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April 6, 2018

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, B.C.
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Attention: Mr. Patrick Wruck, Commission Secretary and Manager, Regulatory Support

Dear Mr. Wruck:

Re: FortisBC Energy Inc. (FEI)

Project No. 1598917

2017 Price Risk Management Plan (PRMP) (the Application) and the 2018 PRMP (the Revised Application)

Response to the British Columbia Utilities Commission (BCUC or the Commission) Information Request (IR) No. 1

On June 13 2017, FEI filed the Application referenced above. On January 5, 2018, FEI filed the Revised Application. In accordance with Commission Order G-22-18 setting out the amended Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to BCUC IR No. 1.

If further information is required, please contact Mike Hopkins, Senior Manager, Price Risk & Resource Planning at (604) 592-7842.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc (email only): Registered Parties

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A. PRICE RISK MANAGEMENT OBJECTIVES

1.0 Reference: PRICE RISK MANAGEMENT OBJECTIVES

Exhibit B-1-2, p. 4; FEI 2015 Price Risk Management (PRM) Application, Exhibit B-1, p. 1; FEI 2015 PRM Order E-10-16, Letter L-15-16 and Decision dated June 17, 2016 (FEI 2015 PRM Decision), p. 9

Price risk management plan objective

FortisBC Energy Inc. (FEI) states on page 4 of its 2018 Price Risk Management Plan Application (Revised Application) that:

> FEI's objectives for its price risk management, which includes hedging, include the following:
>
> - Mitigate market price volatility to support rate stability [objective 1], and
> - Capture opportunities to maintain commodity rates at historically low levels [objective 2].

FEI stated on page 1 of its 2015 Price Risk Management (PRM) Application that:

> FEI believes that the workshop process has helped to re-affirm its price risk management objectives which include the following:
>
> - Mitigate market price volatility to support rate stability; and
> - Capture opportunities to provide customers with more affordable rates [2015 objective 2].

FEI stated on page 9 of the FEI 2015 PRM Decision that "the Panel is not persuaded that the objective of capturing opportunities to provide customers with more affordable rates has application beyond the current market-pricing environment."

1.1 Please explain 1) why and 2) how objective 2 contained in the Revised Application has been modified from those contained in the 2015 PRM Application.

<u>Response:</u>

FEI has revised objective 2 to make it more specific and relevant to the current low market price environment rather than the affordability in rates. The affordability in rates can be somewhat subjective and difficult to measure as it will vary among different customers. Maintaining commodity rates at historically low levels is less subjective and easier to define since information regarding historical commodity rates is available and observable and can be used for comparison or as part of benchmarking in a hedging strategy.

1.2 Please provide FEI's view on the difference in interpretation between objective 2 in the Revised Application and objective 2 in the 2015 PRM Application.

Response:

Please refer to the response to BCUC IR 1.1.1.

1.3 In the Revised Application, would it be fair to say that FEI is ultimately striving for two objectives: (i) rate stability and (ii) low commodity rates? If not confirmed, please elaborate.

Response:

In the 2018 PRMP, FEI is striving to mitigate price volatility to support rate stability and capture opportunities to maintain commodity rates at historically low levels. As discussed in Section 4 of the 2018 PRMP, there are other programs or activities (e.g. physical gas contracting strategies, rate setting mechanisms, Customer Choice Program or Equal Payment Plan) which take different actions to increase rate or bill stability or achieve low commodity rates.

1.3.1 Please confirm that (a) mitigating market price volatility and (b) capturing opportunities are actionable items to achieve the two objectives, and that FEI could take other actions to achieve those objectives. If not confirmed, please explain otherwise.

Response:

Mitigating market price volatility and capturing opportunities are actions that support rate stability and lower commodity rates in a way that other actions or tools cannot replicate.

As summarized in Section 4.6 of the 2018 PRMP, FEI can and does take other actions by using other tools to increase rate stability and support low commodity rates. These other tools include physical supply contracting strategies, rate setting mechanisms and deferral accounts.

However, these other tools are not as effective as hedging in meeting these objectives. Hedging, unlike the other tools, locks in forward market prices which affects the underlying market prices and their impacts on FEI's gas costs, which ultimately flow through to customers in commodity rates. The use of deferral accounts, for example, while effective in reducing some short-term rate volatility, merely shift gas costs to other periods where they will ultimately need to be recovered or refunded from customers through rate changes.

