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August 13, 2013

Via Email
Original via Mail

British Columbia Public Interest Advocacy Centre
Suite 209 – 1090 West Pender Street
Vancouver, B.C.
V6E 2N7

Attention: Ms. Tannis Braithwaite, Acting Executive Director

Dear Ms. Braithwaite:

Re: British Columbia Utilities Commission (the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2
FortisBC Inc. Response to the British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization et al (BCPSO) Information Request (IR) No. 1

In accordance with the Regulatory Timetable set out for Stage 2 of the GCOC proceeding by Commission Order G-77-13, FortisBC Inc. respectfully submits the attached response to BCPSO IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC INC.

Original signed:

Dennis Swanson

Attachments

cc (email only): Commission Secretary
Registered Parties



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 1

1 **1.0 Reference: Exhibit B2-17-1, FBC Evidence, page 3 and Appendix A, page 29**

2 1.1 Does FBC currently have a deferral account for the costs of Mandatory Reliability
3 Standards Implementation?
4

5 **Response:**

6 Please refer to the response to BCUC FBC IR 1.18.2.
7
8

9 1.2 If so, what risks associated with the “difficulty in accurately forecasting the cost of
10 compliance with the BC MRS program” are not addressed by this account?
11

12 **Response:**

13 Please refer to the response to BCUC FBC IR 1.18.2.
14



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 2

1 **2.0 Reference: Exhibit B1-72, FBC Evidence, page 3 and Appendix A, page 6**

2 2.1 Please confirm that less than 17% of FBC's rate base is invested in generation
3 assets.

4
5 **Response:**

6 Approximately 17 percent (or approximately \$194.9 million) of FBC's forecast 2013 rate base is
7 attributable to generation assets.

8
9

10 2.2 Does FBC agree that owning and operating hydro-electric generation assets is
11 less risky than owning and operating fossil fuel generation? If not, why not?

12
13 **Response:**

14 Yes.

15
16

17 2.3 Does FBC currently have a deferral account that addresses variances between
18 forecast and actual power supply costs?

19
20 **Response:**

21 Yes.

22
23

24 2.4 If yes, what risks are associated with variations in supply costs due to the failure
25 of generation assets?

26
27 **Response:**

28 As stated in Section 6 of Appendix A (Exhibit B1-72), FBC generates 45 percent of its energy
29 needs and approximately 30 percent of its capacity needs from its own hydro generating
30 facilities. Failure of a unit would require that FBC find replacement power which may not be
31 available due to lack of supply or lack of available transmission. In addition, the replacement
32 power, if able to be acquired, may be at a significantly increased cost on the open market. This
33 increased power purchase expense as a result of costly replacement power due to generation



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
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- 1 failure, although captured in the power purchase expense variance deferral account, puts
- 2 upward pressure on rates to be paid by customers, and increases the business risk faced by
- 3 FBC from alternative suppliers and forms of electricity.
- 4



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 4

1 **3.0 Reference: Exhibit B1-72. FBC Evidence, page 3 and Appendix A, pages 6 & 8**

2 3.1 Do any of FBC's Wholesale customers currently purchase electricity on the open
3 market or take service (in-part) from BC Hydro?
4

5 **Response:**

6 FBC is not aware of any Wholesale customers that purchase electricity on the open market or
7 take service (in-part) from BC Hydro.
8
9

10 3.2 Since the introduction of "open access" in BC has any Wholesale customer of
11 FBC purchased electricity on the open market or opted to take service from BC
12 Hydro? If yes, please outline the circumstances, including their duration and the
13 amount of load involved?
14

15 **Response:**

16 FBC is unaware of an occasion where a Wholesale customer has purchased power from either
17 the market or BC Hydro. To date, FBC rates have been low enough to discourage such
18 transactions. As FBC rates rise relative to those available in the market, the option to make
19 market purchases becomes more attractive.
20
21

22 3.3 Is FBC aware of any current plans by its Wholesale customers to request service
23 under FBC's OATT for purposes of purchasing electricity from other parties?
24

25 **Response:**

26 FBC is not aware of any current plans by its Wholesale customers to request service under
27 FBC's OATT for purposes of purchasing electricity from other parties. However, several
28 wholesale customers either self-generate or have expressed interest in self-generating a portion
29 of their load.
30



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 5

1 **4.0 Reference: Exhibit B1-72. FBC Evidence, page 3 and Appendix A, pages 6, 9 &**
 2 **15**

3 4.1 How many “eligible” industrial customers does FBC have and what portion of
 4 FBC’s total customer demand do they represent?
 5

6 **Response:**

7 The table below is reproduced from Exhibit B-1-4 (Errata 2) in the Company’s Application for
 8 Stepped and Standby Rates for Transmission Customers.

Table 5-1: Transmission Customer Detail

Customer	2008		2009		2010		2011		2012	
	Annual Consumption (kWh)	Peak Demand (kVA)	Annual Consumption (kWh)	Peak Demand (kVA)	Annual Consumption (kWh)	Peak Demand (kVA)	Annual Consumption (kWh)	Peak Demand (kVA)	Annual Consumption (kWh)	Peak Demand (kVA)
Barrick Gold	*	*	*	*	*	*	*	*	*	*
Interfor	*	*	*	*	*	*	*	*	*	*
Roxul	*	*	*	*	*	*	*	*	*	*
Subtotal	<u>63,358,750</u>	<u>17,639</u>	<u>60,681,950</u>	<u>10,018</u>	<u>69,372,800</u>	<u>15,294</u>	<u>81,920,650</u>	<u>16,594</u>	<u>91,299,950</u>	<u>17,121</u>
Celgar *	24,662,436	0	26,323,636	0	19,962,222	0	19,961,550	46,255	14,488,572	47,414
Total	88,021,186	17,639	87,005,586	10,018	89,335,022	15,294	101,882,200	62,848	105,788,522	64,535

9
 10 The total 2012 load of 105,789 MWh of sales to the 4 “eligible” industrial (non-wholesale)
 11 customers was approximately 3.3 percent of annual Company kWh sales. As noted in the TSR
 12 Application if the RS31 kVA peak load was assumed to be coincident, it would represent
 13 approximately 9% of the Company’s winter peak.

