



**ORDER NUMBER**  
**G-138-25**

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

and

FortisBC Energy Inc. and FortisBC Inc.  
Establishment of an Equity Issuance Cost Deferral Account and Recovery of Equity Issuance Costs

**BEFORE:**

E. B. Lockhart, Panel Chair

on June 9, 2025

**ORDER**

**WHEREAS:**

- A. On December 11, 2024, FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) (together, FortisBC) filed an application (Application) with the British Columbia Utilities Commission (BCUC) pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA), seeking approval:
- (i) to establish a new non-rate base deferral account, for each of FEI and FBC, titled the Flotation Costs deferral account, attracting interest at FEI and FBC's weighted average cost of capital; and
  - (ii) to record the actual after-tax flotation costs attributable to each of FEI and FBC from equity injections from their parent company, Fortis Inc., incurred in 2023 and 2024 in the Flotation Costs deferral account, as well as to record future actual flotation costs.
- B. By Decision and Order G-236-23 dated September 5, 2023, the BCUC concluded Stage 1 of the Generic Cost of Capital (GCOC) proceeding (GCOC Stage 1 Decision). As part of the GCOC Stage 1 Decision, the BCUC accepted that any reasonable and prudently incurred flotation costs by a public utility are recoverable from customers over and above the approved cost of capital, with supporting documentation when FortisBC issues additional equity;
- C. By Order G-5-25 dated January 10, 2025, the BCUC established the regulatory timetable for the review of the Application, which included, among other things, intervener registration, one round of information requests (IRs), and final and reply arguments; and
- D. The BCUC has reviewed the Application, evidence and arguments filed in this proceeding and determines that approval of the Application is warranted.

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

1. FEI and FBC are each approved to establish a new non-rate base deferral account, titled the Flotation Costs deferral account, attracting interest at FEI and FBC's weighted average cost of capital, to capture the actual flotation costs attributable to FEI and FBC, from its parent company Fortis Inc.
2. FEI is approved to recover the actual 2023 and 2024 flotation costs of \$18.5 million attributable to the equity injections that FEI received from its parent company, Fortis Inc. The associated after-tax costs are approved to be recorded in the Flotation Costs deferral account.
3. FBC is approved to recover the actual 2023 and 2024 flotation costs of \$1.9 million attributable to the equity injections that FBC received from its parent company, Fortis Inc. The associated after-tax costs are approved to be recorded in the Flotation Costs deferral account.
4. FEI and FBC are each directed to propose an amortization period for their Flotation Costs deferral accounts in their next annual review or rate-setting process.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 9<sup>th</sup> day of June 2025

BY ORDER

*Electronically signed by Blair Lockhart*

E. B. Lockhart  
Commissioner

## DECISION

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### 1.0 Introduction

By Decision and Order G-236-23 dated September 5, 2023, the British Columbia Utilities Commission (BCUC) issued its decision on Stage 1 of the Generic Cost of Capital (GCOC) proceeding (GCOC Stage 1 Decision). As part of the GCOC Stage 1 Decision, the BCUC accepted that any reasonable and prudently incurred flotation costs incurred by a public utility are recoverable from customers over and above the approved cost of capital. The BCUC noted that FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) can request recovery of actual costs incurred by the parent company, Fortis Inc., by providing supporting documentation when FEI and FBC issue additional equity.<sup>1</sup>

On December 11, 2024, FEI and FBC (together, FortisBC) filed an application (Application) with the BCUC pursuant to sections 59 to 61 of the *Utilities Commission Act*, seeking approval:

- i) to establish a new non-rate base deferral account, for each of FEI and FBC, titled the Flotation Costs deferral account, attracting a weighted average cost of capital return;
- ii) for FEI to recover \$18.5 million in actual flotation costs incurred in 2023 and 2024. The after-tax costs will be captured in the newly established Flotation Costs deferral account, with an amortization period for these costs to be determined in a future rate setting process; and
- iii) for FBC to recover \$1.9 million in actual flotation costs incurred in 2023 and 2024. The after-tax costs will be captured in the newly established Flotation Costs deferral account, with an amortization period for these costs to be determined in a future rate-setting process.<sup>2</sup>

### 1.1 Regulatory Process

By Order G-5-25 dated January 10, 2025, the BCUC established a regulatory timetable for review of the Application, consisting of notice of Application, intervener registration, one round of BCUC information requests (IRs), one round of intervener IRs, and final and reply arguments. BC 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 (BCOAPO) and the Commercial Energy Consumers of BC (the CEC) registered to intervene in the proceeding.

