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December 18, 2015

Via Email
Original via Mail

British Columbia Public Interest Advocacy Centre
Suite 208 – 1090 West Pender Street
Vancouver, B.C. V6E 2N7

Attention: Ms. Tannis Braithwaite, Executive Director

Dear Ms. Braithwaite:

Re: FortisBC Energy Inc. (FEI)

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

Response to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre *et al.* (BCOAPO) Information Request (IR) No. 1

On October 2, 2015, FEI filed the Application referenced above. In accordance with Commission Order G-177-15 setting out the Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to BCOAPO IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc: Commission Secretary
Registered Parties (e-mail only)



FortisBC Energy Inc. (FEI or the Company) Application for Common Equity Component and Return on Equity for 2016 (the Application)	Submission Date: December 18, 2015
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1

2 **Response:**

3 The allowed ROE should be determined with reference to the considerations set out in Mr.
4 Coyne's evidence, which includes consideration of short and long-term risks.

5 PBR can present additional regulatory risk relative to cost of service regulation, but it is not
6 possible to say in the abstract whether the ROE should or should not always be higher under
7 PBR because the appropriate ROE is a function of a variety of factors. As explained on page 73
8 of FEI's business risk Appendix (Appendix C) the approved 2014-2019 PBR plan introduced
9 additional risk in some respects however the broader regulatory constructs that supported FEI's
10 characterization of regulatory risk in 2012 remain in place. As such FEI has assessed its overall
11 regulatory risk as similar to what it was prior to the start of the new PBR plan with the potential
12 to be higher over the term of the PBR. For more information regarding FEI's assessment of the
13 challenges faced during the PBR period please refer to the response to the BCUC IR 1.31.1.

14

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1 **2.0 Reference: Exhibit B-1, page 2, Business Risk**

2 The referenced page states:

3 *Business risk analysis is an important factor in an investor's decision-making process. A*
4 *key reference point for assessing FEI's business risk is the GCOC Stage 1 proceeding*
5 *which determined the cost of capital for the benchmark utility (FEI). FEI filed evidence in*
6 *that proceeding in August of 2012.*

7 2.1 In FEI's view, did the decision in the GCOC Stage 1 proceeding adequately
8 compensate FEI for its business risk at the time?

9

10 **Response:**

11 No. FEI filed evidence in the GCOC proceeding that FEI considered substantiated a higher
12 overall return (thicker equity and higher ROE). FEI respects that the Commission arrived at a
13 different decision and FEI did not challenge it, but the Company did not agree with it.

14 In the present case, FEI has filed expert evidence prepared by Mr. Coyne. FEI has also
15 updated and expanded the business risk evidence. There is a significant amount of continuity in
16 the underlying business conditions applicable to FEI, and there are similarities in the financial
17 market conditions. However, there have been developments that reinforce the justification for a
18 higher ROE and equity component than what the Commission approved in the GCOC Stage 1
19 Decision.

20

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1 **3.0 Reference: Exhibit B-1, page 3, and Exhibit B-1 Appendix C, page 65,**

2 **Gas Supply Risk**

3 The first reference page states:

4 *While amalgamation is a factor affecting FEI's business risk that should be considered, it*
5 *is not the primary justification for FEI's request to increase FEI's equity thickness or*
6 *ROE. FEI Amalco remains a large natural gas distribution utility, regulated by the BCUC,*
7 *whose core business is to provide space and water heating to its customers. As was the*
8 *case in 2012, FEI's core market is experiencing declining use per customer and low*
9 *customer growth while facing the same competitive challenges as FEI did, pre-*
10 *amalgamation. The addition of the Vancouver Island and Whistler service territories to*
11 *FEI's service area has increased the amalgamated FEI's supply interruption risk as both*
12 *of the Vancouver Island and Whistler areas are exposed to greater security of supply*
13 *risk. As such, FEI Amalco is now exposed to certain factors as a result of amalgamation*
14 *that contribute to a slight increase in overall business risk.*

15 The second reference page states:

16 *Gas supply risk relates to both the availability of gas supply and the potential for gas*
17 *Supply interruption. Both measures are highly dependent on the infrastructure in place to*
18 *process and transport the natural gas to load centers. The risk of a supply shortfall in BC*
19 *is currently deemed to be remote given the discovery of large shale reserves in*
20 *northeastern BC, however, the ability to gain profitable access to markets at current*
21 *price levels and with existing infrastructure may slow BC shale production. [Emphasis*
22 *added.]*

23 3.1 Would it be fair to conclude that Gas Supply Risk for Vancouver Island and
24 Whistler does not affect the utility's bottom line and is not a material driver of
25 business risk?

26
27 **Response:**

28 Please note that while the first paragraph in the preamble refers to the security of supply risk,
29 the second paragraph including the underlined section only refers to the availability of supply.
30 As stated on page 51 of FEI's business risk Appendix (Appendix C), availability of supply risk
31 remains largely unchanged from 2012 while the security of supply risk is slightly higher
32 compared to that of pre-amalgamated FEI.



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1 Security of supply risk has not “affected the utility’s bottom line” to date. However, these
2 considerations are nonetheless long term business risk considerations because there is a
3 potential for them to materialize and impact FEI’s ability to earn a return on and of capital.

4 FEI’s views on the incremental security of supply risk caused by the addition of Vancouver
5 Island and Whistler service territories to FEI’s service area are discussed in the responses to
6 BCUC IRs 1.16.1 and 1.16.2.

7

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1 **4.0 Reference: Exhibit A-3, BCUC IR# 1.1.1, Amalgamation, Business Risk**

2 4.1 Please provide the data requested in the referenced IR for FEW and FEVI
 3 separately, for the years prior to amalgamation.

4

5 **Response:**

6 The requested information is provided below.

(\$000s)	FEI	FEVI	FEW	Total
2015 Approved	3,661,370			3,661,370
2014 Actual	2,739,543	810,584	37,645	3,587,772
2013 Actual	2,730,623	803,031	39,699	3,573,353
2012 Actual	2,692,583	778,698	41,730	3,513,011
2011 Actual	2,563,141	666,114	45,259	3,274,514
2010 Actual	2,525,315	547,566	45,400	3,118,281
2009 Actual	2,460,772	532,925	31,519	3,025,216
2008 Actual	2,471,877	511,422	16,784	3,000,083
2007 Actual	2,425,545	478,699	16,830	2,921,074
2006 Actual	2,442,636	464,180	17,039	2,923,855
2005 Actual	2,408,090	452,605	17,100	2,877,795
2004 Actual	2,306,704	440,555	16,845	2,764,104

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