14
 15

16 4.2 Do any of FBC’s Industrial customers currently purchase electricity on the open
 17 market or take service (in-part) from BC Hydro?
 18

19 **Response:**

20 FBC is aware that in certain circumstances, Celgar purchases power from BC Hydro. Since
 21 Celgar is obligated under its EPA with BC Hydro to sell all self-generation above 40MW to BC
 22 Hydro, when Celgar’s plant load is above 40 MW it faces a shortfall in supply. This power
 23 required by this shortfall is provided by BC Hydro.



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 6

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4.3 Since the introduction of “open access” in BC has any Industrial customer of FBC purchased electricity on the open market or opted to take service from BC Hydro? If yes, please outline the circumstances, including their duration and the amount of load involved?

Response:

Beyond the circumstances discussed in the response to BCUC FBC IR 1.4.2 above, the answer is no. The situation is similar for the Wholesale customers as discussed in the response to BCUC FBC IR 1.4.1. As the rate gap between the market or BC Hydro and FortisBC’s rates widen, the risk of such a transaction increases.

4.4 Is FBC aware of any current plans by its Industrial customers to request service under FBC’s OATT for purposes of purchasing electricity from other parties?

Response:

The Company is not aware of any such plans however for the reasons discussed in the responses to BCUC FBC IRs 1.4.1 and 1.4.3, the advantage to doing so are increasing.



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 7

1 **5.0 Reference: Exhibit B1-72, FBC Evidence, page 3 and Appendix A, pages 17-18**

2 5.1 What has been FBC's share of space heating market for new housing in each of
3 the past 10 years?

4
5 **Response:**

6 FBC does not have data for its share of the space heating market for new housing in each of the
7 past 10 years.

8 FBC does have some information related to space heating in new housing from the 2012
9 Residential End Use Survey (REUS).

10 In the 2012 REUS survey, 129 respondents reported that their homes were built in 2006 or later,
11 57% of which reported electric heat for primary space heating.

12

British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 8

1 **6.0 Reference: Exhibit B1-72, FBC Evidence, page 4 and Appendix A, page 28**

2 6.1 Please explain further the following statement “the demand side management
3 legislation, in the current low market cost environment for electricity, has resulted
4 in additional costs that increase rates with diminishing conservation benefits”
5 (Appendix A, page 28, lines 22-24).
6

7 **Response:**

8 The DSM Regulation (326/2008 as amended in December 2011 includes adequacy
9 requirements and a modified Total Resource Cost (mTRC) process.

10 The adequacy program requirements include education programs which raise awareness but
11 have no associated direct energy savings attributed to them. Low income and rental housing
12 measures are also mandated, which typically fail the Total Resource Cost test. For example the
13 low income/rental program proposed in the 2014-18 DSM Plan has a benefit-cost ratio of 0.8
14 (even accounting for the prescribed 30% benefits lift).

15 The mTRC test requires the use of a higher avoided cost (representing BC “clean” energy) and
16 a 15% non-energy benefits adder to boost measures that are otherwise uneconomic to a cap of
17 ten per cent of the portfolio expenditure.

18
19

20 6.2 Please confirm that FBC is proposing to reduce its DSM expenditures in 2014
21 and after as compared to recent years.

22
23 **Response:**

24 Confirmed.

25 The DSM Plan, as filed in the 2014-18 PBR proceedings, includes a plan expenditure of \$3.0m
26 in 2014 compared to the 2013 approved budget of \$7.8m. If the requested reduction in
27 expenditure levels is approved by the Commission, the Company’s future DSM expenditures will
28 be similar to the pre-2011 expenditure levels.

29

British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 9

1 **7.0 Reference: Exhibit B1-72, FBC Evidence, Appendix A, pages 9-11**

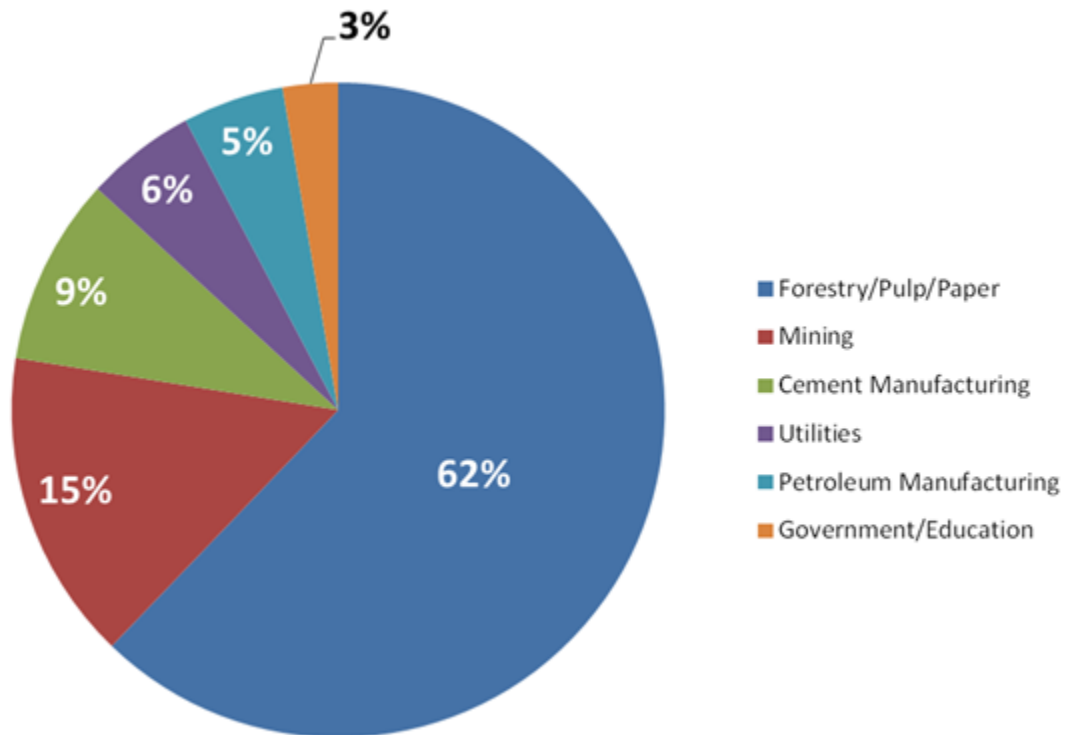
2 7.1 Please provide similar profile data for FEI industrial customers as set out on page
 3 9 (lines 18-33) and page 10 (Figure 1) for FBC.