### 2.0 Issues Arising

FortisBC states its parent company, Fortis Inc., relied primarily on its Dividend Reinvestment Plan (DRIP) to raise its equity capital in 2023 and 2024.<sup>3</sup> FortisBC explains the DRIP program allows shareholders of public companies to reinvest their cash dividends into additional shares that are bought directly from the public companies and

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<sup>1</sup> Decision and Order G-236-23 dated September 5, 2023 ([GCOC Stage 1 Decision](#)), p. 126.

<sup>2</sup> Exhibit B-1, p. 2.

<sup>3</sup> Exhibit B-1, p. 1.

are often offered at a discount. This enables public companies to retain the cash they would otherwise pay out as cash dividends, to support equity requirements of their operating subsidiaries.<sup>4</sup>

FEI and FBC's proposed actual flotation costs for recovery are based on the DRIP discount of 2.0 percent on an after-tax basis<sup>5</sup> (equivalent to approximately 2.74 percent before-tax), applied on the total amount of equity injection in 2023 and 2024 for FEI and FBC.<sup>6</sup> Table 1 below provides a breakdown of the actual flotation costs that FEI and FBC are proposing to recover:

Table 1: Equity Injections and Flotation Cost Calculation

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

In this section, the Panel addresses several issues related to FortisBC's requested approvals:

1. Recovery of flotation cost incurred on equity above deemed equity amount;
2. Inclusion of a flotation cost forecast; and
3. Future review process for flotation cost recovery.

## 2.1 Recovery of Flotation Cost Incurred on Equity above Deemed Equity Amount

The first issue is whether FEI and FBC should be able to recover flotation costs for equity injections above their approved deemed equity component.

FortisBC states in a typical year, FEI maintains an actual average equity percentage that is slightly higher (i.e., an equity cushion) than the amount required to finance rate base (i.e., 45.0 percent). FEI would not request an equity injection for the sole purpose of achieving an actual equity percentage of exactly 45.0 percent on a forecast basis because there are many variables related to the timing and amounts of earnings and capital expenditures that could influence the actual equity percentage amount and FEI must ensure that it remains onside with its ring-fencing provision<sup>7</sup>. FortisBC explains in times of increasing rate base and capital expenditures, any actual equity cushion in one year is effectively negated in the following year, as it is then required to finance the additional capital expenditure/rate base amounts from that year. As such, FEI normally seeks new equity injections on an annual basis, and given the full amount of each equity injection is required to

<sup>4</sup> Exhibit B-1, p. 6.

<sup>5</sup> This cost is not deductible for tax purposes and tax expense would have to be incurred when these costs are recovered (Exhibit B-1, p. 12).

<sup>6</sup> Exhibit B-1, pp. 12-13.

<sup>7</sup> Exhibit B-4, BCOAPO IR 3.2; By decision and accompanying order G-116-05 dated November 10, 2005 regarding an Application by Kinder Morgan, International and 0731297 B.C. Ltd for the Acquisition of Common Shares of Terasen Inc, the BCUC approved ring-fencing conditions, which includes that each Terasen Utility shall maintain, on a basis consistent with BCUC orders and accounting practices, a percentage of common equity to total capital that is at least as much as that determined by the BCUC from time to time for ratemaking purposes.

finance its rate base, FortisBC submits that the full cost of each equity injection should be recorded in FEI's proposed Flotation Costs deferral account.<sup>8</sup> While FBC does not have the same ring-fencing conditions as FEI, FBC targets to have total average common equity in place for each year in an amount approximately equal to the approved equity percentage.<sup>9</sup>

FortisBC notes that given the timing and effective date of the 2023 GCOC Stage 1 Decision, FEI was unable to meet the actual 45.0 percent equity thickness level for 2023. Therefore, FEI applied for and received BCUC approval for a variance for 2023 only, which relieved FEI of the requirement to maintain an actual average equity structure of at least 45.0 percent equity.<sup>10</sup>

