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September 22, 2025

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC
V6Z 2N3

Dear Registrar:

Re: FortisBC Energy Inc. (FEI)
2025 and 2026 Annual Review of Delivery Rates (Application)
Response to the British Columbia Utilities Commission (BCUC) Information
Request (IR) No. 1

On July 24, 2025, FEI filed the Application referenced above. In accordance with the regulatory timetable established in BCUC Order G-179-25 for the review of the Application, FEI respectfully submits the attached response to BCUC IR No. 1.¹

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Sarah Walsh

Attachments

cc (email only): Registered Interveners

¹ 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.

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7

8 **A. GENERAL**

9 **1.0 Reference: GENERAL**

10 **Exhibit B-2 (Application), Section 1.1.1, p. 1**

11 **Use of Actuals in 2025 Revenue Requirement**

12 On page 1 of the Application, FEI states:

13 FEI has now calculated the 2025 revenue requirement based on the approved
14 formulas and forecasts in the RSF [Rate Setting Framework] Decision, the actual
15 2024 results from the final year of the 2020-2024 Multi-Year Rate Plan (MRP) and
16 five months of actual results in 2025 where applicable. [...]

17 1.1 Please complete the table below, clarifying how each item in the revenue
18 requirement is forecast for 2025 and their respective treatment of variances from
19 forecast.

Item	Basis of Forecast	Treatment of Variances
Demand Forecast		
Other Revenue		
Net Operations & Maintenance Expense		
Rate Base Growth		
Depreciation, net of Contribution in Aid of Construction		
Deferral Amortization		
Financing Ratio and Rates		
Tax Expense		

20 1.1.1 If actual results differ from forecast for these items, is the shared amount
21 that will be included in the Earning Sharing deferral account and
22 amortized into rates in a subsequent year different from what the amount

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would have been without the inclusion of five months of actual results in 2025?

Response:

Please refer to Table 1 below describing how each item in the revenue requirement is forecast for 2025 and the treatment of variances from forecast. The forecasting methods and the treatment of variances for each item are consistent with the methods and treatment approved in the 2025-2027 Rate Setting Framework Decision and Order G-69-25 (RSF Decision)¹.

FEI has incorporated five months of actual results (where applicable) into the 2025 revenue requirement as this information is available given the timing of filing the Application (i.e., midway through 2025). This approach is reasonable and appropriate, as it incorporates the best information available to forecast FEI's 2025 revenue requirement and is consistent with past practice, including the FEI (and FBC) Annual Reviews for 2020-2021 Rates applications. The alternative of using "forecast" data for the first five months of 2025 instead of using actual available results would not be reasonable. Incorporating five months of actual results for the purposes of calculating the 2025 revenue requirement is not retroactive ratemaking, as this is simply a forecasting technique that incorporates the best information available.

As explained in the Application, Order G-313-24 approved 2025 delivery rates on an interim and refundable/recoverable basis, prior to the start of the test year. The use of interim rates is a common, well-established and frequently used mechanism explicitly in place to prevent retroactive ratemaking. With rates approved for a test period on an interim basis, the BCUC necessarily has the power to modify the rates for that test period at a later date, by final order. Thus, utilities are able to file for interim rates prior to the commencement of the test year, and then later undergo the review of a revenue requirement application and the setting of rates. The use of interim rates is necessary in cases, such as the present one, where the revenue requirement application is not able to be filed and a decision issued on the application prior to the start of the test year.

As detailed in Table 1 below and in Table 12-6 of the Application, the primary items that impact earnings sharing are: (i) variances between actual and formula O&M; (ii) variances in the depreciation, interest and income tax expense resulting from variances in formula Growth capital; and (iii) variances in the depreciation, interest and income tax expense resulting from variances in forecast Regular capital (i.e., Sustainment and Other capital). None of these items are updated in the Application, as the formulas for O&M and Growth capital and the forecasts for regular Sustainment and Other capital were set by the RSF Decision for the duration of the RSF term. While the forecast of customers and customer additions have been updated (and would therefore change the formula O&M and Growth capital amounts to a minor extent from the Interim Rate Application), this is reasonable given that FEI is approved to true-up the difference between forecast and actual customers / customer additions as part of the calculation of annual formula

¹ RSF Decision and Order G-69-25, p. 18.

O&M and formula Growth capital. Using the five months of actual data simply reduces the amount of true-up that would otherwise be required in future years.

The other component of the revenue requirement that impacts earnings sharing is certain components of Other Revenue (as detailed in Table 1 below). Of these items, only NGT Overhead and Marketing Recoveries is impacted by the inclusion of actuals, as this item is calculated by multiplying the approved OH&M rate of \$0.52 per GJ by the applicable 2025 Projected sales volumes (and the sales volume has been updated to include actuals for 2025). This updated amount could reduce the amount of the potential variance that would otherwise occur. However, the alternative of FEI using forecast values for the first five months of 2025 when actual values are known, and then potentially sharing in the earnings impact (which could be positive or negative) from the resulting variances, would not be a better or more appropriate approach.

FEI expects that including five months of actual results will impact the Flow-through deferral account as the variances between the 2025 actuals and forecast should be reduced, thereby limiting the amount of true-up that will have to be recovered from or returned to customers through the Flow-through deferral account in subsequent years.

Table 1: Summary of Basis of Forecast and its Treatment of Variances for 2025

Item	Basis of Forecast	Treatment of Variances
Demand Forecast	As explained on page 20 of the Application, the 2025 Projected demand forecast is based on the latest full year of actual data (i.e., 2024) with the forecast numbers from January to May being replaced with actuals. ²	As approved in the RSF Decision, and reflected in Table 12-6 of the Application, variances in residential and commercial use rates are captured in the RSAM deferral account, while all other variances related to the demand forecast are captured in the Flow-through deferral account.
Other Revenue	<p>2025 Projected Other Revenue is based on the following:</p> <ul style="list-style-type: none"> • Late Payment Charges: 2025 Projected is calculated based on the average of 2023 and 2024 Actual amounts, consistent with the method approved in the RSF Decision; • Application Charges: Based on the three-year average of actuals; • NSF and Other Recoveries: Based on 2024 Approved which is consistent with past annual reviews; • NGT Related Recoveries: Based on actual demand from January to May 2025, and minimum take-or-pay from June to December 2025; • RNG Other Revenue: Based on 2025 Projected rate base for RNG assets (see rate base growth below); • SCP Third Party Revenue: Based on the approved inclusion of 105 MMcf/d of SCP 	<p>As approved in the RSF Decision, and reflected in Table 12-6 of the Application:</p> <ul style="list-style-type: none"> • Late Payment Charges, Application Charges, NSF and Other Recoveries are subject to Earnings Sharing; • SCP Third Party Revenue: Variances captured in the SCP Mitigation Revenues Variance Account; • NGT Related Recoveries: <ul style="list-style-type: none"> ○ NGT Overhead and Marketing Recoveries are subject to Earnings Sharing; ○ NGT Tanker Rental Revenue variances are recorded in the Flow-through deferral account; ○ CNG & LNG Service Revenues variances are recorded in the CNG & LNG Service Revenues deferral account; and

² With the exception of RS 46, which includes actuals up to June 2025.