4
 5 **Response:**

6 Seven out of FEI's 10 largest customers are in the forestry industry, accounting for
 7 approximately 28 percent of industrial load. Of FEI's top 20 Industrial customers in 2012 (who
 8 accounted for 59% of FEI's total industrial load) 11 operated in the forestry and related
 9 industries. In 2005, of FEI's top 20 Industrial customers (who accounted for approximately 50
 10 percent of FEI's total Industrial load) 6 operated in forestry and related industries.

11 Please refer to the below Figure 1.

12 **Figure 1: Industry of FEI's Top Twenty Industrial Customers by Load in 2012**



13

14

15



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FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 10

1 7.2 Does the reduction in percent of revenues and sales to industrial customers as
2 between 2005 and 2012 mean that FBC's customer profile risk is higher or lower
3 now as opposed to 2005? Please explain.
4

5 **Response:**

6 No. FBC's current customer profile risk with respect to its industrial customers has not changed
7 since 2005. Section 3.2 of Appendix A (Exhibit B1-72), discusses that FBC's industrial customer
8 class is dependent on few industries and vulnerable to global economic events. This was the
9 case in 2005 and is still the case presently.

10 The decline in industrial load and revenue as a percentage of total load and revenue since 2005
11 as shown in Figure 2 on page 11 of Exhibit B1-72 corresponds with the economic downturn in
12 the time period since 2005. It is more accurate to characterize this development as a
13 manifestation of FBC's pre-existing customer profile risk as it relates to industrial load, rather
14 than a factor giving rise to greater risk.

15

British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 11

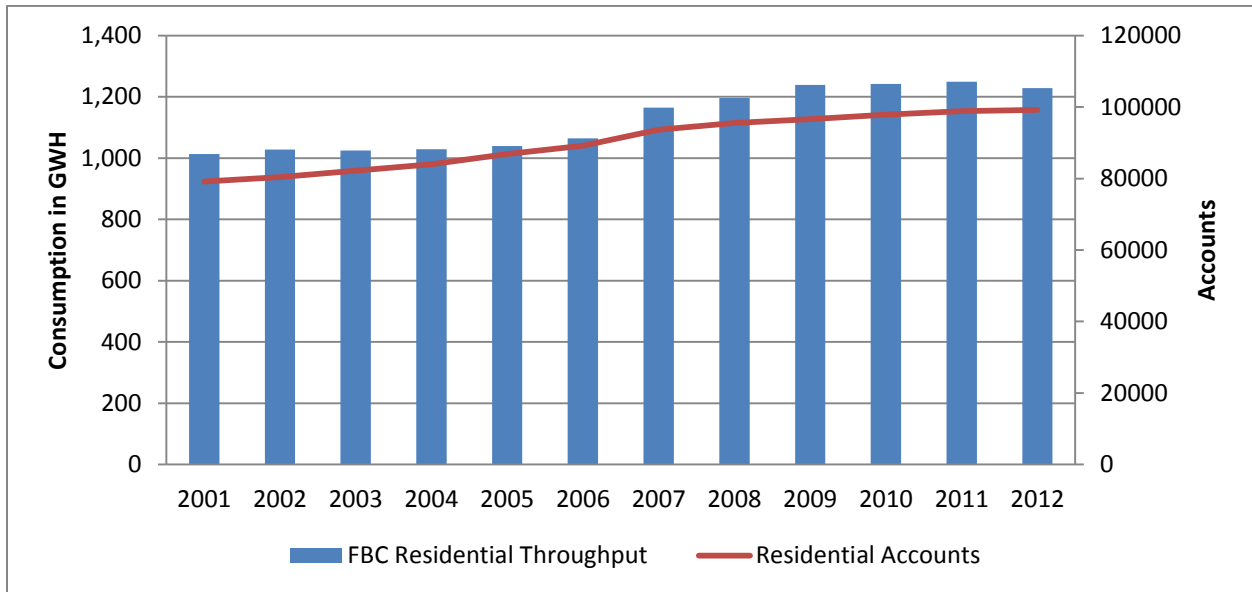
1 **8.0 Reference: Exhibit B1-72, FBC Evidence, Appendix A, pages 12-13**

2 8.1 Please provide figures similar to Figure 5 but for the Residential and Commercial
 3 classes separately.

4
 5 **Response:**

6 Please refer to the below figures showing throughput and accounts for the Residential and
 7 Commercial classes.

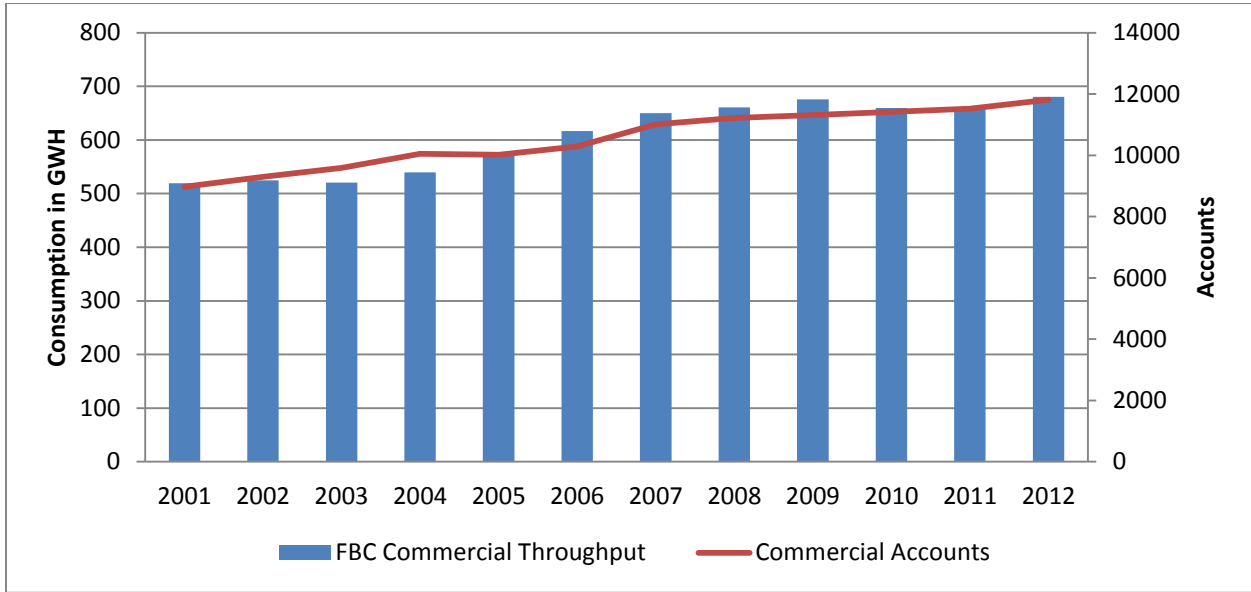
8 **Figure 1a: FBC Residential Throughput (Normalized Demand vs. Customer Accounts)**





British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 12

1 **Figure 1b: FBC Commercial Throughput (Normalized Demand vs. Customer Accounts)**



2

3



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 13

1 **9.0 Reference: Exhibit B1-72, FBC Evidence, Appendix A, page 19**

2 9.1 Please describe more fully the price risk increase (lines 28-30) that FBC
3 attributes to the “uncertainty with respect to future rate increases related to FBC’s
4 Power Purchase Agreement (PPA) wit BC Hydro”.

