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Utilities Commission

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ORDER NUMBER
G-123-25

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

FortisBC Energy Inc.
Regional Gas Supply Diversity Development Account Cost Recovery

BEFORE:
B. A. Magnan, Commissioner

On May 15, 2025

ORDER

WHEREAS:

A. On December 20, 2024, FortisBC Energy Inc. (FEI) filed an application with the British Columbia Utilities Commission (BCUC) pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA), seeking approval to transfer the balance in the non-rate base Regional Gas Supply Diversity (RGSD) Development Account to a rate base deferral account, and to recover the balance in the deferral account, as well as regulatory proceeding costs associated with this application, over three years, commencing January 1, 2026 (Application);

B. On September 14, 2022, by Order G-253-22, the BCUC approved the establishment of the RGSD Development Account to capture actual development costs incurred for the potential RGSD project, with disposition of the deferral account balance to be determined in a future proceeding;

C. By Order G-4-25 dated January 10, 2025, the BCUC issued a regulatory timetable for review of the Application, which included public notice, one round of BCUC and intervener information requests (IRs), final argument from FEI and interveners and reply argument from FEI;

D. FEI states that costs totalling $3.755 million net of tax and including allowance for funds used during construction were required to investigate the potential RGSD project; and

E. The BCUC has reviewed the evidence and submissions filed in the proceeding and makes the following determinations.

NOW THEREFORE pursuant to sections 59 to 61 of the UCA and for the reasons outlined in the decision accompanying this order, the BCUC orders as follows:

1. FEI is approved to transfer the balance in the current non-rate base RGSD Development Account, inclusive of the actual regulatory proceeding costs associated with this Application, to a rate base deferral account effective January 1, 2026.

2. FEI is approved to recover the balance of the rate base deferral account established by Directive 1 over three years effective January 1, 2026.

DATED at the City of Vancouver, in the Province of British Columbia, this 15th day of May 2025.

BY ORDER

Electronically signed by Bernard Magnan

B. A. Magnan
Commissioner

FortisBC Energy Inc.
Regional Gas Supply Diversity Development Account Cost Recovery

DECISION

1.0 Introduction

1.1 Background

On September 14, 2022, FortisBC Energy Inc. (FEI) was approved by the British Columbia Utilities Commission (BCUC) to establish the Regional Gas Supply Diversity (RGSD) Development Account attracting FEI's Weighted Average Cost of Capital (WACC) return, to capture actual development costs incurred for the potential RGSD project (RGSD Project or Project), with disposition of the deferral account balance to be determined in a future proceeding.[1]

In its application for the RGSD Development Account, FEI stated that it was at a critical juncture in terms of regional pipeline development as Enbridge had recently announced its intention to begin developing an expansion of its T-South pipeline (Sunrise Project). At that time, FEI estimated that a T-South expansion could increase FEI's costs significantly and leave it exposed to rely on a single pipeline system to serve the majority of its service territory.[2] FEI noted that the RGSD Project, consisting of an extension of its Southern Crossing Pipeline, would be a potentially beneficial alternative to the expansion of T-South and therefore it was in the best interests of FEI and its customers to accelerate the Project development work.[3]

From the fourth quarter of 2022 to the second quarter of 2024, FEI filed six quarterly RGSD Project progress reports with the BCUC.

On December 20, 2024, FEI filed an application with the BCUC, pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA), to transfer the balance in the non-rate base RGSD Development Account to a rate base deferral account to be amortized over three years, beginning in 2026, and attracting a WACC return (Application).

1.2 Regulatory Process

On January 10, 2025, the BCUC established a regulatory timetable for the review of the Application, which included public notice, intervener registration, one round of information requests to FEI, and final and reply argument.[4] The British Columbia Old Age Pensioners' Organization, Council of Senior Citizens' Organizations of BC, Active Support Against Poverty, Disability Alliance BC, Tenants Resource and Advisory Centre, and Together Against Poverty Society (collectively, BCOAPO) and the Commercial Energy Consumers Association of BC (CEC) registered as interveners and participated in the review of the Application.

[1] Order G-253-22 dated September 14, 2022.
[2] RGSD Project Development Account Application, p. 2.
[3] RGSD Project Development Account Application, pp. 1-2.
[4] Order G-4-25 dated January 10, 2025.

2.0 Issues Arising

2.1 Project Development Process and Value

FEI states that the RGSD Project development activities, at a cost of $3.755 million (forecast to December 31, 2025) net of tax and including allowance for funds used during construction were required to undertake initial development work to investigate the potential for the RGSD Project.[5] FEI divided the development work into two phase gates: [6]

- **Preliminary and Conceptual Phase (Pre-Phase 1)** from November 2021 to September 2022 consisting of activities including completion of a Class 5 capital cost estimate for the pipeline extension and compressor station additions, land and right of way requirement assessment and Indigenous engagement planning and commencement; and
- **Pre-FEED[7] Phase (Phase 1)** from October 2022 to March 2024 consisting of activities including Indigenous engagement and a detailed screening assessment of the three delivery options under consideration for the Project.