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Item	Basis of Forecast	Treatment of Variances
	<p>east to west capacity in the MCRA portfolio as discussed in Section 5.3; and</p> <ul style="list-style-type: none"> • LNG Capacity Assignment: Based on the approved \$18.039 million of Mt. Hayes cost allocation as discussed in Section 5.4. 	<ul style="list-style-type: none"> • RNG Other Revenue: Variances captured in the RNG Account.
Net Operations & Maintenance Expense	<p>Formula O&M:</p> <ul style="list-style-type: none"> • Based on the approved 2024 Base UCOM of \$274 from the RSF Decision, multiplied by the net inflation factor (Section 2.2 of the Application) and the 2025 Projected average customer count (Section 2.3 of the Application), which is based on 2024 actuals with the forecast numbers from January to May of 2025 replaced with actuals). <p>Forecast O&M:</p> <ul style="list-style-type: none"> • Pension/OPEB: Based on the 2025 Projected discount rate which is calculated based on the current market yield of high-quality debt instruments; • Insurance: Based on the actual premium from July 2024 to June 2025 and actual premium from July 2025 to June 2026; • BCUC Levies: Based on Orders G-141-24 and G-117-25; and • All other Forecast O&M (Integrity, AMI, RNG, NGT, Renewable Gas Development, and Variable LNG Production): Based on actuals from January to May 2025 plus estimated requirement for June to December 2025. 	<p>As approved in the RSF Decision and reflected in Table 12-6 of the Application:</p> <ul style="list-style-type: none"> • Formula O&M: Variances subject to earnings sharing. • Forecast O&M: <ul style="list-style-type: none"> ○ Pension & OPEB: Variances recorded in the Pension/OPEB Variance deferral account; ○ BCUC Levies: Variances recorded in the BCUC Levies Variance deferral account; ○ RNG O&M: Variances captured in the RNG Account; and ○ All other items: Variances recorded in the Flow-through deferral account.
Rate Base Growth	<p>As explained on page 62 of the Application, the 2025 Projected Rate Base is based on:</p> <ul style="list-style-type: none"> • The full year impact of the 2024 actual closing plant balances; • Mid-year impact of approved regular capital additions (Growth, Sustainment, and Other capital), net of CIAC; • Mid-year impact of depreciation based on approved depreciation rates from the RSF Decision, net of CIAC amortization; • Full-year impact of the true-up of rate base resulting from the end of the 2020-2024 MRP term; • Full-year impact of major project capital additions, including IGU, GCU, and CTS TIMC CPCN Projects; and • Changes in deferred charges and working capital. 	<p>Variances in rate base impact depreciation, amortization, interest expense, and income tax. Please refer to the treatment of variances for each individual item below.</p>

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Item	Basis of Forecast	Treatment of Variances
Depreciation, net of CIAC	As explained in Section 7.6 of the Application, depreciation is calculated using the depreciation rates approved in the RSF Decision at the 2025 opening plant-in-service balance (i.e., January 1 of 2025), net of CIAC.	As approved in the RSF Decision, and reflected in Table 12-6 of the Application: <ul style="list-style-type: none"> Variances in Clean Growth Projects, CPCN Projects, and Exogenous items are captured in the Flow-through deferral account; and All other depreciation variances are subject to earnings sharing.
Deferral Amortization	Based on the opening balance (i.e., January 1, 2025) and the approved amortization rate of each individual deferral account.	As approved in the RSF Decision and reflected in Table 12-6 of the Application, there are no variances in deferral amortization as actual amortization is recorded to equal approved amounts.
Financing Ratio and Rates	For long-term debt, as discussed in Section 8.3.1 of the Application, FEI is expecting to issue long-term debt of approximately \$250 million in September 2025 at a rate of 4.60 percent. With the existing long-term debt and the new issuance, the resulting overall long-term debt rate and ratio for 2025 are 4.68 percent and 52.17 percent, respectively. Pursuant to Order G-236-23, the BCUC approved a benchmark capital structure of 55 percent debt and 45 percent equity, resulting in a short-term debt ratio for 2025 of 2.83 percent (i.e., 55 percent minus 52.17 percent). The 2025 Projected short-term interest rate is calculated as shown in Table 8-1 of the Application.	As approved in the RSF Decision and reflected in Table 12-6 of the Application, any variances from interest rates used to set FEI's delivery rates, and any variances in interest resulting from items subject to flow-through treatment will be captured in the Flow-through deferral account. All other differences in interest expense that will affect the achieved ROE will be subject to earnings sharing.
Tax Expense	Property Taxes: <ul style="list-style-type: none"> As explained in Section 9.2 of the Application, the 2025 Projected property taxes are based on actual tax rates from each individual municipality in 2025 and the actual assessed value in 2025. Income Tax: <ul style="list-style-type: none"> The calculation of the 2025 Projected income tax is shown in Section 11.1, Schedule 24 of the Application, which is primarily dependent on the 2025 Projected earned return (which in turn is calculated based on the 2025 Projected rate base), depreciation, amortization, and CCA deductibles. The basis of the forecast for the 2025 Projected rate base, depreciation, and amortization are discussed above. For the CCA deductibles, the forecast is based on the actual undepreciated capital costs (UCC) in FEI's rate base at the CCA rate set by the <i>Canada Income Tax Act</i>. 	As approved in the RSF Decision and reflected in Table 12-6 of the Application, variances in property tax are captured in the Flow-through deferral account. For income tax, any variances in income tax resulting from Clean Growth Projects, Major Projects, and Exogenous items as well as variances due to change in tax rates or laws will be captured in the Flow-through deferral account. Any other variances in income tax will be subject to earnings sharing.

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1.2 Please explain why the use of five months of actual results in 2025 for calculating the 2025 revenue requirement does not raise any retroactive ratemaking issues.

Response:

Please refer to the response to BCUC IR1 1.1.

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2.0 Reference: GENERAL

FEI and FortisBC Inc. (FBC) 2025 to 2027 Rate Setting Framework proceeding, Exhibit B-21 (FEI 2025 Interim Delivery Rate Application), Section 2, Figure 2-1, p. 3, Section 2.6, p. 12; Exhibit B-2, Section 1.4, Figure 1-1, pp. 8 and 9, Section 1.1.2, p. 2

2025 Revenue Deficiency and Alternate Delivery Rate Scenarios

On page 3 of the FEI 2025 Interim Delivery Rate Application, FEI stated that the “interim revenue requirement components set out in the [FEI 2025 Interim Delivery Rate] Application result in an effective delivery rate increase of 7.75 percent for 2025 compared to 2024 Approved” and result from a revenue deficiency of \$90.140 million. FEI provided Figure 2-1, which summarized the items that contributed to the forecast revenue deficiency of \$90.140 million.

On page 8 of the Application, FEI states that it is “proposing to make permanent the existing interim delivery rates for 2025, effective January 1, 2025, and to capture the portion of the 2025 revenue deficiency that is greater than 7.75 percent (approximately \$15.352 million) in the existing 2023-2025 Revenue Deficiency deferral account (formerly the 2023-2024 Revenue Deficiency deferral account), resulting in an overall deficiency of \$88.048 million.” On page 9 of the Application, FEI provides Figure 1-1, which summarizes the items contributing to the forecast revenue deficiency of \$88.048 million. FEI states, “For 2025, the final blue bar represents the sum required to bring the total revenue deficiency to the deficiency determined when setting interim rates for 2025 (7.75 percent).”

2.1 Given that FEI is proposing to make permanent the existing interim delivery rate increase of 7.75 percent for 2025, please explain why the amount of the deficiency recovered through the 2025 delivery rates is not the same (i.e. \$90.140 million vs. \$88.048 million).

Response:

There are two main reasons why the amount of the deficiency is different between the Interim Rate Application (i.e., \$90.140 million) and this Application (i.e., \$88.048 million):

1. The 2025 revenue requirement was updated in this Application to reflect five months of actuals in 2025 where applicable (please refer to the response to BCUC IR1 1.1 for a discussion of how each item in the 2025 revenue requirement was updated as part of this Application reflecting five months of actuals in 2025 where applicable). Due to this update, the 2025 forecast revenue deficiency increased from \$90.140 million to \$103.400 million before any deferral of the 2025 revenue deficiency. Please refer to the response to BCUC IR1 2.1.1 for a reconciliation and explanation of the changes in the items contributing to the difference in the 2025 forecast revenue deficiency between the Interim Rate Application and this Application.

2. The 2025 demand forecast was updated as part of this Application with actual demand up to 2024³, which led to a reduction in the 2025 demand forecast of approximately 2.9 PJ compared to the Interim Rate Application, which was developed using actual demand only up to 2023. As a result, the 2025 Projected non-bypass delivery margin at the existing 2024 Approved delivery rates, which is calculated based on the updated 2025 demand forecast, was reduced to \$1,136.1 million in this Application (compared to \$1,163.1 million in the Interim Rate Application).

With an updated revenue deficiency of \$103.400 million and an updated non-bypass delivery margin at the existing 2024 Approved rates of \$1,136.1 million, the resulting delivery rate increase for 2025 is 9.10 percent before any deficiency deferral. However, since FEI is proposing to maintain the 2025 permanent delivery rate increase at 7.75 percent, approximately \$15.352 million of deficiency needs to be deferred from the 2025 permanent revenue requirement, resulting in a total revenue deficiency of \$88.048 million. In other words, since the 2025 demand forecast is now lower by approximately 2.9 PJ, the non-bypass delivery margin to be recovered at the existing 2024 Approved delivery rates is also lower by approximately \$27.0 million. As such, the same 7.75 percent increase from the 2024 Approved delivery rates is now equivalent to an increase in revenue recovery of \$88.048 million (i.e., \$1,136.1 million x 7.75 percent) as reflected in the 2025 permanent delivery rate increase.