5
6 **Response:**

7 Please refer to the response to BCUC FBC IR 1.16.1.

8



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 14

1 **10.0 Reference: Exhibit B1-72, FBC Evidence, Appendix A, page 22**

2 10.1 What are FBC's plans and timing with respect to the refurbishment of the
3 electrical and mechanical components of the remaining four stations.

4
5 **Response:**

6 The four remaining units, referred to as the "Old Plant", reside at the Upper Bonnington
7 hydroelectric plant which is located on the Kootenay River approximately 17 kilometers
8 downstream from the City of Nelson, BC. In early 2013, Upper Bonnington Unit 3 was
9 dewatered for its annual inspection upon which substantial damage was found around the lower
10 turbine area, including a possibly bent shaft. FBC is currently proceeding with the necessary
11 mechanical repairs to Unit 3, however, based on the vintage and operational history of the
12 remaining three units at the Old Plant, a refurbishment project is required for the continued safe
13 and reliable operation of these units. This refurbishment will ensure that FBC's capacity and
14 energy entitlements as provided for under the Canal Plant Agreement are preserved for the
15 benefit of customers.

16 FBC is currently reviewing the scope and timing of the refurbishment project, however based on
17 current information the Company expects to file an application for a CPCN in 2015 with
18 commencement of the project in 2016.

19



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 15

1 **11.0 Reference: Exhibit B1-9, FBC Evidence, Appendix A, page 23**

2 11.1 Of FBC's 1,400 km of transmission line, what percentage is more than 50 years
3 old and what percentage is more than 70 year old?

4
5 **Response:**

6 Based on pole data from the FBC Geographic Information System (GIS), the Company
7 estimates that approximately 20% of its transmission lines assets are more than 50 years old.
8 Further, approximately 1 to 2% is more than 70 years old.

9
10

11 11.2 How do these percentages compare with those that existed in 2005?

12
13

Response:

14 A direct comparison of transmission asset ages to 2005 is not possible. This is due to two main
15 factors: FortisBC was using different GIS technology at the time and that system and its data
16 are no longer accessible; and the number of poles with an unknown age due to a lack of pole
17 age data was much higher in 2005. The limited available data from that period indicates
18 approximately 15% of poles were more than 50 years old and none were more than 70 years
19 old (likely due to a lack of data – not because there were no poles of that vintage).

20



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCO) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 16

1 **12.0 Reference: Exhibit B1-72, FBC Evidence, Appendix A, pages 24-25**

2 12.1 Does FEI's operation of natural gas transmission and distribution mains pose
3 risks (e.g. potential leaks due to aging infrastructure) that are not faced by FBC?
4

5 **Response:**

6 There are certainly operational risks inherent to a natural gas utility that are not present or are
7 different for an electric utility and vice versa. FBC notes that potential leaks due to aging
8 infrastructure is a risk faced both by FEI and FBC. FBC does not face the risk of natural gas
9 leaks from pipelines like FEI, but does face the risk of PCB and environmental leaks from
10 certain of its assets. FEI is exposed to slightly more risk of third parties accidentally damaging
11 gas assets below ground, however FBC is also exposed to third party interference (motor
12 vehicle accidents damaging infrastructure and causing outages as an example).

13

British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 17

1 **13.0 Reference: Exhibit B1-72, FBC Evidence, Appendix A, pages 25-26**

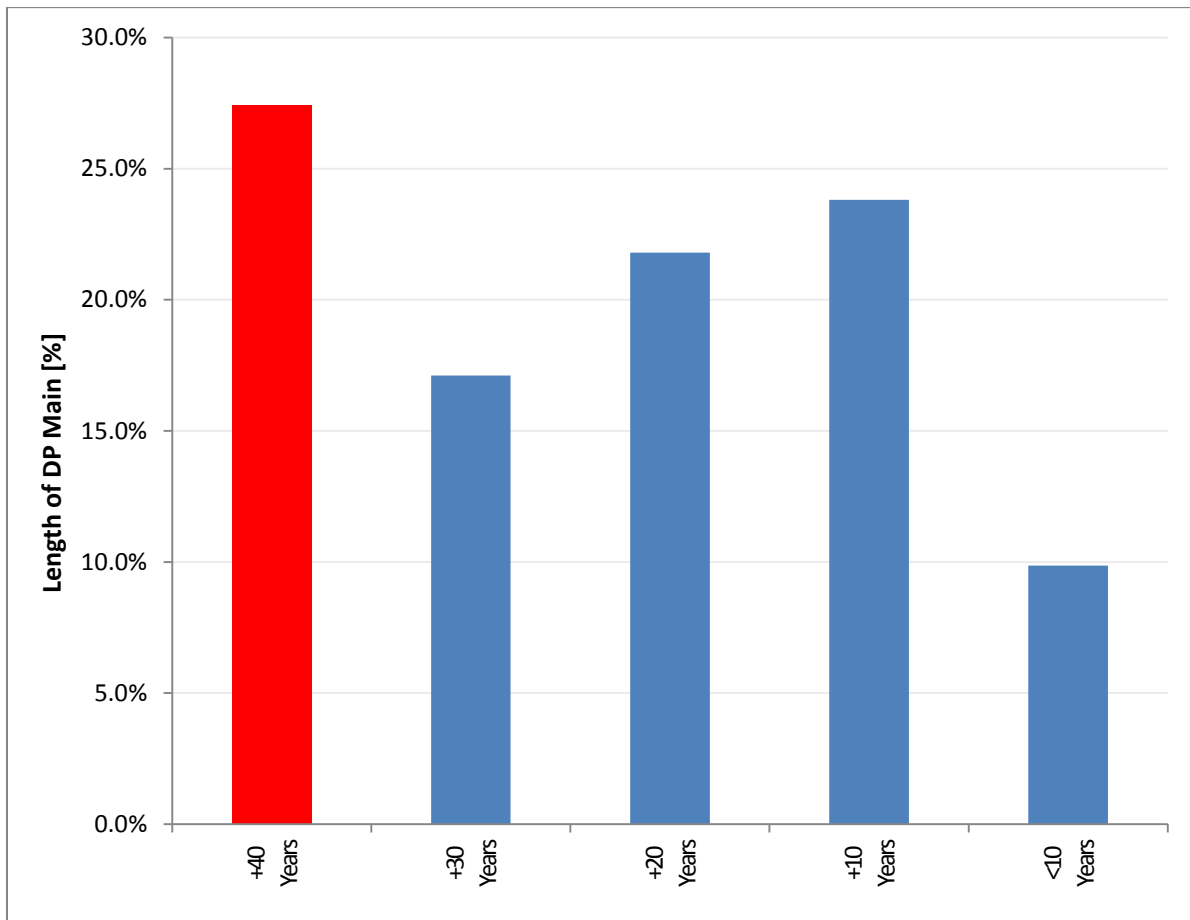
2 13.1 Please provide a figure similar to Figure 9 but for the year 2005.

