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December 4, 2015

Via Email
Original via Mail

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: FortisBC Energy Inc. (FEI)

Application for its Common Equity Component and Return on Equity (ROE) for 2016 (the Application)

FortisBC Inc. (FBC) Submission on Interim Order

FBC writes in response to Exhibit A-5, the British Columbia Utilities Commission (Commission) Letter dated November 30, 2015 in FEI's *Common Equity Component and Return on Equity Application*. FBC, although not an applicant in this proceeding, is directly affected by the Commission's determination in this regard. FBC's submissions on the two questions posed are as follows.

1. Should existing rates be made interim effective January 1, 2016, pending the Commission's decision in this Application, or should new rates be effective only on the date of the decision on this Application?

The Commission is already addressing this specific issue in FBC's 2016 Annual Review proceeding. In its Annual Review filing, FBC had proposed to make FBC's rates interim effective January 1, 2016 to account for the impact of the Commission's decision in FEI's *Common Equity Component and Return on Equity Application*. However, customer groups who intervened in FBC's 2016 Annual Review expressed a preference for permanent rates during 2016, with a deferral account to capture any variance in FBC's rates associated with a change in the benchmark ROE. FBC indicated in Reply Submissions dated November 23, 2015 that it is amenable to that approach, stating:

> FBC proposed interim rates effective January 1, 2016, pending the outcome of FEI's current cost of capital proceeding. The approval of interim rates will allow the Commission to adjust FBC's return on equity back to January 1,

> 2016. An alternative approach would be to approve permanent rates effective January 1, 2016, and also approve a deferral account to capture the impact of the 2016 cost of capital decision. FBC supports this alternative approach, which would be consistent with the requests of BCMEU and ICG set out above, and also consistent with the approach taken for the last change to FBC's ROE. Specifically, to capture the financial effect of the last change to the ROE, the Commission approved in the PBR Decision a GCOC Revenue Requirements Impact deferral account. FBC supports a similar account being approved in this proceeding.[1]

FBC's position remains the same. This Commission Panel should defer to the Commission Panel that is hearing the FBC 2016 Annual Review and refrain from making any determination with respect to FBC in this proceeding where FBC is not the applicant.

If, however, the Commission Panel in this Application decides to determine the issue, then either of the mechanisms addressed above (interim rates or a variance deferral account) can be used to reflect changes in the benchmark ROE at whatever effective date the Commission adopts.

2. Should the Commission consider the relative adjustments in a generic hearing or should those utilities' risk profile be reviewed as part of their next revenue requirements proceeding?

FBC submits that, while the impact of any change in the benchmark ROE should flow through using one of the mechanisms described above, it is appropriate and efficient for the Commission to defer a comprehensive assessment of FBC's business risk until at least 2017. Relatively little time has passed since the Generic Cost of Capital (GCOC) Stage 2 proceeding, which only concluded in 2014. A filing in 2017 would mark the passage of only three years since the GCOC Stage 2 decision. This interval would still be much shorter than in the past. FBC's relative risk was assessed in 2005 and then remained in place for almost 10 years until the GCOC Stage 2 proceeding.

While FEI has described some changes in its risks since 2012, the underlying business fundamentals affecting each of FEI and FBC are broadly similar to what existed at the time of the GCOC Stage 2 proceeding given how little time has passed. Amalgamation is a new fact, but FEI's evidence is (p.3 of the Application) that: "While amalgamation is a factor affecting FEI's business risk that should be considered, it is not the primary justification for FEI's request to increase FEI's equity thickness or ROE." Amalgamation of FEI alone doesn't justify a review of FBC's relative risk.

In any event, FBC submits that in the present circumstances the utility-specific risks for utilities like FBC should be assessed in utility-specific hearings, rather than a generic process. The GCOC Stage 2 proceeding only concluded relatively recently. FBC submits that holding another generic hearing at this time will unnecessarily increase costs for the participating utilities and their customers. There are significant differences among utilities such as Pacific Northern Gas (N.E.) Ltd., FBC and small thermal utilities in terms of the

[1] Paragraph 88.

factors affecting their cost of capital. It is more efficient to consider FBC's cost of capital with the Commission's consideration of other matters affecting FBC's rates.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC INC.

Original signed:

Diane Roy

cc (email only): Registered Parties