Please also refer to Table 1 below which shows that the 2025 permanent revenue deficiency of \$88.048 million is equivalent to a 7.75 percent increase in the 2025 Projected non-bypass delivery margin of \$1,136.1 million at the existing 2024 Approved delivery rates.

Table 1: Reconciliation of the 2025 Interim and 2025 Permanent Revenue Deficiencies

Line	Particulars	2025	2025	Reference
		Interim	Permanent	
1	Revenue Deficiency (before 2025 Deferral)	\$ 90.140	\$ 103.400	BCUC IR1 2.1.1
2	2025 Revenue Deficiency Deferral	-	(15.352)	Line 3 - Line 1
3	Total Revenue Deficiency (\$millions)	\$ 90.140	\$ 88.048	Line 5 x Line 6
4				
5	Non-Bypass Margin at 2024 Approved Rates (\$millions)	\$ 1,163.139	\$ 1,136.106	Schedule 19, Line 17, Column 3
6	2025 Delivery Rate Change (%)	7.75%	7.75%	Proposed

2.1.1 Please reconcile and explain the change in the items contributing to the forecast revenue deficiency between Figure 2-1 in the FEI 2025 Interim Delivery Rate Application and Figure 1-1 in the Application (e.g. use of the approved formula in the RSF Decision, actual 2024 results, etc.).

³ With the forecast numbers from January to May 2025 replaced with actuals as discussed in the response to BCUC IR1 1.1.

Response:

Please refer to Table 1 below for a reconciliation and explanation of the changes in the items contributing to the difference in the 2025 forecast revenue deficiency between the Interim Rate Application and this Application (in the same categories as presented in Figure 1-1 of the Application). As shown in Table 1 below, the primary driver of the increased revenue deficiency for 2025 permanent rates is the reduction in the 2025 demand forecast.

Table 1: Reconciliation of the Changes Between the 2025 Interim and 2025 Permanent Revenue Deficiencies (\$ millions)

Line	Particular	2025 Interim (Compared to 2024 Approved)	2025 Permanent (Compared to 2024 Approved)	Difference	Note
1	MRP True-up (O&M, Capital, and Studies)	12.816	11.485	(1.331)	See Note 1 below
2	Demand Forecast	(10.006)	5.267	15.273	See Note 2 Below
3	Other Revenue	(1.192)	10.170	11.362	See Note 3 Below
4	Net O&M	35.764	35.510	(0.254)	See Note 4 Below
5	Rate Base Growth	30.822	28.872	(1.950)	See Note 4 Below
6	Depreciation, net of CIAC	4.935	2.378	(2.557)	See Note 4 Below
7	Deferral Amortization	(0.349)	3.323	3.672	See Note 4 Below
8	Financing Rate and Ratio Change	(2.033)	(3.009)	(0.976)	See Note 4 Below
9	Property Tax Expense	3.991	3.568	(0.423)	See Note 4 Below
10	Income Tax Expense	(0.523)	(10.079)	(9.556)	See Note 3 Below
11	2024 Revenue Deficiency	15.915	15.915	-	No change
12	Revenue Deficiency (before 2025 Deferral)	90.140	103.400	13.260	Sum of Line 1 to 11
13	2025 Revenue Deficiency Deferral	-	(15.352)	(15.352)	See Note 5 Below
14	Total Revenue Deficiency	90.140	88.048	(2.092)	Line 12 + Line 13
15					
16	Non-Bypass Margin at 2024 Approved Rate	1,163.139	1,136.106	(27.033)	See Note 1 below
17	Rate Change	7.75%	7.75%		Line 14 / Line 16

Notes to table:

- 1) The "MRP True-up" line item includes the true-up of the 2020-2024 MRP rate base (as discussed in Section 7.2 of the Application), the resetting of 2024 Base O&M as described in Section C2.2 of FortisBC's 2025-2027 Rate Setting Framework Application (RSF Application), and the changes related to the updated Depreciation Study and Capitalized Overhead Study as described in Section D of the RSF Application. At the time of the Interim Rate Application, FEI used a forecast of the 2020-2024 MRP rate base for the purpose of the true-up calculation, along with the proposed 2024 Base O&M and the changes related to depreciation and capitalized overhead studies proposed in the RSF Application. For the 2025 permanent rates (and the resulting 2025 permanent revenue deficiency), FEI updated the MRP rate base true-up to reflect the actual rate base as of the end of 2024, which is higher than the forecast rate base included in the Interim Rate Application. Further, FEI updated the 2024 Base O&M which was reduced by \$3 million in the RSF Decision. The net effect of these changes (including the changes in capitalized

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overhead resulting from the \$3 million decrease to the 2024 Base O&M) is a reduction in the revenue deficiency of approximately \$1.331 million.

2) As explained in the response to BCUC IR1 2.1, the 2025 Projected demand forecast reflected in the 2025 permanent revenue deficiency is approximately 2.9 PJ lower than the 2025 forecast in the Interim Rate Application, which increased the revenue deficiency by approximately \$15.273 million.

3) The increase in the revenue deficiency from Other Revenue (i.e., Line 3) and the decrease in the revenue deficiency from Income Tax Expense (Line 10) are both mainly due to the delay in the in-service date of the City of Vancouver (CoV) Landfill RNG project. The delay (from 2024 to 2025) was not anticipated at the time of the Interim Rate Application. As explained in Section 5.2.5 of the Application, the RNG Other Revenue includes the transfer of the income tax component of the cost of service of FEI's RNG capital assets from the delivery margin to the RNG Account. At the time of the Interim Rate Application, it was anticipated that the CoV Landfill RNG project would be placed in-service at the end of 2024. However, due to the delay, the large income tax credit generated through the high capital cost allowance (CCA) will now occur in 2025, which is reflected in the 2025 permanent rates but not in the Interim Rate Application. This resulted in the decreased income tax expense reflected in the 2025 permanent revenue deficiency but at the same time increased the transfer from delivery margin to the RNG Account under Other Revenue.

4) The combined differences between the Interim Rate Application and the 2025 permanent revenue deficiency for net O&M, rate base growth, depreciation, amortization, financing rates and ratio, and property tax expenses is a reduction of approximately \$2.488 million (i.e., sum of Lines 4 to 9). As explained in the response to BCUC IR1 1.1, the 2025 Projected numbers for these items were updated as part of this Application to develop the 2025 permanent revenue requirement, which included actuals up to May of 2025 where applicable. In contrast, the 2025 forecasts included in the Interim Rate Application were based on information available up to mid-2024. FEI notes that the changes in the net O&M (as reflected in Line 4) between 2025 interim and 2025 permanent include the updated net inflation factor and updated 2025 forecast customer count for the calculation of the formula O&M, as well as updated flow-through O&M forecasts with five months of actuals in 2025.

5) As explained in Section 1.1.1 of the Application, in order to maintain the 2025 delivery rate change at 7.75 percent from 2024 Approved, FEI is proposing to defer approximately \$15.352 million (i.e., Line 13) of the 2025 permanent revenue deficiency and capture this deficiency in the existing 2023-2024 Revenue Deficiency deferral account (and to rename the account the 2023-2025 Revenue Deficiency deferral account).

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On page 12 of the FEI 2025 Interim Rate Application, FEI stated that “[a]lso contributing to the increased amortization is the 2023-2024 Revenue Deficiency deferral account, which contributes \$13.527 million based on the proposed 5-year amortization period, beginning in 2025.”

On page 2 of the Application, FEI states:

The delivery rate change for 2026 flowing from the approved formulas and forecasts set out in the Application is a 10.07 percent increase from 2025 delivery rates. This increase includes the proposed revenue deficiency deferred from 2025 as discussed above, but does not include the amortization of the 2023-2025 Revenue Deficiency deferral account because [...] FEI is proposing to commence amortizing the 2023-2025 Revenue Deficiency deferral account in 2027. [...]

On page 8 of the Application, FEI states that the effective delivery rate increase of 10.07 percent for 2026 “results from a revenue deficiency of \$124.421 million, which includes the 2025 deferred deficiency of \$15.352 million [...] to maintain the 2025 effective delivery rate increase at 7.75 percent.” [*Emphasis added*]

2.2 Please clarify whether any portion of the 2023-2024 Revenue Deficiency deferral account is being amortized by FEI as part of the existing 2025 interim delivery rates.

