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British Columbia Utilities Commission
Suite 410, 900 Howe Street
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Attention: Commission Secretary

Dear Sirs/Mesdames:

Re: FortisBC Energy Inc. (FEI) - Application for a Certificate of Public Convenience and Necessity and Approval of Amending Agreements to Expand the Compressed Natural Gas Fueling Station at Annacis Island in Delta, BC (Application)

FEI Final Argument and Reply to Letters of Comment

FEI writes to provide its Final Argument in accordance with the regulatory timetable established by the British Columbia Utilities Commission (BCUC) in Order G-52-25 in the above-referenced proceeding. FEI notes that there were no letters of comment filed in the proceeding.

In this Final Argument, we set out our approvals sought related to the expansion of the compressed natural gas (CNG) fueling station located at Annacis Island in Delta, BC (Annacis Island Fueling Station) (2025 Expansion or Project). We then summarize why the 2025 Expansion is in the public interest and the proposed rates are just and reasonable, while addressing the topics raised in the BCUC's information requests (IRs).

1. APPROVALS SOUGHT

In the Application, FEI is requesting a certificate of public convenience and necessity (CPCN), pursuant to sections 45 and 46 of the *Utilities Commission Act* (UCA) for the 2025 Expansion. The 2025 Expansion is needed to increase the capacity, reliability and quality of service for customers of the Annacis Island Fueling Station. The 2025 Expansion is supported by the seven anchor customers (Anchor Customers) of the Annacis Island Fueling Station. Each of these seven customers have agreed to amendments to their Fueling Service Agreements (FSAs) to increase their Capital Rate to reflect the cost of the Project.

FEI is, therefore, also seeking approval pursuant to sections 59 to 61 and 89 of the UCA of the rates established in the following amending agreements to the FSAs between FEI and the Anchor

Customers, which revise the Capital Rate to $4.703 per gigajoule (GJ) to facilitate the 2025 Expansion, on an interim and refundable/recoverable basis, effective July 1, 2025:

1. Amending Agreement No. 3 dated October 15, 2024, to the FSA between FEI and Ancor Transport Ltd.;
2. Amending Agreement No. 3 dated October 15, 2024, to the FSA between FEI and ColdStar Solutions Inc.;
3. Amending Agreement No. 3 dated October 15, 2024, to the FSA between FEI and Encorp Pacific Canada;
4. Amending Agreement No. 4 dated October 15, 2024, to the FSA between FEI and Martin-Brower of Canada Co.;
5. Amending Agreement No. 3 dated October 15, 2024, to the FSA between FEI and United Parcel Services Canada Ltd.;
6. Amending Agreement No. 3 dated October 15, 2024, to the FSA between FEI and Western Pacific Transport Ltd.; and
7. Amending Agreement No. 4 dated October 15, 2024, to the FSA between FEI and McRae's Environmental Services Ltd. (collectively referred to as the Amending Agreements).

As set out in section 3(e) of the Amending Agreements, FEI will file an application for approval of permanent rates with the BCUC once the final capital costs of the 2025 Expansion are known and accounted for. If the actual capital expenditures for the Project differ from the forecast capital expenditures, FEI will enter into additional amending agreements with the Anchor Customers if required. Any variance between interim and permanent rates will be refunded to or recovered from the Anchor Customers following the approval of permanent rates.

2. THE 2025 EXPANSION IS IN THE PUBLIC INTEREST

The 2025 Expansion is in the public interest as it is needed to increase the capacity, reliability and quality of service for customers of the Annacis Island Fueling Station.