### *Positions of Parties*

The CEC submits it is reasonable for FEI and FBC to maintain a 'cushion' and does not find the cushion for either utility to be excessive. The CEC recommends the BCUC conduct its assessment of the issuance cost based on the full value of the issuances for 2023 and 2024.<sup>11</sup>

BCOAPO submits it has no issues with FEI or FBC recovering actual flotation costs associated with their 2023 equity injections because the actual equity thickness is lower than the level approved.<sup>12</sup>

However, for 2024, BCOAPO submits it is unreasonable to require customers to pay the flotation costs for equity issued in excess of that required for each of the utilities to meet the BCUC's approved deemed equity percentages. Therefore, the BCUC should only approve flotation costs incurred on the amount of additional equity required for FEI and FBC to achieve the BCUC approved deemed equity percentages.<sup>13</sup> Based on the forecast equity percentage included in FEI and FBC's Q3 2024 Application for Approval to Issue Common Shares to Maintain the Approved Capital Structure, BCOAPO calculates that both FEI and FBC obtained equity injections in excess of the equity injection required to meet the deemed equity percentage. BCOAPO submits the BCUC should not approve any of FBC's proposed \$821,918 additions for 2024 to its Flotation Costs deferral account, and should only approve \$3,609,049<sup>14</sup> in additions for 2024 to FEI's Flotation Costs deferral account for future recovery in customer rates.<sup>15</sup> BCOAPO further submits that the BCUC should make these approvals on an interim basis subject to finalization once the actual results for 2024 are available.<sup>16</sup> This approach would avoid basing the final approved values on forecast/projected results and be consistent with the 2023 GCOC Stage 1 Decision, which determined that FEI and FBC can each "request recovery of actual costs incurred by the parent."

In reply, FortisBC submits BCOAPO's proposal to, on an interim basis, deny FBC's 2024 incurred issuance costs and only approve a portion of FEI's incurred issuance costs for future recovery in customer rates, subject to finalization once actual results for 2024 are available, is legally unsound and more administratively complex and burdensome.<sup>17</sup> FortisBC submits the flotation cost incurred to maintain an equity "cushion" or "buffer" above the amount required by BCUC order to finance rate base is prudently incurred. The equity "cushion" is required

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<sup>8</sup> Exhibit B-4, BCOAPO IR 3.2.

<sup>9</sup> Exhibit B-4, BCOAPO IR 4.1.

<sup>10</sup> Exhibit B-4, BCOAPO IR 3.1; Order G-275-23.

<sup>11</sup> The CEC Final Argument, pp. 7-8.

<sup>12</sup> Exhibit B-4, BCOAPO IR 3.1, 4.1.

<sup>13</sup> BCOAPO Final Argument, p. 7.

<sup>14</sup> As provided in footnote 23 on page 7 of BCOAPO's Final Argument, BCOAPO calculates that the portion of the \$275 M required to achieve a 2024 projected equity of 45% using the table provided in FEI's 2024 Q3 Application for Approval to Issue Common Shares to Maintain the Approved Capital Structure is \$131.717 M ( $\$275 \text{ M} \times (1 - 44,087/84,615)$ ). Footnote 35 of BCOAPO's Final Argument explains that the flotation cost associated with the \$131.717 M required equity injection is \$3,609,049, which is calculated based on  $0.0274 \times \$131.717 \text{ M}$ .

<sup>15</sup> BCOAPO Final Argument, p. 10.

<sup>16</sup> BCOAPO Final Argument, p. 10.

<sup>17</sup> FortisBC Reply Argument, pp. 3, 6.

to ensure compliance with the BCUC-ordered equity ratio and the BCUC's ring-fencing condition for FEI.<sup>18</sup> In addition, FortisBC is incentivized to avoid maintaining excess equity, as it only earns the cost of debt on any equity above the BCUC-allowed percentage and thus erodes shareholder earnings as a result. FortisBC incurred these issuance costs due to its inability to predict the exact amount of capital required to precisely meet the allowed equity percentage.<sup>19</sup>