Response:

FEI confirms that the 2025 interim delivery rates included the amortization of the 2023-2024 Revenue Deficiency deferral account. At the time of the Interim Rate Application, FEI assumed that this deferral account would be amortized over five years starting in 2025.

In this Application (i.e., as part of the permanent 2025 delivery rate proposal), FEI has not included any amortization of the Revenue Deficiency deferral account in the permanent delivery rate increase of 7.75 percent. FEI is proposing to capture the incremental 2025 revenue deficiency resulting from the difference between interim and permanent 2025 delivery rates in the existing 2023-2024 Revenue Deficiency deferral account (and to rename the deferral account the 2023-2025 Revenue Deficiency deferral account) and delay the commencement of the amortization to January 1, 2027.

2.3 Given that the proposed 2026 delivery rate increase of 10.07 percent results from a revenue deficiency of \$124.421 million which includes the proposed revenue deficiency of \$15.352 million deferred from 2025, please explain why FEI is also proposing to capture the revenue deficiency of \$15.352 million deferred from 2025

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1 in the 2023-2025 Revenue Deficiency deferral account and explain how this does
2 not amount to double counting of the \$15.352 million amount deferred from 2025.

3
4 **Response:**

5 There is no double counting of the \$15.352 million related to the 2025 deferred deficiency in the
6 proposed 2026 delivery rate increase. The statement on page 8 of the Application reflects that,
7 when compared to the 2025 Approved interim rates, the forecast revenue deficiency of \$124.421
8 million as well as the percentage increase of 10.07 percent in 2026 will include the impact of not
9 recovering the \$15.352 million in 2025.

10 Table 1 below provides a reconciliation of the 2026 forecast revenue deficiency of
11 \$124.421 million and the 10.07 percent delivery rate increase, relative to the 2025 Approved
12 interim rates. As shown in the table, the starting point of \$1,253 million (Line 9) is reduced due to
13 the deferred deficiency of \$15.352 million (Line 8). Therefore, the increase from this lowered
14 starting point to the total 2026 forecast cost of service of \$1,387 million (Line 9) must be higher to
15 account for the deferred deficiency from 2025. In other words, if the 2026 revenue deficiency did
16 not include the \$15.352 million (i.e., Line 8), the increase from the 2025 Approved interim rates
17 would only be \$109.069 million (i.e., \$124.421 million minus \$15.352 million), which would be
18 insufficient to meet the forecast 2026 cost of service of \$1,387 million.

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Table 1: Reconciliation of the 2026 Forecast Revenue Deficiency in Relation to the 2025 Deferred Deficiency (\$000s)

Line	Particular	2025 Projected	2026 Forecast	Change	Reference
1	Net O&M	335,394	348,197	12,803	Section 11 - 2026: Schedule 16, Line 18, Col 2 and 5
2	Depreciation, net of CIAC	225,942	241,766	15,824	Section 11 - 2026: Schedule 21, Line 5, Col 2 and 3
3	Amortization	130,875	170,833	39,958	Section 11 - 2026: Schedule 21, Line 13, Col 2 and 3
4	Property Tax	86,927	88,576	1,649	Section 11 - 2026: Schedule 16, Line 20, Col 2 and 5
5	Other Revenue	(32,309)	(48,013)	(15,704)	Section 11 - 2026: Schedule 16, Line 21, Col 2 and 5
6	Income Tax	77,321	112,260	34,939	Section 11 - 2026: Schedule 16, Line 25, Col 2 and 5
7	Earned Return	444,269	473,389	29,120	Section 11 - 2026: Schedule 16, Line 27, Col 2 and 5
8	Deferred Revenue Deficiency	<u>(15,352)</u>	<u>-</u>	<u>15,352</u>	Section 11 - 2026: Schedule 16, Line 22, Col 2 and 5
9	Total Cost of Service	1,253,067	1,387,008	133,941	Sum of Line 1 to 8 or Section 11 - 2026: Sch 16, Line 15, Col 2 and 5
10					
11	Delivery Margin at 2025 Interim Approved Rates	<u>(1,253,067)</u>	<u>(1,262,587)</u>	<u>(9,520)</u>	Section 11 - 2026: Schedule 19, Line 29, Col 2 and 3
12	Total Revenue Deficiency in 2026 (Compared to 2025)	-	124,421	124,421	Line 9 + Line 11 or Section 11 - 2026: Sch 1, Line 27
13					
14	Non-Bypass Delivery Margin at 2025 Interim Approved Rates	1,224,154	1,235,266	11,112	Section 11 - 2026: Schedule 19, Line 17, Col 2 and 3
15	Delivery Rate Increase Required (from 2025 Interim Approved Rates)	0.00%	10.07%	10.07%	Line 12 / Line 14

2

3

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2.4 Under each of the following scenarios, please provide: (i) the delivery rate impact and the estimated total annual bill impact to the average residential customer, inclusive of delivery rate riders, storage and transportation charges and cost of gas; and (ii) the pros and cons compared to FEI's proposal in the Application:

- Scenario (i): The 2025 interim delivery rates are made permanent, the existing 2023-2024 Revenue Deficiency deferral account is amortized beginning January 1, 2026 over a five-year period, FEI fully recovers the 2026 revenue requirement in 2026 (e.g. \$124.421 million plus the additional revenue deficiency resulting from commencing amortization of the 2023-2024 Revenue Deficiency deferral account in 2026), and the incremental 2025 revenue deficiency of (e.g. \$15.352 million) is deferred and amortized over a one-year period beginning on January 1, 2027; and
- Scenario (ii): The 2025 interim delivery rates are made permanent, the existing 2023-2024 Revenue Deficiency deferral account is amortized beginning January 1, 2025 over a five-year period, FEI fully recovers the 2026 revenue requirement in 2026 (e.g. \$124.421 million), and the incremental 2025 revenue deficiency (e.g. \$15.352 million plus the additional revenue deficiency resulting from commencing amortization of the 2023-2024 Revenue Deficiency deferral account in 2025) is amortized over a one-year period beginning on January 1, 2027.

2.4.1 Please explain, with supporting calculations, the difference, if any, to the cumulative carrying costs recoverable from customers if the amortization of the 2023-2024 Revenue Deficiency deferral account commences January 1, 2025 and the incremental 2025 revenue deficiency from doing so is deferred to 2027 (i.e. Scenario (ii) in the preceding IR) as opposed to commencing amortization of a 2023-2025 Revenue Deficiency deferral account on January 1, 2027 (i.e. FEI's proposal in the Application).

Response:

Please refer to Table 1 below which compares the 2025 and 2026 cost of service, delivery rate increase, and the estimated annual bill impact (inclusive of delivery rate riders, storage and transportation charges, and cost of gas) for the average residential customer with consumption of 90 GJ per year under FEI's proposed approach to the BCUC's Scenario (i) and Scenario (ii).

Please also refer to Table 2 below for the continuity schedules as well as the annual amortization of the Revenue Deficiency deferral account of each scenario, which is included as part of the cost of service calculation for each scenario in Table 1.

1 **Table 1: Comparison of the 2025 and 2026 Cost of Service, Delivery Rate Increase and Average**
2 **RS 1 Bill Impact between FEI's Proposed Scenario and BCUC Scenario (i) and Scenario (ii)**

Line	Particular	As-Filed (Proposed)		Scenario (i)		Scenario (ii)	
		2025 Projected	2026 Forecast	2025 Projected	2026 Forecast	2025 Projected	2026 Forecast
1							
2	Deferral Amortization	\$ 138,746	\$ 170,833	\$ 138,746	\$ 184,278	\$ 151,407	\$ 184,377
3	Income Tax	77,321	112,260	77,321	117,239	82,005	117,276
4	Deferred Revenue Deficiency	(15,352)	-	(15,352)	-	(32,701)	-
5	All Other Items (Unchanged between Scenarios)	<u>1,052,352</u>	<u>1,103,915</u>	<u>1,052,352</u>	<u>1,103,939</u>	<u>1,052,356</u>	<u>1,103,939</u>
6	Total Cost of Service (\$000s)	\$ 1,253,067	\$ 1,387,008	\$ 1,253,067	\$ 1,405,457	\$ 1,253,067	\$ 1,405,591
7							
8	Delivery Margin at Existing Rate (\$000s)	<u>(1,165,019)</u>	<u>(1,262,587)</u>	<u>(1,165,019)</u>	<u>(1,262,587)</u>	<u>(1,165,019)</u>	<u>(1,262,587)</u>
9	Total Revenue Deficiency (\$000s)	\$ 88,048	\$ 124,421	\$ 88,048	\$ 142,870	\$ 88,048	\$ 143,004
10							
11	Non-Bypass Delivery Margin at Existing Rates (\$000s)	\$ 1,136,106	\$ 1,235,266	\$ 1,136,106	\$ 1,235,266	\$ 1,136,106	\$ 1,235,266
12	Delivery Rate Increases Required (%)	7.75%	10.07%	7.75%	11.57%	7.75%	11.58%
13							
3	14 RS 1 Avg Bill Impact, incl. rate riders (\$) - See Note 1	\$ 85.44	\$ 88.89	\$ 85.44	\$ 101.22	\$ 85.44	\$ 101.31

4 Note to Table:

- 5 1) The 2025 average bill impact for RS 1 customers includes an increase in the RSAM rate rider from
6 a credit of \$0.106 per GJ in 2024 to a debit of \$0.149 per GJ in 2025 (i.e., an overall increase of
7 \$0.255 per GJ). In contrast, the 2026 average bill impact for RS 1 customers includes an increase
8 in the RSAM rate rider from a debit of \$0.149 per GJ to a debit of \$0.212 per GJ in 2026 (i.e., an
9 overall increase of \$0.063 per GJ).