The evidence of the need for the 2025 Expansion is clear. The Annacis Island Fueling Station has been operating at near full capacity performance levels during peak times consistently since 2022. FEI's service to customers at the station relies on a single compressor, which limits the capacity of the station to serve customers. Specifically, only one vehicle can fill at the station at a time, causing wait times during periods of peak demand, forcing salaried drivers to queue for long periods of time. Commercial customers with larger size trucks have expressed their disappointment with the long queuing time and expect FEI to improve the fueling speed. In addition, with a single compressor, service at the station can be interrupted due to equipment failure or required maintenance to the compressor. Given the number of customers relying on the station, an outage of the single compressor would be a significant disruption of service to customers, as the closest alternative CNG stations are in Burnaby and Surrey.[1]

The only feasible alternative to address the needs of customers at the Annacis Island Fueling Station is to add a second compressor. Adding the second compressor will improve the station's capacity, reliability and service quality by:

- allowing for fueling of more than one vehicle concurrently;
- expediting fill-times resulting from the dynamics of two compressors running simultaneously; and
- providing backup for the current single compressor, allowing the station to continue operations even when the primary unit undergoes maintenance or repairs or experiences an unexpected outage.[2]

The seven Anchor Customers have entered into Amending Agreements to increase their Capital Rate to enable the 2025 Expansion.[3] This is strong and compelling evidence that the 2025 Expansion is needed and that FEI has planned appropriately for the expansion of the station.

The implementation of the Project is relatively simple. Once a CPCN is granted, FEI anticipates it will take one to two months to receive, install and commission the new compressor. Once the new compressor arrives, it will be sited beside the existing compressor, on top of a pre-existing concrete pad that was completed during the initial station construction. As the Project is limited to adding a second compressor to the existing station, no changes are proposed to the location, site area, and design, and no permits will be required.

The Project is consistent with BC's energy objectives to reduce greenhouse gas (GHG) emissions and encourage the switching from one kind of energy source or use to another that decreases GHG emissions in BC, and consistent with FEI's most recently accepted long term gas resource plan (LTGRP), filed on May 9, 2022, which discussed the continued investment in low-carbon transportation infrastructure, which includes CNG stations such as the Annacis Island Fueling Station.[4]

The relevant topics raised in the BCUC IRs are addressed below.

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1 Exhibit B-1, Application, pp. 6-7.

2 Exhibit B-1, Application, p. 7.

3 Exhibit B-1, Application, p. 7.

4 Exhibit B-1, Application, pp. 19-20.

(a) The 2025 Expansion is Supported by a Class 3 Estimate

FEI estimates the total Project capital cost to be $475,528, including allowance for funds used during construction (AFUDC). This estimate has an expected accuracy range of -15 percent to +20 percent, which is consistent with an AACE Class 3 degree of accuracy.[5]

The bulk of the estimate was determined based on quotes for the compressor at $370,286. The quote was guaranteed by the equipment manufacturer through an initial deposit of 30 percent, paid on January 9, 2025, and was not time limited.[6] The remainder of the costs were estimated based on FEI's construction experience of the original station, a proposal from a consultant that has significant experience designing these types of facilities, and the project management costs of similar projects.[7]

(b) Station is Supported by a Long-Term Host Agreement

The Annacis Island Fueling Station is supported by a Host Agreement that extends to January 17, 2031.[8] FEI expects to exercise Renewal Term #3, which would extend the Host Agreement until January 17, 2032.[9]

To mitigate any risk that the Host Agreement is not renewed or extended, FEI will initiate early renewal negotiations before the Host Agreement expiry date. FEI will also develop contingency plans to ensure a smooth transition in the event of non-renewal which involves identifying alternative fueling stations to maintain service continuity. FEI will keep station customers informed about potential changes and available alternatives, minimizing the impact on their operations.[10]

(c) Risk of Unrecovered Capital Costs Is Negligible

The capital costs of the 2025 Expansion are likely to be recovered from customers of the Annacis Island Fueling Station:[11]

- It is very unlikely that all seven Anchor Customers will terminate their FSAs without renewal at the end of the Initial Term given that the Anchor Customers are a diverse group of seven customers representing a range of industries, demonstrating a broad demand for CNG fueling at the Annacis Island Fueling Station.

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5 Exhibit B-3, BCUC IR1 4.1.