FortisBC submits there is no need for interim approvals; while the equity percentages are currently unknown because actual information on rate base is unavailable, the actual issuance costs are known and presented in the Application. FortisBC submits the BCUC determined in the 2023 GCOC Stage 1 Decision that FEI and FBC can each request recovery of actual costs incurred by the parent, which is consistent with FortisBC's request in this Application.<sup>20</sup> FortisBC further submits BCOAPO's proposal would not lead to a significantly different timing of cost recovery because there would be a delay of up to two years before actual issuance costs can be included in rates.<sup>21</sup>

### *Panel Determination*

**The Panel approves the establishment of a new non-rate base deferral account, for each of FEI and FBC, titled the Flotation Costs deferral account, attracting a weighted average cost of capital return.** As the BCUC accepted in the GCOC Stage1 Decision, a public utility is entitled to recover from ratepayers any reasonable and prudently incurred flotation costs. However, whereas FEI and FBC previously recovered flotation costs through a Return On Equity adder, the BCUC in the GCOC Stage 1 Decision states FEI and FBC can request recovery of actual costs incurred by the parent by providing applicable invoices or other supporting documentation when FEI and FBC issue additional equity. We note that both interveners support the utilities' recovery of reasonable and prudently incurred flotation costs.

The Panel finds that FortisBC has proposed an appropriate mechanism for FEI and FBC to recover reasonable and prudently incurred actual flotation costs attributable to equity injections from the parent company Fortis Inc. The Panel is satisfied that FortisBC has provided a transparent methodology to determine the actual incurred flotation costs attributable to each of FEI and FBC as a result of equity injections in 2023 and 2024 from Fortis Inc. FortisBC states that the DRIP was the primary source of funding that FortisBC used to finance the equity requirements of its subsidiaries in 2023 and 2024, and provided evidence to support the equity injection amounts and associated flotation costs.

The Panel is not persuaded by BCOAPO's argument that FEI and FBC should be restricted to recovering flotation costs only up to the level of their deemed equity component. We accept there is uncertainty in estimating the required equity injections and that it is, therefore, as the CEC points out, reasonable for FEI and FBC to maintain an equity "cushion" above the deemed equity amount.

Based on the findings above, the Panel is not persuaded that any interim approvals are necessary in relation to flotation costs until actual equity percentages are known. FortisBC has demonstrated the equity issuance costs for each utility and the Panel finds that it is appropriate to approve these costs now.

**Therefore, the Panel approves:**

- **FEI to recover the actual 2023 and 2024 flotation costs of \$18.5 million attributable to the equity injections that FEI received from its parent company, Fortis Inc. The associated after-tax costs are approved to be recorded in the Flotation Costs deferral account; and**

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<sup>18</sup> FortisBC Reply Argument, p. 5.

<sup>19</sup> FortisBC Reply Argument, p. 5.

<sup>20</sup> FortisBC Reply Argument, pp. 6-7.

<sup>21</sup> FortisBC Reply Argument, p. 6.

- **FBC to recover the actual 2023 and 2024 flotation costs of \$1.9 million attributable to the equity injections that FBC received from its parent company, Fortis Inc. The associated after-tax costs are approved to be recorded in the Flotation Costs deferral account.**

## 2.2 Flotation Cost Forecast

FortisBC is seeking approval to use the new Flotation Costs deferral account to record future actual flotation costs, as FortisBC expects that equity requirements will be met on an annual basis.<sup>22</sup> FortisBC submits that because the timing of equity requirements and the amount of the resulting flotation costs will vary, using a deferral account is the most appropriate and reasonable approach.<sup>23</sup> FortisBC explains that a public company can raise equity capital in a number of ways, including registered direct offerings, at-the-market programs, public bought deals, private investments in public equity and/or DRIP programs. The two most common sources of equity funding used by Fortis Inc. to finance equity requirements of its subsidiaries are the DRIP program and equity offering programs. FortisBC also states that choosing the appropriate source of equity capital may depend on the characteristics of the issuer, its funding needs, the amount of time it has, and the administrative requirements of each offering type.<sup>24</sup>