FEI states that the original RGSD Development Account Application contemplated a scope of Pre-FEED design work with a forecasted cost of $52.4 million up to the third quarter of 2024.[8] FEI explains that early discussions with Indigenous groups revealed significant risks to FEI's ability to gain support for a greenfield pipeline project. Therefore, FEI determined in the second quarter of 2023 that it would be necessary to complete a detailed screening analysis of the RGSD Project routing options prior to completing the other planned Pre-FEED design work.[9]

The screening assessment completed by FEI evaluated three potential pipeline routes, and their sub-variants, and considered preliminary technical and engineering design work, environmental and archaeological considerations, Indigenous engagement and consultation, RGSD Project risks and costs. FEI states that the screening analysis identified the Oliver to Kingsvale route as the option with the greatest potential given its enhanced use of existing regional infrastructure, potentially lower costs and balanced risks.[10]

FEI states that, although the Oliver to Kingsvale route is worthy of further assessment, the RGSD Project development work made it clear that:[11]

(i) The scope of the RGSD Project, including regional approaches, would likely not meet the timelines for some of the near-term market needs or avoid the Sunrise Project as it had further developed and had a higher probability of proceeding; and

(ii) In order to mitigate risks on FEI's customers and achieve an optimal solution, any new regional infrastructure should be explored in collaboration with other market participants and consider integration with regional infrastructure.

FEI states that while it has determined not to proceed with the RGSD Project as originally contemplated, the development work and costs incurred to investigate potential regional infrastructure solutions have been valuable in assessing the potential for a solution of more benefit to FEI customers than a T-South expansion.[12]

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5 Exhibit B-1, p. 3; Exhibit B-3, BCUC IR 4.1.
6 Exhibit B-1, p. 16.
7 Pre-Front End Engineering Design.
8 Exhibit B-1, p. 14.
9 Exhibit B-3, BCUC IR 3.1.
10 Exhibit B-1, p. 19.
11 Ibid., pp. 13-14.
12 Ibid., p. 14.

Positions of the Parties

The CEC submits that proceeding with the screening work rather than proceeding with Pre-FEED work right away was valuable in limiting the costs. Further, the CEC appreciates that FEI's staged approach was valuable in limiting spending prior to further development work, and submits that overall, the RGSD Project was prudently initiated, the work undertaken was appropriate and FEI acted appropriately in proceeding with RGSD Project development until the evidence no longer supported the RGSD Project. The CEC notes that it did not find any evidence to suggest that FEI proceeded to expend significant monies after it was deemed the RGSD Project would not be successful. [13]

BCOAPO submits that it is appropriate for FEI to recover RGSD Project development costs from ratepayers because it was in the public and ratepayers' interest to explore alternatives to the Sunrise Project that would provide additional benefits at the same or lower cost.[14] BCOAPO accepts that it is not at all atypical to incur pre-development costs prior to finalizing and filing an application for a Certificate of Public Convenience and Necessity. However, BCOAPO suggests that it is more difficult to assess the reasonableness of the $2.6 million spent between November 2022 when the Sunrise Project was announced as fully subscribed, and early 2024, when FEI ceased development work on the RGSD Project.[15] BCOAPO further submits that there is no definitive evidence on the limited record of the proceeding which would otherwise allow a recommendation to reduce the amount that is requested for recovery.[16]

In response, FEI submits three reasons that it was reasonable for FEI to have proceeded with development work between November 2022 and the first quarter of 2024, based on information available at the time. First, it would have been premature for FEI to have ceased development work when Enbridge announced that its open season was fully subscribed in November 2022 as there was considerable work for Enbridge to undertake before it could begin applying for regulatory and permitting approvals. Second, the binding nature of Enbridge's open season did not eliminate the potential for an alternative commercial solution that could be in place on the same timeline as the Sunrise Project. Finally, it remained possible that the Sunrise Project would not proceed.[17]

2.2 Recovery of RGSD Development Account Costs

FEI seeks approval, pursuant to sections 59 to 61 of the UCA, to recover the deferred RGSD Project development costs, including regulatory proceeding costs associated with the review of this Application, by taking the following steps:[18]

1. Transferring the balance in the existing non-rate base RGSD Development Account to a rate base deferral account, on January 1, 2026; and
2. Recovering the balance in the rate base RGSD Development Account over a three-year period, commencing January 1, 2026.