Table 2: Continuity Schedules for the Revenue Deficiency Deferral Account under FEI's Proposed Scenario and BCUC Scenario (i) and Scenario (ii)

2025						
(\$000s)	Opening Balance	Gross Additions	Less Taxes	WACC Return @ 6.20% (Carrying Cost)	Amortization Expense	Closing Balance
As-Filed (Proposed)						
2023-2024 Revenue Deficiency Deferral Account	63,303	-	-	3,924	-	67,227
2025 Revenue Deficiency	-	15,352	(4,145)	347	-	11,554
Total 2023-2025 Revenue Deficiency Deferral Account	\$ 63,303	\$ 15,352	\$ (4,145)	\$ 4,271	\$ -	\$ 78,781
Scenario (i)						
2023-2024 Revenue Deficiency Deferral Account	63,303	-	-	3,924	-	67,227
2025 Revenue Deficiency	-	15,352	(4,145)	347	-	11,554
Total 2023-2025 Revenue Deficiency Deferral Account	\$ 63,303	\$ 15,352	\$ (4,145)	\$ 4,271	\$ -	\$ 78,781
Scenario (ii)						
2023-2024 Revenue Deficiency Deferral Account	63,303	-	-	3,532	(12,661)	54,174
2025 Revenue Deficiency	-	32,701	(8,829)	740	-	24,612
Total 2023-2025 Revenue Deficiency Deferral Account	\$ 63,303	\$ 32,701	\$ (8,829)	\$ 4,272	\$ (12,661)	\$ 78,786
2026						
(\$000s)	Opening Balance	Gross Additions	Less Taxes	WACC Return @ 6.23% (Carrying Cost)	Amortization Expense	Closing Balance
As-Filed (Proposed)						
2023-2024 Revenue Deficiency Deferral Account	67,227	-	-	4,186	-	71,413
2025 Revenue Deficiency	11,554	-	-	719	-	12,274
Total 2023-2025 Revenue Deficiency Deferral Account	\$ 78,781	\$ -	\$ -	\$ 4,905	\$ -	\$ 83,687
Scenario (i)						
2023-2024 Revenue Deficiency Deferral Account	67,227	-	-	3,767	(13,445)	57,549
2025 Revenue Deficiency	11,554	-	-	719	-	12,273
Total 2023-2025 Revenue Deficiency Deferral Account	\$ 78,781	\$ -	\$ -	\$ 4,487	\$ (13,445)	\$ 69,822
Scenario (ii)						
2023-2024 Revenue Deficiency Deferral Account	54,174	-	-	2,951	(13,544)	43,582
2025 Revenue Deficiency	24,612	-	-	1,532	-	26,144
Total 2023-2025 Revenue Deficiency Deferral Account	\$ 78,786	\$ -	\$ -	\$ 4,484	\$ (13,544)	\$ 69,726
2027						
(\$000s)	Opening Balance	Gross Additions	Less Taxes	WACC Return @ 6.23% (Carrying Cost)	Amortization Expense	Closing Balance
As-Filed (Proposed)						
2023-2024 Revenue Deficiency Deferral Account	71,413	-	-	4,002	(14,283)	61,132
2025 Revenue Deficiency	12,274	-	-	688	(2,455)	10,507
Total 2023-2025 Revenue Deficiency Deferral Account	\$ 83,687	\$ -	\$ -	\$ 4,690	\$ (16,737)	\$ 71,639
Scenario (i)						
2023-2024 Revenue Deficiency Deferral Account	57,549	-	-	3,135	(14,387)	46,297
2025 Revenue Deficiency	12,273	-	-	382	(12,273)	382
Total 2023-2025 Revenue Deficiency Deferral Account	\$ 69,822	\$ -	\$ -	\$ 3,517	\$ (26,660)	\$ 46,679
Scenario (ii)						
2023-2024 Revenue Deficiency Deferral Account	43,582	-	-	2,261	(14,527)	31,316
2025 Revenue Deficiency	26,144	-	-	814	(26,144)	814
Total 2023-2025 Revenue Deficiency Deferral Account	\$ 69,726	\$ -	\$ -	\$ 3,075	\$ (40,671)	\$ 32,130
Total Carrying Cost (WACC Return) from 2025 to 2027 (\$000s)						
As-Filed (Proposed)	\$ 13,866					
Scenario (i)	\$ 12,275					
Scenario (ii)	\$ 11,831					

FEI discusses the advantages and disadvantages of each scenario below.

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FEI's Proposed Scenario:

- Advantages:

- From Table 1 above, FEI's proposed scenario will result in the lowest delivery rate increase and bill impact for customers in 2026 when compared to BCUC Scenarios (i) and (ii).
- From Table 2 above, FEI's proposed scenario, which includes a five-year amortization period for the 2023-2025 Revenue Deficiency deferral account commencing on January 1, 2027, will result in the lowest amortization in 2027. As discussed in Section 1.1.2 of the Application (i.e., Option 2 on page 3 of the Application), based on preliminary estimates, the 2027 delivery rate increase under FEI's proposed scenario is estimated to be in the range of 8 to 10 percent. This is in the same range as BCUC Scenario (i) but lower than BCUC Scenario (ii) as discussed below. This makes the year-over-year delivery rate increase from 2025 to 2027 under FEI's proposed scenario slightly less volatile (i.e., 7.75 percent in 2025, 10.07 percent in 2026, and 8 to 10 percent in 2027) than BCUC Scenarios (i) and (ii).
- FEI's proposal results in less rate pressure in 2027 compared to BCUC Scenario (ii).

- Disadvantages:

- Since under FEI's proposed scenario, the 2023-2025 Revenue Deficiency deferral account will be amortized over a five-year period starting on January 1, 2027, the deferred deficiencies will not be fully amortized until 2031. In contrast, as discussed below, under BCUC Scenario (i) the 2023-2024 portion of the revenue deficiency will be fully amortized in 2030, and the portion related to the incremental 2025 revenue deficiency will be fully amortized in 2027. BCUC Scenario (ii) will result in the 2023-2024 portion of the revenue deficiency being fully amortized in 2029, and the portion related to the incremental 2025 revenue deficiency will be fully amortized in 2027.
- FEI's proposed scenario will have slightly higher carrying costs from 2025 to 2027 when compared to BCUC Scenarios (i) and (ii).

BCUC Scenario (i):

- Advantages:

- When compared to FEI's proposed scenario, Scenario (i) will result in the revenue deficiencies being fully amortized in 2030 which is one year earlier than FEI's proposed scenario.
- When compared to FEI's proposed scenario, Scenario (i) will have slightly lower carrying costs from 2025 to 2027, but higher than Scenario (ii).