FortisBC states it would not forecast additions to the Flotation Cost deferral account prior to an equity issuance occurring due to the uncertainty around the timing of Fortis Inc.'s equity issuances and the uncertainty around the resulting flotation cost amounts.<sup>25</sup> FortisBC elaborates that the amounts and timing of equity issuances are expected to vary from year-to-year, and that it would not be practical for FEI and FBC to try to forecast these flotation costs as part of their revenue requirements.<sup>26</sup>

### *Positions of the Parties*

The CEC recommends that the BCUC order FEI and FBC to use estimates of flotation costs in revenue requirement applications (RRA) and future GCOC proceedings, with a true up if necessary in a subsequent proceeding. The CEC states that FEI and FBC know what they require for equity capital, what the DRIP process entails, how the DRIP performs and what issuance costs to expect as the actual cost. It recommends this approach so that rates reflect costs at the time the expenditures are incurred.<sup>27</sup>

In reply, FortisBC submits it is not able to forecast issuance costs with precision.<sup>28</sup> FortisBC explains there is a significant amount of uncertainty around (i) the timing of issuances, (ii) the size of issuances, and (iii) the sources of equity capital, including the issuance methodology and the associated issuance cost for the adopted methodology. The costs associated with a particular issuance methodology are also impacted by market conditions that may be beyond Fortis Inc.'s control.<sup>29</sup>

### *Panel Discussion*

The Panel is not persuaded that FortisBC should be required to forecast issuance costs. The Panel accepts that actual costs of issuance are uncertain and beyond FortisBC's control due to factors such as the sources of equity capital, the issuance methodology, and the associated issuance cost for the adopted methodology. The Panel also finds that the additional regulatory burden to forecast issuance costs is not justified, since establishing a

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<sup>22</sup> Exhibit B-1, p. 13.

<sup>23</sup> Exhibit B-1, p. 13.

<sup>24</sup> Exhibit B-1, p. 6.

<sup>25</sup> Exhibit B-1, Appendix D, p. 2.

<sup>26</sup> Exhibit B-1, Appendix D, p. 1; Exhibit B-3, BCUC IR 3.1.

<sup>27</sup> The CEC Final Argument, p. 5.

<sup>28</sup> FortisBC Reply Argument, p. 2.

<sup>29</sup> FortisBC Reply Argument, p. 2.

Flotation Cost deferral account ensures only actual flotation costs will be recovered from ratepayers, subject to review in future RRAs.

## 2.3 Future Review Process

FortisBC confirms that the purpose of the Application is for approval of the deferral accounting mechanism for flotation costs beyond 2024, but that for all future flotation costs beyond 2024, FEI and FBC will seek approval to recover the actual costs incurred and recorded in each deferral account as part of future RRAs.<sup>30</sup> FEI and FBC will provide information in their RRAs regarding the sources and costs of equity financing by its parent, similar to the information provided in this Application for the 2023 and 2024 equity injections.<sup>31</sup>

### *Positions of the Parties*

The CEC recommends that the BCUC approve the creation of the deferral accounts for the 2023 and 2024 flotation costs, and for future flotation costs if necessary, subject to the BCUC's decision on the CEC's recommendation to require FEI and FBC to estimate such cost for the RRA years' anticipated capital equity raise requirements.<sup>32</sup>

BCOAPO submits that it is appropriate for the BCUC to approve the establishment of a non-rate base Flotation Costs deferral account for each utility for the purpose of recording these incurred costs until such time as the costs can be subsequently considered for recovery as part of each utility's normal rate setting process.<sup>33</sup>

### *Panel Discussion*

The Panel acknowledges FortisBC's confirmation that FEI and FBC will continue to provide information in their RRAs regarding the sources and costs of equity financing by Fortis Inc., so that the BCUC can approve additions to the Flotation Cost deferral accounts. The Panel is satisfied that FortisBC's proposal is consistent with the GCOC Stage 1 Decision allowing public utilities to recover reasonable and prudently incurred flotation costs.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 9<sup>th</sup> day of June 2025.

*Electronically signed by Blair Lockhart*

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E. B. Lockhart  
Panel Chair/Commissioner

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<sup>30</sup> Exhibit B-3, BCUC IR 3.1.

<sup>31</sup> Exhibit B-3, BCUC IR 3.1.

<sup>32</sup> The CEC Final Argument, p. 13.

<sup>33</sup> BCOAPO Final Argument, p. 3.