[13] CEC Final Argument, pp. 6-8.
[14] BCOAPO Final Argument, pp. 3-4.
[15] Ibid., p. 6.
[16] Ibid., p. 7.
[17] FEI Reply Argument, pp. 2-3.
[18] Exhibit B-1, pp. 4, 23.

Rate Base Deferral Account

FEI states that its proposal to transfer the balance from the existing non-rate base RGSD Development Account to rate base before amortization is consistent with the treatment of previous deferral accounts approved by the BCUC, such as the 2017 & 2018 Revenue Surplus deferral account.[19] The new rate base deferral account will attract a WACC return, which is equivalent to the return previously earned on the non-rate base RGSD Development Account.[20]

FEI further submits that the transfer is necessary to ensure that the RGSD Development Account balance will be fully depleted within the forecast amortization period, due to how its accounting of the return is completed. For non-rate base deferral accounts, FEI explains that the financing costs are calculated and recorded monthly, and that the return amounts are recorded in the deferral account as a current year addition. Whereas, for rate base deferral accounts, the return amounts are embedded in the earned return portion of FEI's annual revenue requirements. As such, while the financing costs associated with a non-rate base deferral account attracting a WACC return versus a rate base deferral account attracting a rate base return are generally equal, there is a potential for variances between actual and forecast returns (e.g. if the forecast return was not produced using the same level of precision as actual returns are recorded) for non-rate base deferral accounts that does not exist for rate base deferral accounts. FEI states that any variance between actual and forecast additions would leave a residual balance in the deferral account that would need to be recovered from/returned to customers in a future year.[21]

Commencing Amortization and the Amortization Period

FEI proposes to commence amortization of the rate base RGSD Development Account beginning on January 1, 2026, over a three-year amortization period.[22]

FEI explains that alternative amortization periods ranging from one to five years were considered. However, FEI ultimately determined that three years is the most reasonable, and provides an appropriate balance among the following factors:[23]

- Size of the deferral account balance;
- Passage of time since the costs were first spent (i.e. 2021) and the length of time the deferral account was active (i.e. the number of years additions were recorded in the deferral account);
- Difference in the delivery rate impact; and
- Intergenerational equity considerations.

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[19] Exhibit B-3, BCUC IR 5.1.
[20] Ibid., BCUC IR 5.2.
[21] Exhibit B-3, BCUC IRs 5.1, 5.2.
[22] Exhibit B-1, pp. 4, 23.
[23] Ibid., p. 24.

Table 1 below provides the details of the estimated delivery rate and annual bill impact of the RGSD Development Account for the proposed three-year amortization period, with and without the estimated regulatory proceeding costs associated with this Application:

Table 1: Delivery Rate and Bill Impact Calculations[24]

	With Estimated Regulatory Proceeding Costs	Without Estimated Regulatory Proceeding Costs
Incremental Delivery Margin for 3-Year Amortization Period in 2026 ($ millions)	1.781	1.765
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

By way of comparison, FEI calculates that the incremental delivery margin and delivery rate impact in 2026 ranges from $5.304 million and 0.46 percent for a one-year amortization period, to $1.083 million and 0.09 percent, for a five-year amortization period, without the estimated regulatory proceeding costs associated with this Application.[25]

Positions of the Parties

BCOAPO and the CEC support FEI's request for a 3-year amortization period for the RGSD Development Account balance, commencing on January 1, 2026.[26] The CEC states that the three-year term is appropriate, noting that it appears to capture the most significant aspects of the rate smoothing benefits of a longer amortization period.[27]

BCOAPO requests, however, that the BCUC consider keeping the RGSD Development Account balance and regulatory costs associated with this Application in a non-rate base deferral account, with carrying costs at FEI's weighted-average cost of debt. In BCOAPO's view, this approach would be appropriate given that there is no underlying asset associated with the RGSD Development Account and the relatively short proposed three-year amortization period.[28]

In reply to BCOAPO, FEI argues that BCOAPO's recommendation should be rejected for three reasons. First, FEI submits that the BCUC has already approved a WACC return in its prior decision establishing the non-rate base RGSD Development Account. In FEI's view, the rate base RGSD Development Account should logically attract the same return as the previous approved non-rate base account considering that there is no change to the underlying return attributed to the balance being deferred. That is, whether the account is rate base or non-rate base, FEI states that the costs recorded in the RGSD Development Account have been financed by FEI using a mix of debt and equity equivalent to its WACC. As such, a deferral account return equivalent to the associated interest and return on equity costs (i.e. WACC) remains reasonable and appropriate.[29] Further, FEI states that the length of the amortization period has no bearing on the associated return, noting that FEI has a number of