3
4 **Response:**

5 FBC is unable to provide a figure showing the percentage of total distribution poles by age for
6 the year 2005. FBC's pole vintage data from 2005 is limited and does not provide a meaningful
7 comparison to Figure 9 provided in FBC's Evidence (Appendix A of Exhibit B1-72).

8 The following figure shows the percentage of FEI's total distribution pipeline over 40 years of
9 age in 2005 was approximately 30 percent.

10 **Figure 1: Age Percentage of FEI Total Distribution Pipeline in 2005**



11

12

13



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 18

1 **14.0 Reference: Exhibit B1-72, FBC Evidence, Appendix A, page 29**

2 14.1 Please provide comparison of the deferral accounts FBC currently has approved
3 by the BCUC with those that it had approval for in 2005.

4
5 **Response:**

6 FBC provides the following Table 1 comparing its current deferral accounts to those in use in
7 2005. Note that the table does not include requested deferral accounts set out in the 2014-2018
8 PBR Plan Application.

9 FBC also provides Table 2 setting out the deferral accounts that are specific to the applications,
10 processes and projects that were occurring during the specific time periods.

11 Deferral accounts serve a variety of purposes, and many only cover small amounts relative to
12 FBC's overall revenue requirement. The majority of deferral accounts are used to satisfy a
13 matching principle where costs are deferred and appropriately amortized over the periods in
14 which benefits are expected to occur. A comparison of the number of deferral accounts
15 between periods does not signify a change in use of deferral accounts, or relative risk
16 associated with such costs.



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FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 19

1

Table 1

2005	2013	Comments
Energy Policy		
Energy Management Additions	Demand Side Management	
	On-Bill Financing (OBF) Pilot Program	N/A in 2005, collects costs related to the OBF Pilot program legislated under section 17.1 of the <i>Clean Energy Act</i>
	On-Bill Financing (OBF) Participant Loans	N/A in 2005, collects costs related to the OBF Pilot program legislated under section 17.1 of the <i>Clean Energy Act</i>
Margin Related		
Deferred Revenue – Incentive Adjustment	Revenue Variance	
Deferred Revenue – Power Purchase	Power Purchase Expense Variance	
Deferred Revenue – Incentive Audit Provision		
Deferred Revenue – CCA Legislative Change		
Non-Controllable		
	Property Tax Variance Deferral Account	
Post-Retirement Benefits	Pension & Other Post-Retirement Benefits Expense Variance	
Prepaid Pension Costs	Prepaid Pension Costs and OPEB Liability	
	US GAAP Pension and OPEB Transitional Obligation	N/A in 2005, recognizes the transitional obligation of pensions and OPEBs on transition to US GAAP effective January 1, 2012

2



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FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 20

1

Table 2

2005	2013	Comments
Preliminary and Investigative Charges	<ul style="list-style-type: none"> Preliminary and Investigative Charges Kelowna Bulk Transformer Capacity Addition (KBTCA) Project¹ Corra Linn Spillway Concrete & Spill Gate Rehab CPCN 	Preliminary and investigative costs related to projects
Regulatory Applications		
<ul style="list-style-type: none"> 2004 Revenue Requirements and NSP 2005 Revenue Requirements and NSP 2006 Revenue Requirements and NSP 20 Year Transmission System Plan BC Hydro Power Purchase Agreement Renewal Resource Plan Study 	<ul style="list-style-type: none"> 2014 - 2018 PBR Application 2012 - 2013 Revenue Requirements and 2012 Integrated System Plan 2011 Revenue Requirement Application Costs¹ 2014 – 2018 Capital Expenditure Plan BCUC Generic Cost of Capital Proceeding BCUC Inquiry into the MRS Program¹ Kettle Valley Expenditure Review¹ Transmission Customer Rate Design¹ City of Kelowna Acquisition Legal and Regulatory Costs¹ <ul style="list-style-type: none"> City of Kelowna Acquisition Customer Benefit¹ 2012 Integrated System Plan – Engineering Section 71 Filing (Waneta Expansion Power Purchase Agreement)¹ Cost of Service and Rate Design Application¹ <ul style="list-style-type: none"> Residential Inclining Block Rate¹ Implementation of New Rate Structures¹ Irrigation Rate Payer Group Consultation and Load Research¹ Demand Side Management Study¹ 	Costs related to Regulatory applications are deferred. Increased amount of deferral accounts in 2013 is because of an increased amount of Regulatory applications (either initiated by FBC or directed by BCUC)



