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September 17, 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 (BCUC or the Commission) Generic Cost of Capital (GCOC) Proceeding – Stage 2

FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW) (collectively FEVI-FEW) 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. 2

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

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY (VANCOUVER ISLAND) INC. and
FORTISBC ENERGY (WHISTLER) INC.

Original signed:

Diane Roy

Attachments

cc: Commission Secretary
Registered Parties (email only)

1.0 Reference: BCPSO IR 1.4.1

Preamble: The referenced IR asked for the reasons that Ms. McShane advocated in the Common Rates proceeding that the same common equity ratio for FEW and FEVI was appropriate whereas in the instant proceeding, she now advocates a higher common equity ratio for FEW.

The response provided was:

Ms. McShane's recommendations for a somewhat higher common equity ratio and equity risk premium for FEW than for FEVI in this proceeding are based on further refinement of the relative risk analysis and more consideration given to FEW's much smaller size than FEVI compared to the analysis and recommendations made in the amalgamation and common rates proceeding.

1.1 Please explain whether, in retrospect, Ms. McShane's opinion on the common equity ratios for FEW and FEVI as filed in the "Common Rates" application filed on April 11, 2012 , was in error due to her (i) not refining sufficiently the relative risk analysis appropriately in the Common Rates application, and not (ii) sufficiently considering FEW's much smaller size than FEI in the Common Rates Application.

Response:

In retrospect, Ms. McShane understated the appropriate equity ratio for FEW, as, on balance, the aggregate of the market/demand, competitive, operating, supply and regulatory risks of FEW are similar in magnitude to those of FEVI. However, FEW is a materially smaller utility than FEVI, which should be reflected in a somewhat higher common equity ratio for FEW relative to FEVI.

1.2 If Ms. McShane is now giving more weight to FEW's much smaller size, what aspect of her previous analysis is she giving less weight to now?

Response:

Ms. McShane does not assign specific weights to business risk categories in her business risk assessment. Please refer to the response to BCPSO FEVI-FEW IR 2.1.1.

2.0 Reference: BCPSO IR 1.7.1

Preamble: The referenced IR asked whether, in her opinion, regulated US gas distributors were on average more or less risky than regulated Canadian gas distributors. The response read (in part):

On average, Ms. McShane considers that U.S. gas utilities have somewhat higher regulatory risk than Canadian gas utilities as a group, but similar overall risk when capital structure (financial risk) is taken into account.

2.1 Please provide Ms. McShane's opinion regarding the business risks faced by regulated US gas distributors on average as compared to the business risks faced by regulated Canadian gas distributors on average.

Response:

If regulatory risk is considered to be a separate risk category from business risk, rather than as a component of business risk, Ms. McShane is of the view that, on average, U.S. gas distribution utilities are of similar fundamental business risk (market/demand, competitive, operating, supply) to Canadian gas distributors. Ms. McShane typically considers regulatory risk as a component of business risk. As such, given that, as a group, U.S. gas utilities have somewhat higher regulatory risk than Canadian gas utilities as a group, it follows that U.S. gas utilities as a group have somewhat higher business risk than Canadian utilities as a group.

3.0 Reference: BCPSO IR 1.10.1

Preamble: The referenced IR asked for comment on the fact that Ms. McShane's proxy group for FEI has, on average, a much higher common equity ratio than that of FEI. The response read:

The implication is that, on average, the companies have somewhat higher business risk, offset by lower financial risk, and thus similar total risk.

3.1 Does this response reflect any differences Ms. McShane perceives in regulatory risk between FEI and the proxy group?

<u>Response:</u>

Yes. Please refer to the response to BCPSO FEVI- FEW IR 2.2.1.

4.0 Reference: BCUC IR 1.11.1.1

4.1 Would FEVI's response to the referenced IR change if amalgamation were approved prior to the exhaustion of the RSDA surplus?

Response:

FEVI's response to the referenced IR indicates that upon depletion of the RSDA balance, and in the absence of approval for amalgamation and the adoption of common rates, or other material change in FEVI's circumstances, FEVI would apply for a rate increase.

In a scenario where amalgamated rates are approved, whether prior to or subsequent to the exhaustion of the RSDA surplus, FEVI would no longer need to apply for an increase in rates, as FEVI rates are forecast to decrease in an amalgamated scenario.