1.3.2 Please clarify whether FEI's objectives are to achieve low and stable overall rates or commodity rate (e.g. cost of gas) only.

Response:

One of FEI's price risk management objectives is to maintain commodity rates at historically low levels. However, given that commodity rates can be a significant portion and typically the most variable component of the overall rates, achieving this objective for the commodity rate will also help with achieving it for overall customer rates.

1.4 Please clarify whether FEI's two PRM objectives in the 2018 PRM must be considered jointly, have certain priority sequence, or should be considered in isolation (i.e. achieving one of the two is sufficient).

Response:

FEI considers both objectives equally important with neither one having priority over the other. FEI's customer research (provided in Appendix A of the 2018 PRMP) and discussions with stakeholders (described in Section 6 of the 2018 PRMP) indicate that both of the objectives are important to customers. FEI notes that achieving the objective of capturing opportunities to maintain commodity rates at historically low levels can also help with the objective of supporting rate stability. However, achieving the objective of supporting rate stability does not necessarily achieve the objective of capturing opportunities to maintain low rates. FEI discusses in the 2018 PRMP (page 5) that market price conditions could change in the future and FEI may no longer have the opportunity to capture opportunities to maintain low commodity rates for customers. Therefore, FEI notes that this objective is applicable in the current low market price environment. As FEI discusses on page 4 of the 2018 PRMP, the objective related to mitigating market price volatility is applicable in both high and the current low gas price environment as there can be market price volatility in either.

2.0 Reference: PRICE RISK MANAGEMENT OBJECTIVES

Exhibit B-1-2, p. 4; FEI 2017 Long Term Gas Resource Plan (LTGRP), Exhibit B-1 pp. 142–143; FEI and FortisBC Energy (Vancouver Island) Inc. 2011-2014 Price Risk Management Plan, Order G-120-11 and Reasons for Decision, dated July 12, 2011, Appendix A, pp. 20–21

Consistency with the FortisBC Energy Inc. 2017 Long Term Gas Resource Plan

FEI states on page 4 of its Revised Application:

> FEI's objectives for its price risk management, which includes hedging, include the following: Mitigate market price volatility to support rate stability [objective 1], and Capture opportunities to maintain commodity rates at historically low levels [objective 2].

FEI states on page 142 of its 2017 LTGRP Application that "FEI has developed diversified procurement strategies and utilized PRMPs to manage commodity price risk and <u>facilitate competitive and affordable natural gas rates</u>" [emphasis added]. FEI further states on page 143 of its LTGRP that "FEI's price risk management objectives include mitigating market price volatility to support rate stability and capturing favourable prices to provide customers with <u>more affordable rates</u>" [emphasis added].

On page 21 of Appendix A to Order G-120-11 it was stated that:

> The Commission Panel finds that the need for an objective related to the competitiveness of natural gas with other energy sources has not been established" It further states on page 21 that "Considering only the commodity price and ignoring the potential for responding to competitive threats more broadly is in our view an inadequate response.

2.1 Please reconcile the PRMP objectives stated in the Revised Application with those stated in the FEI 2017 LTGRP Application. In particular, please explain whether "affordable and competitive rates" as stated in the LTGRP is one of the objectives of PRMP.

<u>Response:</u>

Please refer to the response to BCUC IR 1.1.1 regarding FEI's update to its objective regarding achieving more affordable rates. As stated in the 2018 PRMP, FEI's price risk management objectives do not explicitly include achieving affordable and competitive rates. However, achieving the objective of capturing opportunities to maintain low commodity rates may, at the same time, help provide some customers with more affordable rates than in the past and help with the competitiveness of natural gas compared to other energy sources.

2.2 Please explain whether the PRMP objectives stated in the Revised Application in effect "facilitate competitive and affordable natural gas rates."

Response:

Please refer to the response to BCUC IR 1.2.1.

2.2.1 If yes, please comment on how FEI has considered the findings contained in Order G-120-11 in reaching the objectives proposed in the Revised Application.

Response:

Please refer to the response to BCUC IR 1.2.1.