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• Disadvantages:

- The delivery rate increase in 2026 will be 11.57 percent. For an average residential customer with consumption of 90 GJ per year, the total bill impact will be equivalent to \$101.22. In contrast, the delivery rate increase in 2026 under FEI's proposed scenario is 10.07 percent and the total bill impact is estimated to be \$88.89.
- Based on the amortization schedule of the Revenue Deficiency deferral account shown in Table 2 above, the delivery rate increase for 2027 is estimated to be in the range of 8 to 10 percent, which is consistent with FEI's proposed scenario even though Scenario (i) will have the 2023-2024 portion of the revenue deficiency begin amortization earlier in 2026. This is because the 2025 portion of the revenue deficiency under Scenario (i) will be fully amortized over a one-year period in 2027, offsetting the benefit of starting amortization earlier than FEI's proposed scenario. Since the 2026 delivery rate increase under Scenario (i) is higher at 11.57 percent but the 2027 delivery rate increase remains in the same range of 8 to 10 percent, the rate volatility from 2025 to 2027 (i.e., 7.75 percent in 2025, 11.57 percent in 2026, and 8 to 10 percent in 2027) is slightly worse than FEI's proposed scenario.
- As shown in Table 2 above, the 2027 amortization from the Revenue Deficiency deferral account is estimated to be \$26.660 million, which is almost \$10 million higher than FEI's proposed scenario (primarily due to the one-year amortization of the 2025 portion of the revenue deficiency). This makes the amortization from the Revenue Deficiency deferral account a much higher contributor to the 2027 delivery rate pressures than FEI's proposed scenario.

BCUC Scenario (ii):

• Advantages:

- All revenue deficiencies recorded in the deferral account will be fully amortized in 2029, which is the earliest out of the three scenarios.
- The carrying costs from 2025 to 2027 are the lowest out of the three scenarios as shown in Table 2 above.

• Disadvantages:

- The delivery rate increase in 2026 will be 11.58 percent. For an average residential customer with consumption of 90 GJ per year, the total bill impact will be equivalent to \$101.31. In contrast, the delivery rate increase in 2026 under FEI's proposed scenario is 10.07 percent and the total bill impact is estimated to be \$88.89.
- In order to begin amortizing the existing 2023-2024 Revenue Deficiency deferral account on January 1, 2025, the 2025 deferred deficiency under Scenario (ii) will have to be increased to \$32.701 million in order to maintain the 2025 delivery rate increase at 7.75 percent, as shown in Tables 1 and 2 above.

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- 1 ○ Based on the amortization schedule for the Revenue Deficiency deferral account
2 shown in Table 2 above, the delivery rate increase for 2027 is estimated to be in
3 the range of 9 to 11 percent which is the highest out of the three scenarios. This is
4 primarily due to the higher 2025 deferred deficiency (up to \$32.701 million) and the
5 one-year amortization period for the 2025 deferred deficiency starting in 2027.
- 6 ○ As shown in Table 2 above, the 2027 amortization from the Revenue Deficiency
7 deferral account is estimated to be \$40.671 million, which is approximately \$24
8 million and \$14 million higher than FEI's proposed scenario and Scenario (i),
9 respectively. This level of amortization in 2027 from a single deferral account is
10 significant and will become one of the biggest contributors to the rate increase in
11 2027. Further, since the 2025 portion of the revenue deficiency (i.e., \$32.701
12 million) will be fully amortized over a one-year period in 2027, it will create
13 significant rate volatility in 2028 when the amortization is eliminated in 2028.
- 14 Based on the evaluation of the three scenarios above, FEI continues to consider its proposed
15 scenario in the Application to be the most reasonable and balanced when considering rate
16 impacts (in 2026 and 2027), rate volatility, and time until the revenue deficiency is fully amortized.
17 Although the revenue deficiency will not be fully amortized until 2031 (i.e., the latest out of the
18 three scenarios), FEI's proposed scenario has the lowest delivery rate increase in 2026 and will
19 also have relatively less rate volatility than Scenarios (i) and (ii). Further, since the amortization
20 from the deferral account is the lowest in 2026 and 2027 out of the three scenarios, it puts the
21 least pressure on 2027 delivery rates compared to Scenarios (i) and (ii).
- 22

B. OPERATIONS AND MAINTENANCE EXPENSE

3.0 Reference: OPERATIONS AND MAINTENANCE EXPENSE

Exhibit B-2, Section 6.3.6, Table 6-8, p. 56

Renewable Natural Gas (RNG) Operations and Maintenance (O&M)

On page 56 of the Application, FEI provides Table 6-8, which shows the RNG O&M by project, and it includes a line item for program overhead. Table 6-8 is reproduced in part below:

Table 6-8: RNG O&M by Project (\$ millions)

Line No.	Description	2024 Approved	2024 Actual	2025 Projected	2026 Forecast
1	Program Overhead	\$ 3.986	\$ 5.502	\$ 5.538	\$ 5.662

Further on page 56 of the Application, FEI discusses the drivers of the increasing trend in program overhead costs from 2024 approved to 2026 forecast.

3.1 Please discuss specific areas, if any, where FEI has been able to find cost savings or efficiencies in the 2024 actual RNG O&M program overhead compared to 2024 approved.

Response:

One of the major contributors to the RNG Program Overhead costs is customer education. The level of investment in customer education and awareness required in 2024 was higher due to the introduction of the RNG Blend. As the RNG Blend is a new service that was introduced in 2024, FEI increased its spending on customer education and awareness, including increased advertising costs in a variety of media channels to maximize the impact of its communications. As stated in the Application, FEI anticipates a reduction in spending in RNG awareness initiatives starting in 2025; however, FEI will continue to need to invest in customer education regarding the RNG Blend in 2025 and 2026. As the RNG Blend becomes better known and understood by customers, FEI expects to be able to reduce its spending on customer education by reducing the frequency of communications. A preliminary estimate of potential savings is \$0.250 million.

Additionally, during 2024, FEI evaluated its reliance on external contractors for RNG project development across the RNG program. External contractors have historically provided support related to project coordination, engineering support for new project evaluation, and support for compliance (e.g., carbon intensity reports). FEI has identified an opportunity to bring some of these activities in-house and has been working on developing the required expertise and skillsets internally. However, the development of this in-house expertise will take time (and thus the savings will take time to be realized), and the savings are expected to be partially offset by additional costs related to compliance support as the number of facilities has increased. To achieve efficiencies in legal costs related to future RNG agreements, FEI incurred additional costs in 2024 to develop a more robust agreement template for future Biomethane purchase

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1 agreements. Although FEI has not yet executed any agreements using the new template, it is
2 expected to be more efficient and therefore less costly to finalize new, future agreements.

3 Beyond these items, FEI does not see any specific efficiencies to be gained at this time, but will
4 continue to evaluate its needs related to this area of the business and look for opportunities for
5 efficiencies and cost savings where possible.

6 FEI notes that there is an economy of scale as the volume of RNG grows over time in comparison
7 to the Program Overhead. This is a result of the fact that the current resources assigned to this
8 area of the business are expected to grow at a slower rate than the costs associated with RNG
9 purchases. In other words, the cost of Program Overhead per GJ of RNG is expected to decrease
10 over time, all else equal.

11 FEI also notes that to the extent it is able to realize savings from the above actions earlier than
12 expected (i.e., in 2025 and/or 2026), and actual 2025 and/or 2026 RNG Program Overhead is
13 less than projected/forecast, these savings will be flowed through to customers in subsequent
14 years.

15
16
17
18 3.2 Please discuss whether there are any potential cost savings or efficiencies to be
19 realized in the 2025 Projected and 2026 Forecast RNG O&M program overhead
20 costs.

21
22 **Response:**

23 Please refer to the response to BCUC IR1 3.1.
24

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C. RATE BASE

4.0 Reference: RATE BASE

**Exhibit B-1, p. 2; Exhibit B-2, Section 7.7.2.1, p. 76; Exhibit A-2,
Order G-179-25 dated July 22, 2025, Appendix A, p. 1**

Annual Review Proceeding Costs Deferral Account

On page 2 of Exhibit B-1, FEI's proposed timetable for the review of the Application included a workshop. By Order G-179-25, the BCUC established the timetable for the review of the Application without a workshop.

On page 76 of the Application, FEI states that "[c]onsistent with the existing approved deferral account, the Annual Review Proceeding Costs deferral account will capture costs such as BCUC costs, intervener/ participant funding costs, consulting costs, legal fees, and miscellaneous facilities, stationery and supplies costs." FEI also states that it forecasts additions to this deferral account of \$0.150 million in each of 2025 and 2026.

4.1 Given that the regulatory timetable established by Order G-179-25 for this proceeding does not include a workshop, please explain the impact, if any, on the forecast additions to the Annual Review Proceeding Costs deferral account for 2025 and 2026 of \$0.150 million in each year, as well as the impact on the forecast revenue deficiencies and resulting delivery rates.