[24] Exhibit B-3, BCUC IRs 5.4, 5.6. FEI states that the estimated regulatory proceeding costs associated with this Application are $45,000 (BCUC IR 5.3).
[25] Exhibit B-3, BCUC IR 4.1.
[26] BCOAPO Final Argument, p. 6; CEC Final Argument, p. 9.
[27] CEC Final Argument, p. 9.
[28] BCOAPO Final Argument, p. 8.
[29] FEI Reply Argument, p. 4.

deferral accounts (such as its flow-through deferral account and earnings sharing deferral account) with even shorter amortization periods that attract a WACC return.[30]

Second, FEI submits that retaining the existing non-rate base deferral account, as proposed by BCOAPO, would not address the underlying accounting reason for transferring the balance to a rate base account which is to avoid a residual balance that needs to be recovered from, or returned to, customers in a future year beyond the proposed three-year amortization period.[31] Eliminating the potential for future variances by transferring the existing non-rate base RGSD Deferral Account balance to rate base is also consistent with past BCUC treatment.[32]

Finally, FEI submits that the lack of an underlying asset has no bearing on whether the account is rate base or non-rate base and the return type. The lack of a physical asset in the case of the RGSD Project development costs does not change the underlying financing, which is from a mix of debt and equity funding as discussed above.[33]

3.0 Panel Determination

FEI is approved to do the following, effective January 1, 2026:

(i) **Transfer the balance in the current non-rate base RGSD Development Account, inclusive of actual regulatory proceeding costs associated with this Application, to a rate base deferral account; and**

(ii) **Recover the balance of the rate base deferral account as established above over three years.**

The Panel finds FEI's approach to the development of the RGSD Project to be reasonable. Given the uncertain circumstances of the Enbridge Sunrise Project at the time, FEI took a prudent approach to RGSD Project development by completing a screening assessment prior to completing additional, more costly development work. The Panel notes that FEI's spend of $3.755 million is significantly less than the original budget for the funds to be deferred in the RGSD Project Development Account of $52.4 million, which the Panel considers to be further evidence of FEI's avoidance of unreasonable Project development work. FEI's decision to cease RGSD Project development work was appropriate when it became apparent that the Enbridge Sunrise Project was likely to move forward at a faster pace and that FEI would need to secure commercial agreements with other parties. The Panel disagrees with BCOAPO's assertion that it is difficult to assess the reasonableness of Project expenditures between late 2022 and early 2024 as it would have been premature for FEI to abandon Project development prior to obtaining more certainty that Enbridge's Sunrise Project would proceed. Therefore, the Panel is satisfied that the costs of $3.755 million captured in the RGSD Development Account are prudently incurred, and are therefore reasonable and appropriate to recover from ratepayers.

Further, the Panel finds that regulatory proceeding costs associated with this Application, which are estimated to be $45,000,[34] are reasonable to recover from ratepayers. In particular, the Panel notes that the BCUC directed in Order G-253-22 that the recoverability and disposition of any costs recorded in the RGSD Development Account would be subject to BCUC review and determination in a future proceeding. As such, the current proceeding was necessitated by this directive in Order G-253-22. Therefore, the Panel considers that the actual costs FEI incurred in relation to this proceeding are appropriate for FEI to recover from ratepayers.

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[30] Ibid., p. 5.
[31] FEI Reply Argument., p. 5.
[32] Ibid., p. 6.
[33] Ibid.
[34] Exhibit B-3, BCUC IR 5.3.

While the Panel acknowledges BCOAPO's request that the BCUC consider directing FEI to keep the RGSD Development Account as a non-rate base account attracting a weighted-average cost of debt return, the Panel is not persuaded to make these directions. The Panel finds that, in this circumstance, the deferred costs related to the RGSD Project development work should continue to attract a WACC return on the basis that this is consistent with the carrying cost previously approved by the BCUC for these costs[35] and that FEI states these costs have been financed by the utility using a mix of debt and equity equivalent to its WACC. The Panel accepts that transferring the balance of the current non-rate base RGSD Development Account to rate base will allow FEI to continuing financing the deferred costs at the same rate as under its existing approved rate, with the additional accounting benefit of avoiding future potential variances.

Finally, the Panel finds that a three-year amortization period, commencing on January 1, 2026, for RGSD Project development costs is appropriate. This amortization period smooths the delivery rate impacts to customers, while striking a reasonable balance with the higher carrying costs associated with a longer amortization period as compared to a shorter amortization period.

DATED at the City of Vancouver, in the Province of British Columbia, this 15th day of May 2025.

Electronically signed by Bernard Magnan

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B. A. Magnan
Commissioner

[35] Order G-253-22.