6 Exhibit B-3, BCUC IR1 4.2.

7 Exhibit B-1, Application, p. 10.

8 Exhibit B-3, BCUC IR1 1.1.

9 Exhibit B-3, BCUC IR1 1.2.

10 Exhibit B-3, BCUC IR1 1.3.

11 Exhibit B-3, BCUC IR1 2.3.

- Several customers, such as McRae's and UPS, are planning to expand their fleets, signaling an anticipated higher demand for fuel consumption.

- The Annacis Island Fueling Station is a public station. The continued presence of third-party and public fueling customers will provide ongoing revenue to offset costs, regardless of the duration over which the Anchor Customers take service.

- The location of the Annacis Island Fueling Station is close to a major transportation hub along Highways 91 and 91A. Fuel consumption at the station has been steadily rising since it began its operations in early 2022.

Given these positive indicators, FEI does not expect a decline in usage from existing contracted customers.

FEI also notes that the cost of service of the 2025 Expansion is only approximately $52 thousand at the end of the Initial Term in 2029. Considering there will likely be offsetting revenue from third-party and public fueling at the station beyond 2029, aside from any Anchor Customers, the risk of unrecovered capital costs is negligible.[12]

In sum, the risks related to the 2025 Expansion are low and manageable. Given the strong and compelling need for the 2025 Expansion, FEI submits that the BCUC should grant a CPCN for the Project.

3. RATE DESIGN IS JUST AND REASONABLE

The rate designed reflected in the Amending Agreements is just and reasonable and should be approved.

The existing Annacis Island Fueling Station was approved as a prescribed undertaking defined under the *Greenhouse Gas Reduction (Clean Energy) Regulation* (GGRR), with recovery of at least 60 percent of the cost of service over an initial term of seven years. The 2025 Expansion will take place after the expiration of the prescribed undertaking in section 2(2) of the GGRR and is, therefore, governed by Section 12B of FEI's General Terms and Conditions (GT&Cs) of its Tariff. Section 12B.4 of FEI's GT&Cs requires the cost of service to be based on the actual capital investment in the fueling station.

Accordingly, FEI has reasonably and appropriately calculated the proposed rates in the Amending Agreements to recover, at a minimum:

- 60 percent of the capital-related cost of service items of the existing station[13] until the end of the term of the Original Agreements (i.e., from 2025 to 2028) based on the minimum

12 Exhibit B-3, BCUC IR1 2.3.

13 Approved by Order G-198-23 as part of FEI's filing for permanent rates for the existing Annacis Island Fueling Station.

take-or-pay commitment of the original six anchor customers, which excludes McRae's committed minimum annual volume;[14] and

- 100 percent of the present value of the cost of service of the 2025 Expansion over the term of the Amending Agreements from all Anchor Customers, including McRae's, in accordance with Section 12B of FEI's GT&Cs.[15]

The proposed interim Capital Rate is essentially a blended Capital Rate for both the existing station at the existing volume and the expansion at the new volume that includes McRae's. A single blended Capital Rate is efficient and appropriate and will help to avoid customer confusion from multiple rates at different volume commitments.[16]

Since Section 12B of FEI's GT&Cs requires the cost of service of the 2025 Expansion to be based on the actual capital expenditures, Section A.3(a) of the Amending Agreements stipulate that the station rates will be amended if the actual capital expenditure for the Project differs from the estimated capital expenditure of $475,528.

Additional relevant topics raised in the BCUC IRs are addressed below.