Response:

FEI clarifies that the forecast of \$0.150 million in 2025 (i.e., additions to the deferral account in 2025) was referring to the current proceeding (i.e., the Annual Review for 2025-2026 Delivery Rates), while the \$0.150 million forecast in 2026 (i.e., additions to the deferral account in 2026) was referring to the regulatory costs for the Annual Review for 2027 Delivery Rates, which FEI expects to occur and be complete in 2026.

Considering the regulatory timetable established by Order G-179-25 which excluded a workshop, and the proceeding scope defined by the BCUC's letter regarding intervener registration and instruction on proceeding scope,⁴ FEI agrees that it would be reasonable to reduce the forecast proceeding costs to \$0.075 million in 2025 (for the 2025-2026 Annual Review) and \$0.075 million in 2026 (for the 2027 Annual Review).

While FEI would be amenable to revising these forecasts as part of the compliance filing to the BCUC's decision on the Application, the small decrease in the forecast proceeding costs would have no impact on the 2025 delivery rates (as FEI is proposing to maintain permanent 2025 delivery rates at 7.75 percent) and a negligible impact on the 2026 delivery rates (the revenue deficiency would be reduced by \$6 thousand and the delivery rate increase would remain at 10.07 percent when rounded to two decimal places). FEI also notes that the actual proceeding costs will be recorded in the deferral account once they are available, and the actual amortization will

⁴ Exhibit A-3.

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1 be trued-up and reflected in subsequent years. Therefore, while amenable, FEI does not consider
2 it necessary to revise the forecast additions to the Annual Review Proceeding Costs deferral
3 account.

4

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5.0 Reference: RATE BASE

Exhibit B-2, Section 7.3.3.2, Table 7-6, p. 66, Section 13.2.4.3, Table 13-19, p. 199;

FEI and FBC 2025 to 2027 Rate Setting Framework Proceeding, Exhibit B-1-2, p. C-171

RNG Capital Expenditures

On page 66 of the Application, FEI provides Table 7-6, which shows the 2024 Approved, 2024 Actual, 2025 Projected, and 2026 Forecast RNG capital expenditures (CAPEX), as summarized in the BCUC staff-created table below:

	2024 Approved	2024 Actual	2025 Projected	2026 Forecast
Total RNG CAPEX (\$ million)	43.068	25.341	19.181	4.800

On page C-171 of Exhibit B-1-2 in the FEI and FBC 2025 to 2027 Rate Setting Framework proceeding, FEI stated:

Gas infrastructure has historically delivered conventional natural gas. However, the gas infrastructure is capable of delivering other gaseous fuels, including renewable and low-carbon fuels such as RNG and hydrogen. FEI's 2022 Long-Term Gas Resource Plan envisions having approximately 25 percent of total gas supply from renewable and low-carbon gas by 2030.

On page 199 of the Application, FEI provides Table 13-19, which contains FEI's historical renewable and lower carbon energy supply:

Table 13-19: Historical Renewable and Lower Carbon Energy Supply

Description	2020	2021	2022	2023	2024	June 2025 YTD
Renewable and Lower Carbon Energy Supply Volume (TJ)	252	715	2,295	2,778	2,776	1,871
Total Volume of Gas Consumed by Customers (PJ)	219	228	231	213	220	123
Renewable and Lower Carbon Energy Supply as Percentage of Total Gas Consumed by Customers (%)	0.12	0.31	0.99	1.31	1.26	1.52

5.1 Please discuss the decreasing trend in FEI's RNG capital expenditures from 2024 Approved to 2026 Forecast, as shown in Table 7-6 in the Application, and explain how this reconciles with FEI's progress towards obtaining 25 percent total gas supply from renewable and low-carbon gas by 2030.

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Response:

FEI's level of capital expenditures on RNG is not indicative of its progress towards meeting renewable and lower-carbon gas targets. FEI only incurs capital expenditures for in-BC RNG projects, and only incurs significant capital expenditures when it owns the upgrading facility, as in the case of the COV Landfill project.

The 2024 Approved, 2024 Actual and 2025 Projected capital expenditures are reflective of capital deployed, primarily, to construct FEI's RNG production facility located at the City of Vancouver's landfill. This level of capital expenditure is not typical as FEI has predominantly been contracting for in-BC supply and out-of-province supply where the RNG upgrading facilities are owned by third party producers.⁵

Irrespective of the above discussion, FEI has been actively developing RNG projects in BC. A primary reason why the 2026 Forecast capital is lower than 2024 Actual and 2025 Projected is due to delays in deployment of two in-BC capital projects that are taking longer to develop. These projects are the Regional District of Fraser Fort George (RDFFG) and Comox Valley projects, which are expected to be in-service in 2027 or 2028.

5.2 Please discuss the trend in FEI's renewable and lower carbon energy supply, as shown in Table 13-19 above, and explain how it reconciles with FEI's progress towards obtaining 25 percent total gas supply from renewable and low-carbon gas by 2030. In the response, please discuss any risk(s) of not meeting this target and how FEI intends to mitigate the identified risk(s).

Response:

The actual volumes received by FEI do not accurately represent the full volume of Renewable and Lower Carbon Energy Supply (RLCES) available to FEI. FEI diverted a portion of its contracted supply to other markets in 2023 and 2024 to manage its inventory of RNG. The redirected volume will be available as FEI supply in the future. The total diverted volume of RLCES in 2023 was 841 TJ and the total diverted volume in 2024 was 3,604 TJ, meaning the total available RLCES was more than double the volume shown in Table 13-19 of the Application. As shown in the table below, FEI's total available RLCES has increased significantly year-over-year since 2020.

⁵ In the case where in-BC RNG production facilities are owned by third party producers, the only capital FEI deploys is for interconnection facilities. FEI deploys no capital for out-of-province RNG supply.

1

Table 1: Total Available Renewable and Lower Carbon Energy Supply

	2020	2021	2022	2023	2024
Total Available Renewable and Lower Carbon Energy Supply (TJ)	252	715	2,295	3,619	6,380

2 The volumes of RNG and other lower-carbon gases presented in the 2022 Long-Term Gas
3 Resource Plan (LTGRP) were based on a planning scenario that assumed the implementation of
4 certain policies, such as the Greenhouse Gas Reduction Standard, that have not materialized.
5 Since 2022, the policy and regulatory landscape has evolved, creating uncertainty, which has
6 impacted FEI's procurement activities. For example, policies such as the BC Low Carbon Fuel
7 Standard (LCFS) and Zero Carbon Step Code (ZCSC) have impacted potential RNG markets.
8 The LCFS does not recognize out-of-province RNG for credit creation, making RNG for
9 transportation economically challenging for BC companies wishing to decarbonize their fleets.
10 The ZCSC does not recognize in-province or out-of-province RNG as a compliance pathway to
11 reduce emissions.

12 On the supply side, FEI continues to evaluate opportunities, with priority on in-province RNG
13 supply. However, in-province supply opportunities have extended development timelines and
14 represent a small pool in comparison to out-of-province supply. To further unlock RNG supply
15 within the province, FEI has explored new technologies that can either use additional feedstocks
16 or lower the cost per GJ to meet current economic limits set by the GGRR. Inside of BC, wood
17 waste is a source of RNG with significant potential. FEI has continued to monitor technology
18 development for the past several years and has not seen significant progress in economic
19 commercialization of technology for this source of RNG. FEI has one agreement with a supplier
20 that intends to use wood waste to produce RNG, but that supplier has yet to build a plant. In
21 addition, FEI sees some promise in commercial technology in the next few years that could
22 produce RNG at a lower price from existing, accessible organic waste sources.

23 Out-of-province supply offers a wider number and potentially larger projects and will continue to
24 be an important source of RNG that can allow FEI to reach higher RNG supply volumes. However,
25 in response to MoveUP IR1 2.1, if the BCUC determines in the 2025 RNG inquiry that further out-
26 of-province acquisitions of RNG are not consistent with the GGRR, and FEI is not permitted to
27 acquire RNG from out-of-province, this would eliminate out-of-province RNG as a pathway to
28 reaching higher supply volumes and lower costs.

29

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1 **D. TAXES**

2 **6.0 Reference: TAXES**

3 **Exhibit B-2, Section 9.3, p. 87**

4 **Forecast Income Taxes**

5 On page 87 of the Application, FEI states that it is projecting income taxes to be \$77.321
6 million in 2025 and forecasting income taxes to be \$112.260 million in 2026. FEI explains
7 that the increase in 2026 income taxes is primarily due to higher amortization of deferral
8 accounts in 2026 compared to 2025, among other items.