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 21

2005	2013	Comments
Other		
<ul style="list-style-type: none"> • Revenue Protection • Deferred Debt Issue Costs • Trail Office Lease Cost • Trail Office Rental to SD20 	<ul style="list-style-type: none"> • Revenue Protection¹ • Deferred Debt Issue Costs • Trail Office Lease Cost¹ • Trail Office Rental to SD20¹ 	
<ul style="list-style-type: none"> • Renegotiation of Canal Plant Agreement • Brilliant Terminal Station 2003 Expense • Other Deferred Charges/Credits 	<ul style="list-style-type: none"> • Mandatory Reliability Standards Implementation¹ • 2012 Mandatory Reliability Standards Audit¹ • Mandatory Reliability Standards 2012 -2013 Incremental O&M Expense¹ • Right of Way Reclamation (Pine Beetle Kill) • 2011 Flow-Through and ROE Sharing Mechanism Adjustments¹ • 2012 Deferred Revenue¹ • Harmonized Sales Tax Removal/ Provincial Sales Tax Implementation¹ • Negotiation of new PPA between BC Hydro and FBC¹ • Right of Way Encroachment Litigation¹ • Princeton Light and Power Deferred Pension Credit¹ • US GAAP Conversion Costs¹ • Joint Pole Use Audit, 2008¹ 	<p>Differences in deferral accounts related to events specific to each time period. BC Mandatory Reliability Standards (BC MRS) was implemented in BC in 2009, therefore related deferral accounts in 2013 not applicable in 2005.</p> <p>Harmonized Sales Tax was implemented in 2010. Following a referendum PST was reintroduced in 2013. Related deferral account captures costs related to the removal of HST, related deferral not applicable to 2005.</p>

1 ¹ Costs proposed to be amortized into rates in 2014. Account to be discontinued.



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 22

1 **15.0 Reference: Exhibit B1-72, FBC Evidence, Appendix A**

2 15.1 Please discuss the impact that implementing AMI (just approved by the BCUC)
3 will have on FBC's risks in terms of impact of outages, theft, etc.
4

5 **Response:**

6 The Advanced Metering Infrastructure (AMI) project will assist system planners by providing
7 more discrete information regarding system loading. This may be helpful in reducing outages
8 caused by localized overloading, but the quantum of this benefit is unknown. FortisBC will be
9 able to identify outages more quickly and will have better tools to detect electricity theft, but
10 these capabilities are not expected to materially impact the fundamental business risk of the
11 utility.

12

13

14 15.2 Have these impacts been taken into account in FBC's risk assessment and, if so,
15 where?
16

17 **Response:**

18 Please refer to the response to BCPSO FBC IR 1.15.1.
19
20

21

22

23 15.3 As compared to 2005 when FBC's risk premium of 40 basis points was
24 reaffirmed, has FBC's risk relative to that of FEI increased or decreased. In
25 responding, please identify the major contributing factors.

26

27 **Response:**

28 Please refer to the response to BCUC FBC IR 1.19.2.

29



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 23

1 **16.0 Reference: Exhibit B1-72, FBC Evidence, page 7**

2 16.1 Will the credit ratings for FBC be affected at all by whether it is regulated on a
3 cost of service basis versus using PBR?

4
5 **Response:**

6 The determination of whether FBC's credit ratings would be affected by cost of service basis
7 versus PBR ultimately lies with the third party independent rating agency. The impact on ratings
8 will depend on the ultimate form of PBR and whether the approved PBR results in increased risk
9 transference to the utility whereby the risk of non-recovery of prudently incurred expenses
10 increases. FortisBC does not expect that the PBR currently proposed by FBC will have a
11 material impact on the credit ratings.

12



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 24

1 **17.0 Reference: Exhibit B1-72, FBC Evidence, page 8**

2 17.1 Please re-do Table 1 adjusting for a 9.15 ROE and 40% equity.

3

4 **Response:**

BCPSO IR 17.1 - 9.15 ROE and 40% Equity Table 1: DBRS Metrics

EBIT Gross Interest Coverage

	2012	2011	2010	avg
Per DBRS	2.4	2.4	2.1	2.3
Adjusted for 9.15% ROE and 40% Equity	2.3	2.3	2.0	2.2
Ratio Variance	-0.1	-0.1	-0.1	0.1
Percentage Variance	-5%	-4%	-5%	-5%

DBRS average EBIT Gross Interest Coverage ratio for 2005-2009 2.1

Cash Flow/Total Debt

	2012	2011	2010	avg
Per DBRS	14%	13%	13%	13%
Adjusted for 9.15% ROE and 40% Equity	13%	13%	12%	13%
Ratio Variance	-1%	-1%	-1%	-1%
Percentage Variance	-5%	-5%	-5%	-5%

5 DBRS average cash flow/debt ratio for 2005-2009 11%

6

7



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 25

1 17.2 Please re-do Table 1 adjusting for a 9.15% ROE and 38.5% equity.

2

3 **Response:**

BCPSO IR 17.2 - 9.15 ROE and 38.5% Equity Table 1 DBRS Metrics

EBIT Gross Interest Coverage

Per DBRS
Adjusted for 9.15% ROE and 38.5% Equity
Ratio Variance
Percentage Variance

	2012	2011	2010	avg
Per DBRS	2.4	2.4	2.1	2.3
Adjusted for 9.15% ROE and 38.5% Equity	2.2	2.2	1.9	2.1
Ratio Variance	-0.2	-0.2	-0.2	0.2
Percentage Variance	-8%	-9%	-9%	-9%

DBRS average EBIT Gross Interest Coverage ratio for 2005-2009

2.1

Cash Flow/Total Debt

Per DBRS
Adjusted for 9.15% ROE and 38.5% Equity
Ratio Variance
Percentage Variance

	2012	2011	2010	avg
Per DBRS	14%	13%	13%	13%
Adjusted for 9.15% ROE and 38.5% Equity	13%	12%	12%	12%
Ratio Variance	-1%	-1%	-1%	-1%
Percentage Variance	-9%	-10%	-9%	-9%

4 DBRS average cash flow/debt ratio for 2005-2009

11%

5



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 26

1 **18.0 Reference: Exhibit B1-72, FBC Evidence, page 9**

2 18.1 Please re-do Table 2 adjusting for a 9.15% ROE and 40% equity.