(a) O&M Rate Is Sufficient To Recover Operating Costs

The proposed Amending Agreements do not change the O&M Rate. The proposed interim O&M Rate of $2.831 per GJ, effective July 1, 2025, reflects escalation of 2 percent as a placeholder until the June 2025 BC CPI is released. Upon the release of the June 2025 BC CPI, FEI's proposed interim O&M Rate will be adjusted accordingly on July 1, 2025, as per the terms of the FSAs.[17]

The existing O&M Rate will be more than sufficient to cover the O&M recoveries required for both the existing station and the 2025 Expansion under the minimum take-or-pay volumes from all Anchor Customers, including McRae's. Once accounting for the additional minimum take-or-pay volume from McRae's, the new blended O&M Rate would have been $2.355 per GJ for July 1, 2025 (which is an incremental decrease of $0.476 per GJ to the existing O&M Rate of $2.831 per GJ) to recover 100 percent of the incremental O&M for the 2025 Expansion plus the O&M of the existing station. Given the existing station was approved as a prescribed undertaking under the GGRR, with the O&M Rate of the existing station set to recover only at least 60 percent of the forecast O&M expenditures, maintaining the existing O&M Rate will help to improve the overall recovery from the minimum 60 percent for the existing station, which ultimately reduces the impact to FEI's other customers.[18]

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14 Exhibit B-1, Application, p. 14; Exhibit B-3, BCUC IR1 5.1.

15 Exhibit B-1, Application, p. 14; Exhibit B-3, BCUC IR1 5.1.

16 Exhibit B-3, BCUC IR1 5.1.

17 Exhibit B-3, BCUC IR1 5.3.

18 Exhibit B-3, BCUC IR1 5.3.

(b) Requiring Anchor Customers To Pay Unrecovered Capital Costs Would Not Be Fair Or Reasonable

The Annacis Island Fueling Station warrants the exclusion from the provision in Section 12B.5 of FEI's GT&Cs requiring Anchor Customers to pay the unrecovered capital cost of the fueling station.[19]

- GT&C 12B.5 is not applicable to the original Annacis Island fueling station, as it is a prescribed undertaking pursuant to section 18 of the *Clean Energy Act* and section 2(2)(c) of the GGRR.

- The risk of unrecovered capital costs for the 2025 Expansion is negligible for the reasons discussed above.

- It would not be fair or reasonable to require the Anchor Customers to pay any unrecovered capital costs of the expansion to the fueling station given that the Annacis Island Fueling Station is a public fueling station. FEI received a $0.743 million capital contribution in aid of construction (CIAC) for the station from Natural Resources Canada (NRCan) with a condition that the station be open to the public for fueling services. Therefore, the Annacis Island Fueling Station is a publicly accessible fueling station designed to serve a broad customer base, including Anchor Customers, third-party customers and public customers. Therefore, should Anchor Customers' fueling services contract terms end while the station continues to serve other third-party customers and the public, it would not be reasonable to have the Anchor Customers pay for the undepreciated capital cost of the station while it is still operational and serving other customers.[20]

- GT&C Section 12B.5 was developed under the presumption that one fueling station was serving one customer, which is not applicable to the Annacis Island Fueling Station. Under a scenario where the fueling station asset was only serving one customer, it may have been reasonable in the event of termination to have the one customer bear a termination payment to pay the unrecovered capital cost of the fueling station. However, with multiple customers being served from the Annacis Island Fueling Station, including public CNG fueling customers, requiring a termination clause and a termination payment from the Anchor Customers in the event of termination would not be fair or reasonable.[21]

In sum, FEI submits that the Amending Agreements have appropriately captured the costs of the 2025 Expansion, while continuing to reflect the station's approved status as a prescribed undertaking under the *Clean Energy Act*.

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[19] Exhibit B-3, BCUC IR1 2.2.

[20] Exhibit B-3, BCUC IR1 2.2.

[21] Exhibit B-3, BCUC IR1 2.2.

4. CONCLUSION

FEI respectfully requests that the BCUC find that the 2025 Expansion of the Annacis Island Fueling Station is in the public interest and grant a CPCN for the Project at the estimated capital cost of $475,528, including AFUDC. FEI also respectfully requests that the BCUC approve the rates for service established in the Amending Agreements with Anchor Customers, based on the requirements in Section 12B of FEI's GT&Cs, on an interim and refundable/recoverable basis, effective July 1, 2025, pending an application by FEI for permanent rates once actual final capital expenditures are known.

Yours truly,

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