9 6.1 Under each of the scenarios presented in BCUC IR 2.4 above, please quantify the
10 impact to FEI's forecast income taxes and delivery rates in 2025 and 2026, as
11 applicable.

12
13 **Response:**

14 Please refer to the response to BCUC IR1 2.4.

15

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1 **E. EARNINGS SHARING AND RATE RIDERS**

2 **7.0 Reference: EARNINGS SHARING AND RATE RIDERS**

3 **Exhibit B-2, Section 10.3.3, p. 92; FEI Regional Gas Supply Diversity**
4 **(RGSD) Development Account Cost Recovery, Order G-123-25 with**
5 **accompanying decision dated May 15, 2025, Directive 1, p. 2,**
6 **Decision accompanying Order G-123-25, p. 4**
7 **Clean Growth Innovation Fund (CGIF)**

8 On page 92 of the Application, FEI states:

9 [...] due to the 2020 CGIF being a non-rate base deferral account (attracting
10 AFUDC [Allowance for Funds Used During Construction]), if unaddressed, there
11 would be a circular issue for regulatory accounting purposes whereby new AFUDC
12 amounts will continue to accumulate in the account each year and must be
13 factored into the amortization schedule.

14 To address this circular AFUDC issue, FEI proposes to transfer the \$5.224 million
15 after-tax balance accumulated in the 2020 CGIF deferral account at the end of
16 2024 to the existing rate base Residual Delivery Rate Riders deferral account
17 effective January 1, 2025, and to return the \$7.156 million (\$5.224 million after-
18 tax) to customers in 2025 via amortization of the Residual Delivery Rate Riders
19 deferral account. [...]

20 FEI also notes that it is possible that some of the accrued committed funds (i.e.,
21 some of the \$10.765 million) may ultimately be unspent if, for example, a project
22 is cancelled or some of the funds committed to the project are not spent. If such a
23 situation occurs, FEI proposes to also capture these unspent amounts in the
24 Residual Delivery Rate Riders deferral account and return the amounts to
25 customers in the subsequent year through amortization.

26 In Directive 1 of Order G-123-25 and accompanying decision for the FEI RGSD
27 Development Account Cost Recovery proceeding, FEI was approved to transfer the
28 balance in the non-rate base RGSD Development Account, inclusive of the actual
29 regulatory proceeding costs associated with this Application, to a rate base deferral
30 account, effective January 1, 2026.

31 7.1 Please further explain the circular AFUDC issue for the 2020 CGIF deferral
32 account, including whether this issue has arisen before with the amortization of
33 non-rate base deferral accounts.

34 7.1.1 Please discuss whether the circular AFUDC issue for the 2020 CGIF
35 deferral account is the same issue that FEI raised in the RSGD
36 Development Account Cost Recovery proceeding as it relates to why it
37 was necessary to transfer the non-rate base RGSD Development

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Account to a rate base account deferral account.⁶ Please explain why or why not.

Response:

FEI projects or forecasts AFUDC on non-rate base deferral accounts where applicable, and then also projects or forecasts the amortization of that deferral account incorporating the AFUDC addition into amortization.

FEI provides the following example of a non-rate base deferral account to illustrate the potential circular issue:

- Deferral account opening balance is \$100,000.
- Forecast after-tax additions are \$10,000.
- Forecast AFUDC on the deferral account is \$3,000.

Assuming a one-year amortization period, FEI would forecast \$113,000 in amortization expense to bring the account balance to zero. However, given actual AFUDC is calculated on the actual balances in the deferral account, to the extent the timing and amount of the \$10,000 additions were not exactly as forecast, a variance would occur between actual and forecast AFUDC that would then need to be amortized in the following year. This cycle could continue in perpetuity if the actual AFUDC was not exactly as forecast.

Instead, transferring the balance to a rate base deferral account ensures the elimination of this potential circular issue as the forecast return on rate base is ultimately what is recovered from customers, and there is no need to include actual AFUDC amounts in the account.

This is partially the same reason why the RGS Development Account was requested to be transferred to rate base, although the circular issue is less of a concern in accounts where costs are incurred and no future activity, besides AFUDC, is expected in the account, as it makes it more likely that the forecast AFUDC will be the same as the actual AFUDC. Instead, the RGS Development Account, and similar type accounts, are requested to be transferred to rate base to avoid the compounding returns that AFUDC can create. For example, if AFUDC is incurred in Year 1 for a deferral account, the AFUDC incurred in Year 2 for that account will include an AFUDC return on the Year 1 AFUDC remaining in the deferral account, effectively creating compounding interest and a higher overall amount recoverable from customers in the future. Transferring an account to rate base as soon as practicable results in the rate base return being recovered from customers in that specific year (i.e., the returns are no longer added to the deferral accounts to compound in future years but are recovered directly from customers in each year).

The Residual Delivery Rate Riders deferral account was requested in the 2012-2013 Revenue Requirement Application and approved by Order G-44-12. In that application, FEI proposed to

⁶ As cited on page 4 of the decision accompanying Order G-123-25, FEI explained the accounting reasons in Exhibit B-3, BCUC IRs 5.1 and 5.2 of the RSGD Development Account Cost Recovery proceeding.

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transfer the balances of three non-rate base deferral accounts, where riders were used to recover the balances in those deferral accounts, to this new Residual Delivery Rate Riders account. Over the years, FEI proposed to transfer several more residual deferral account balances to this account. These transfers were all requested to avoid similar circular AFUDC issues.

Given that the Residual Delivery Rate Riders deferral account already exists to address the circular AFUDC issue, FEI considers utilizing the existing account is more efficient than establishing a new deferral account, which would then need to be discontinued at a later date. While creating a new deferral account would also be feasible, FEI considers that utilizing the previously approved (and understood) deferral account is the most reasonable approach to facilitate the return of unused CGIF funds to customers and address the circular AFUDC issue.

7.2 Please explain why the proposed transfer of funds from the 2020 CGIF deferral account to the Residual Delivery Rate Riders deferral account is the most efficient and understandable way to handle this circular AFUDC issue.

Response:

Please refer to the response to BCUC IR1 7.1.

7.3 Please discuss whether FEI would require separate BCUC approval in the event that there is a need to capture unspent accrued committed funds from the 2020 CGIF deferral account in the Residual Delivery Rate Riders deferral account and return the amounts to customers in the subsequent year through amortization. If not, please explain why not.

Response:

FEI does not believe that separate BCUC approval is required in the event a portion of the accrued funds are not spent. The funds were committed prior to the end of the 2020-2024 MRP term and did not exceed the amounts collected through the CGIF rate rider during the term of the MRP.

FEI was directed by the BCUC to return any unspent amounts from the 2020 CGIF deferral account to customers through amortization over one year in the RSF Decision. Consistent with the RSF Decision, FEI is proposing to return the unspent balance of \$5.224 million (after tax) by transferring the balance to the Residual Rate Riders deferral account (which has an approved amortization period of one year). FEI will return any further unspent amounts from the 2020 CGIF deferral account if such amounts arise. If the BCUC approves the use of the Residual Delivery

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1 Rate Riders deferral account to return the unspent funds as part of this Application, no further
2 approvals would be required. FEI accrues various costs or revenues in various deferral accounts,
3 and to the extent the actual costs or revenues differ from the accrued amounts, the differences
4 are captured in the deferral accounts and recovered from or returned to customers via
5 amortization of those deferral accounts. There is no explicit review or approval required over those
6 true-ups, as these deferral accounts (including the Residual Delivery Rate Riders deferral
7 account) are approved to ultimately recover or return the actual balances from/to customers.

8
9
10
11 7.4 Please discuss whether a change should be made to the non-rate base 2025 CGIF
12 deferral account now to avoid a similar situation for the balance in the 2025 CGIF
13 deferral account at the end of 2027. Please include a corresponding approval
14 sought for this proceeding, if applicable. If not, please explain why not.
15

16 **Response:**

17 FEI does not believe a change to the 2025 CGIF deferral account is required. The amounts
18 appropriately belong in a non-rate base deferral account, as the balances are highly variable and
19 difficult to forecast due to uncertainty regarding the amount of funds that will be granted annually.

20 FEI expects that there will be a residual balance in the 2025 CGIF deferral account (similar to the
21 2020 CGIF deferral account) and will seek approval to address this residual balance at the
22 conclusion of the RSF term. At that time, FEI may similarly seek to transfer the residual balance
23 in the 2025 CGIF deferral account to the Residual Delivery Rate Riders deferral account.

24