
16 \$45 thousand based on the current regulatory timetable. This amount includes estimates of BCUC
17 direct costs, intervener participant cost awards (PCA) and external legal costs.

18 Further, FEI confirms that the amounts in Table 5-2 of the Application do not include any forecast
19 of regulatory proceeding costs. Please refer to the response to BCUC IR1 5.6 for an updated
20 version of Table 5-2 which includes the forecast regulatory proceeding costs of \$45 thousand.

21
22
23
24 5.4 As presented, please clarify whether the delivery rate impact of approximately
25 \$0.009 per GJ when compared to FEI’s 2024 approved delivery rates is 0.15
26 percent in percentage terms for the average FEI residential customer in 2026. If
27 not, please explain why not and provide the correct delivery rate impact in
28 percentage terms.

29
30 **Response:**

31 FEI clarifies that the 0.15 percent is the estimated percentage increase to FEI’s delivery rates in
32 2026 when compared to the 2024 approved delivery rates for a three-year amortization period
33 starting on January 1, 2026. The equivalent increase to the delivery rates for all of FEI’s non-
34 bypass customers, which includes residential customers, is approximately \$0.009 per GJ.

35 Thus, the 0.15 percent is not the percentage increase of the total bill of an average residential
36 customer. The annual bill impact of approximately \$0.79 in 2026 for the average residential
37 customer is calculated by multiplying the effective increase of \$0.009 per GJ to the average
38 residential consumption of 90 GJ per year. Please refer to Table 1 below for the detailed

calculation which shows that the calculation only considers the incremental delivery margin due to the RGSD Development Account.

FEI did not include assumptions on gas costs, future delivery rates, and rate riders (to estimate the total bill of an average residential customer) as part of the bill impact calculations. The purpose of the rate or bill impact analysis is to demonstrate the incremental impact due to the amortization of the RGSD Development Account to help assess the appropriate amortization period for the RGSD Development Account. Future gas costs, delivery rates and rate riders are not related to the RGSD Development Account and FEI is not seeking approval of these costs in this Application. Further, as FEI has not prepared its revenue requirement application for 2026 (e.g., the Annual Review for 2026 Delivery Rates), nor does it have information on 2026 gas costs, the assumptions would be highly speculative at this time.

There are instances where it can be beneficial to consider amortization periods for deferral accounts in the context of revenue requirement applications, as some deferral account balances are significant and thus the amortization period would best be considered in the context of the entire forecast rate impact. However, in the case of the RGSD Development Account, where the balance is relatively small, it makes more sense to consider amortization periods for the account in isolation (i.e., assess the incremental rate and bill impact of various amortization periods for the RGSD Development Account in isolation). FEI included information on the delivery rate impacts of amortizing the deferral account over a range of years (i.e., one to five years). All of the scenarios result in rate impacts less than 0.5 percent, and FEI's proposed three-year amortization period limits the rate impact in 2026 to 0.15 percent.

Table 1: Calculations for Delivery Rate Impact and Average Residential Bill Impact (in 2026 Compared to 2024 Approved Delivery Rates)

Line	Particular	Total	Reference
1	Incremental Delivery Margin in 2026 (\$000s)	1,765	BCUC IR1 4.1; Revised Table 5-2 (3 Years)
2	Total Non-Bypass Margin at 2024 Approved (\$000s)	1,141,329	G-334-23; Sch 19, Line 17, Col 5
3	Delivery Rate Impact in 2026, compared to 2024 Approved (%)	0.15%	Line 1 / Line 2
4			
5	Total Non-Bypass Volume at 2024 Approved (TJ)	201,034	G-334-23; Sch 19, Line 17, Col 10
6	Effective Rate at 2024 Approved (\$/GJ)	5.677	Line 2 / Line 5
7	Delivery Rate Impact in 2026, compared to 2024 Approved (\$/GJ)	0.009	Line 3 x Line 6
8			
9	Average Annual Use of Residential Customer (GJ)	90.00	Application; p. 24
10	Average Annual Bill Impact of Residential Customer (\$)	0.79	Line 7 x Line 9

5.5 Please clarify what FEI's assumptions are with respect to the calculation of the total annual bill impact of approximately \$0.79 in 2026 for an average FEI residential customer. For example, other than the incremental RGSD Development Account amortization expense and average FEI residential customer consumption, what additional assumptions are included, if any, and why, concerning future

delivery rates, gas costs and/or delivery rate riders, as applicable, for 2026 to arrive at the estimated total annual bill impact?

Response:

Please refer to the response to BCUC IR1 5.4.

5.6 With consideration to FEI's response to BCUCs IRs 4.2 to 4.2.2 and 5.3, please provide revised total annual bill impact calculations in 2026 for an average FEI residential customer, as needed.

Response:

FEI provides a revised delivery rate impact and bill impact calculation in Table 1 below, which incorporates the responses to:

- **BCUC IR1 4.1 (which also addresses BCUC IR1 4.2, 4.2.1 and 4.2.2):** The additional WACC return of approximately \$7 thousand due to an excel error in the calculation of Table 5-1; and
- **BCUC IR1 5.3:** An estimated \$45 thousand for regulatory proceeding costs associated with this Application.

Consequently, the delivery rate impact for the three-year amortization period increases from 0.15 percent to 0.16 percent (the equivalent impact in \$ per GJ remains at approximately \$0.009 after rounding to three decimal places) in 2026 when compared to FEI's 2024 approved delivery rates. This results in an increase of \$0.01 to the total annual bill impact, from approximately \$0.79 to approximately \$0.80 in 2026 for an average FEI residential customer consuming 90 GJ per year.

Table 1: Revised Delivery Rate and Bill Impact Calculations Compared to Application

	Revised per BCUC IR1 5.6	Application (As-Filed)
Incremental Delivery Margin for 3-Year Amortization Period in 2026 (\$ millions)	1.781	1.762
Delivery Rate Impact in 2026, compared to 2024 Approved (%)	0.16%	0.15%
Delivery Rate Impact in 2026, compared to 2024 Approved (\$/GJ)	0.009	0.009
Average Annual Bill Impact for Residential Customer Consuming 90 GJ (\$)	0.80	0.79

Attachment 2.1

FILED CONFIDENTIALLY

Attachment 2.2

FILED CONFIDENTIALLY