3

4 **Response:**

BCPSO IR 18.1 - 9.15 ROE and 40% Equity Table 2: Moody's Credit Metrics

(CFO Pre-W/C + Interest)/Interest Expense

	2012	2011	2010	avg
Per Moody's	3.3	3.1	2.8	3.1
Adjusted for 9.15% ROE and 40% Equity	3.3	3.0	2.7	3.0
Ratio Variance	0.0	-0.1	-0.1	0.1
Percentage Variance	-1%	-2%	-3%	-2%

Moody's average (CFO Pre-W/C+Interest)/Interest Expense ratio for 2005-2009 2.7

CFO Pre-WC/Debt

	2012	2011	2010	avg
Per Moody's	10%	12%	11%	11%
Adjusted for 9.15% ROE and 40% Equity	10%	12%	10%	11%
Ratio Variance	0%	0%	0%	0%
Percentage Variance	-3%	-4%	-4%	-4%

5 Moody's average (CFO Pre-W/C/Debt ratio for 2005-2009 11%

6



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 27

1 18.2 Please re-do Table 2 adjusting for a 9.15% ROE and a 38.5% equity

2

3 **Response:**

BCPSO IR 18.1 - 9.15 ROE and 38.5% Equity Table 2: Moody's Credit Metrics

(CFO Pre-W/C + Interest)/Interest Expense

Per Moody's
Adjusted for 9.15% ROE and 38.5% Equity
Ratio Variance
Percentage Variance

2012	2011	2010	avg
3.3	3.1	2.8	3.1
3.2	3.0	2.7	2.9
-0.1	-0.1	-0.1	0.1
-3%	-5%	-5%	-4%

Moody's average (CFO Pre-W/C+Interest)/Interest Expense ratio for 2005-2009

2.7

CFO Pre-W/C/Debt

Per Moody's
Adjusted for 9.15% ROE and 38.5% Equity
Ratio Variance
Percentage Variance

2012	2011	2010	avg
10%	12%	11%	11%
10%	12%	10%	10%
-1%	-1%	-1%	-1%
-6%	-7%	-8%	-7%

4 Moody's average (CFO Pre-W/C/Debt ratio for 2005-2009

11%

5



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 28

1 **19.0 Reference: Exhibit B1-72, FBC Evidence, page 10**

2 19.1 Please re-do Table 3 adjusting for a 9.15% ROE and 40% equity.

3

4 **Response:**

BCPSO IR 19.1 - 9.15 ROE and 40% Equity Table 3: Earnings Coverage Test (in millions)

	9.90% & 40% Equity 2012 Actual	9.15% ROE & 40% Equity 2013 Benchmark Scenario at 5% new financing	9.15% ROE & 40% Equity 2013 Benchmark Scenario at 6% new financing
Net Earnings for Interest Purposes	\$ 98	\$ 94	\$ 94
Total Annual Interest Requirements	37	37	37
Ratio of Net Earnings for Interest Purposes to Annual Interest Requirements	2.64	2.52	2.52
Room to Issue Additional Debt Within Ratio of 1.9 after January 1, 2013 debt issuance	289	243	202

5

6

7

8

9 19.2 Please re-do Table 3 adjusting for a 9.15% ROE and a 38.5% equity.



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 29

1 **Response:**

BCPSO IR 19.2 - 9.15 ROE and 38.5% Equity Table 3: Earnings Coverage Test (in millions)

	9.90% & 40% Equity 2012 Actual	9.15% ROE & 38.5% Equity 2013 Benchmark Scenario at 5% new financing	9.15% ROE & 38.5% Equity 2013 Benchmark Scenario at 6% new financing
Net Earnings for Interest Purposes	\$ 98	\$ 92	\$ 92
Total Annual Interest Requirements	37	38	38
Ratio of Net Earnings for Interest Purposes to Annual Interest Requirements	2.64	2.41	2.40
Room to Issue Additional Debt Within Ratio of 1.9 after January 1, 2013 debt issuance	289	204	168

2

3

4

5 19.3 What are FBC's projected (additional debt) issuances in 2013 and 2014. Please
6 reconcile the response with the Financial Schedules filed with FBC's recent
7 2014-2019 PBR Application (Section E).

8

9 **Response:**

10 Pursuant to Section D1.1.1 – Long-Term Debt of the 2014-2018 Multi-Year PBR Plan
11 Application, FortisBC has forecast the following:

12 • A long-term debt issuance of \$105 million in the second half of 2013 with a forecast term
13 of 30 years and a coupon rate of 4.25 per cent based on the forecasts provided at the
14 time of filing

15 • A \$100 million debenture has been forecast for issuance in the second half of 2014 with
16 a coupon rate of 4.75% and a term of 30 years. The proceeds, net of forecast issuance
17 costs estimated at \$1.3 million along with draws on the Company's operating credit
18 facilities, are expected to be used to refinance of FBC's Series 04-1 5.48% \$140 million
19 debenture which matures in November 2014.



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 30

- 1 The cost of debt associated with each of the 2013 and 2014 debt issuances has been forecast
- 2 and shown in the Total Long-Term Debt item in Table D1-3 – Overview of Forecast Interest
- 3 Expense of the 2014-2018 PBR Application which reconciles to Schedule 5 – Return on Capital
- 4 in Section E – Financial Schedules of the 2014-2018 PBR Application.
- 5



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 31

1 **20.0 Reference: Exhibit B1-72, Appendix B (McShane Evidence), page 3**

2 20.1 How has the higher equity ratio (relative to FEI) as recommended on page 2
3 been taken into account when recommending an increase in the equity risk
4 premium as well?

5
6 **Response:**

7 Ms. McShane recognized the difference in the common equity ratios (38.5% for FEI versus 40%
8 for FBC) in estimating the equity risk premium for FBC in the context of the capital structure
9 theory analysis at lines 719 to 730 of her testimony. Within the context of the beta analysis, as
10 noted in footnote 31, there was no need to make any adjustment to the cost of equity differential
11 estimated using the proxy samples selected to represent FBC and FEI to account for the 1.5
12 percentage point difference in common equity ratio. This is because FBC has the same split
13 rating as the proxy sample at its current (and proposed) 40% equity ratio, i.e., FBC is of similar
14 total risk (same debt rating) to the sample at the existing capital structure. Similarly, FEI is of
15 similar total risk to its proxy A-rated sample at its existing capital structure. As a result, FBC's
16 equity risk premium relative to FEI should be based on the full difference in betas between the
17 two proxy samples with no adjustment required for the difference between FBC's 40% common
18 equity ratio and FEI's 38.5%.

19



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 32

1 **21.0 Reference: Exhibit B1-72, Appendix B (McShane Evidence), pages 11-15**

2 21.1 Are there any new risk factors (relative to FEI) identified by Ms. McShane that
3 were not discussed in Appendix A?

4

5 **Response:**

6 No.

7



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCO) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 33

1 **22.0 Reference: Exhibit B1-72, Appendix B (McShane Evidence), page 13 (lines 353-**
2 **354 and 364-365)**

3 22.1 Please confirm whether the deferral account described at lined 353-354 will
4 mitigate the impact on FBC of the incurring the replacement power costs
5 discussed at lines 364-365.
6

7 **Response:**

8 Please refer to the response to BCPSO FBC IR 1.2.4 and BCUC FBC IR 1.16.5.

9



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 34

1 **23.0 Reference: Exhibit B1-72, Appendix B (McShane Evidence), page 22**

2 23.1 Please provide and schedule that lists along with FBC those utilities in Table 5
3 that are not fully transmission and/or distribution and set out the percentage of
4 rate base for each that is generation assets.

5
6 **Response:**

7 The following companies from Table 5 have generation assets. The percentage of rate base
8 that is generation assets for each of the following is:

<u>Utility</u>	<u>Generation Assets % of Rate Base</u>
FortisBC Inc.	17%
Maritime Electric	19% ^{1/}
Newfoundland Power	13%
Nova Scotia Power	55%
Ontario Power Generation	89%

9 ^{1/} Net generating plant divided by net book value of
10 property, plant and equipment.

British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 35

1 **24.0 Reference: Exhibit B1-72, Appendix B (McShane Evidence), page 25**

2 24.1 How was the 45% equity ratio established (line 656)?

3
4 **Response:**

5 Exhibit B1-72, Appendix 2 (McShane Evidence), pages 21 to 23 discusses the capital structures
6 of other Canadian electric utilities that are relevant benchmarks for a reasonable capital
7 structure for FBC. The section concludes at page 23, lines 586 to 591 as follows:

8 *“Recognizing that the relationship between the relative business risks of the individual*
9 *utilities and their allowed equity ratios is not perfectly linear,[fn] the assessment above*
10 *indicates that (1) FBC’s existing common equity ratio of 40% is well within the range of*
11 *allowed equity ratios; and (2) a reasonable range for FBC’s equity ratio based on the*
12 *equity ratios of its peers is 40% to 45%; and (3) FBC’s existing deemed 40% equity ratio*
13 *is at the lower end of the range of reasonableness based on its relative business risk.”*

14 Ms. McShane considers that FBC is of higher than average business risk within the spectrum of
15 Canadian electric utilities, but has not been able to achieve two debt ratings in the A category
16 with its existing capital structure and allowed ROE. Based on FBC’s higher than average
17 business risk compared to its Canadian electric utility peers, the range of equity ratios that the
18 peers maintain, and FBC’s existing ratings, it is Ms. McShane’s professional judgment that a
19 45% equity ratio would be required to obtain both debt ratings in the A category.

20
21

22 24.2 What is the “same debt rating” as FEI that is being used in the analysis (lines
23 652-653)?

24
25 **Response:**

26 The “same debt rating” means A (DBRS)/A3 (Moody’s).

27



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 36

1 **25.0 Reference: Exhibit B1-72, Appendix B (McShane Evidence), page 31**

2 25.1 Please provide the derivation of the 75 basis points value (line 805).

3

4 **Response:**

5 Ms. McShane provides the following response.

6 Based on the CAPM, the risk premium over the risk-free rate is equal to the beta multiplied by
7 the market risk premium (MRP). The beta for the proxy sample selected to represent FBC is
8 0.12 higher than the beta for the proxy sample selected to represent FEI, the benchmark, utility
9 as stated at Exhibit B1-72, Appendix B, page 31, lines 803-304. At an MRP of 6.4% (as
10 determined by the Commission in its Stage 1 GCOC decision), the incremental risk premium for
11 FBC is 0.75%, or 75 basis points, equal to the incremental beta multiplied by the MRP (0.12 X
12 6.4%).

13



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC or FortisBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 37

1 **26.0 Reference: Exhibit B1-72, Appendix B (McShane Evidence), page 34**
 2 **Exhibit B2-17-1, Ahern Evidence, page 3**

3 **Preamble: Exhibit PMA-1 from Exhibit B2-17-1 contains the Ibbotson size**
 4 **analysis referenced and used by Ms. McShane.**

5 26.1 The “Decile Beta” and “Excess Return by Decile” values used by Ms. McShane in
 6 Table 9 (Exhibit B1-72) do not appear to reconcile those in the referenced tables
 7 from the Ibbotson analysis. Please reconcile and clarify the source of these
 8 values.

9
 10 **Response:**

11 Ms. McShane provides the following response.

12 The Excess Return by Decile presented in Table 9 is an average of results from Tables 7-5, 7-
 13 10, 7-11 and 7-12 in the Ibbotson SBBI 2013 study. The averages for both Deciles 6 and 8
 14 contained an arithmetic error.

15 The corrected values appear in Table 9 Revised below:

Decile/Utility	Difference in ROE due to Beta		Return in Excess of CAPM Prediction		Total Difference in ROE with Decile 6 Due to Size
	Decile Beta	Difference with Decile 6 at 6.4% MRP	Excess Return by Decile	Difference with Decile 6	
	(1)	(2) = ((1)-FEI)*6.4%	(3)	(4) = (3) – FEI	(5) = (2) + (4)
6 (FEI)	1.24	na	1.65%	na	na
8 (FBC)	1.39	0.98%	2.13%	0.48%	1.45%

16
 17 The corrected values increase the total difference in ROE between Decile 8 and Decile 6 Due to
 18 Size from 1.36% to 1.45%.

19



British Columbia Utilities Commission (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2	Submission Date: August 13, 2013
FortisBC Inc. (FBC) Response to British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Pensioners' and Seniors' Organization <i>et al</i> (BCPSO) Information Request (IR) No. 1	Page 38

1 **27.0 Reference: Exhibit B1-72, Appendix B (McShane Evidence), page 34**

2 **Exhibit B2-17-1, Ahern Evidence, Exhibit PMA-1**

3 27.1 Is the methodology used by Ms. McShane to calculate size risk premiums using
4 the SBBI study the same as that employed by MS Ahern in Exhibit B2-17-1?

5
6 **Response:**

7 Yes, with the caveat that Ms. Ahern used the SBBI decile size premium data presented in Table
8 7-5 and Ms. McShane used the data from Tables 7-5, 7-10, 7-11 and 7-12.

9
10

11 27.2 If not, please outline the differences in approach used.

12
13 **Response:**

14 Please refer to the response to BCPSO FBC IR1.27.1.

15
16