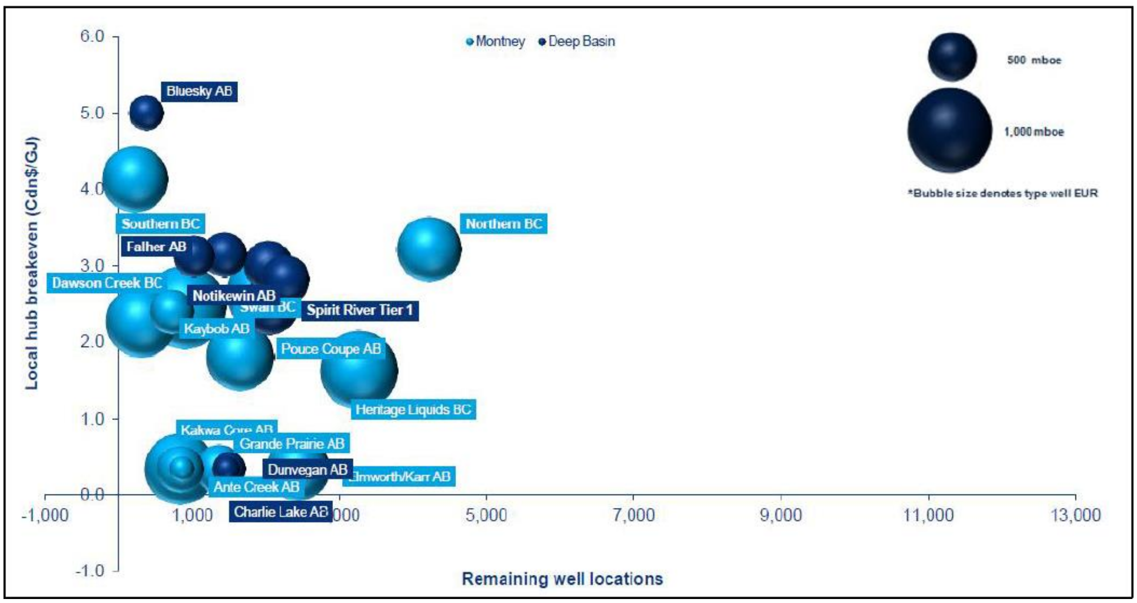
3.0 Reference: PRICE RISK MANAGEMENT OBJECTIVES

Exhibit B-1-2, pp. 1, 7, 11; FEI 2015 Price Risk Management Plan, Exhibit B-1, p. 8

Market price environment

FEI states on page 1 of its Revised Application that "Market prices are near the level of many gas producers' break-even production costs, indicating that there is little room for further downward movement." FEI further states on page 7 that "Gas producers in North America continue to lower costs and improve drilling techniques such that they have reduced their break-even costs over time ", and presents Figure 3-2 to show the WCSB Gas Producer Break-Even Costs:

Figure 3-2: WCSB Gas Producer Break-Even Costs



FEI also presents Figure 3-1 on page 6 of its Revised Application, showing a historical high price environment and low price environment over the November 1999 to November 2017 period.

3.1 Please replicate Figure 3-2 above for year 2007, and layer Figure 3-2 contained in the application on top of the replicated Figure 3-2 for year 2007.

<u>Response:</u>

FEI is not able to replicate Figure 3-2 for the year 2007 as most of the production at that time was coming from other production areas such as conventional gas and coalbed methane plays rather than from the Montney and Deep Basin plays. In 2007 the main coalbed methane plays in Western Canada included the Horseshoe Canyon and Mannville, which had average break-even costs of about $4.22 per GJ and $7.04 per GJ, respectively. The other main conventional gas plays at that time included the Horn River which had break-even costs of about $7.28 per GJ.

The break-even costs were higher in 2007 compared to current break-even costs provided in Figure 3-2, as technological advances in drilling techniques with unconventional production have lowered costs in the shale gas era. The average AECO/NIT monthly market price in 2007 was $6.26 per GJ. The higher average market gas price in 2007 reflects the higher production break-even costs at that time.

3.1.1 Please comment on whether the break-even cost in 2007 was higher, same, or lower than in 2017. If the break-even cost has changed overtime, please explain the factors that contributed to this change.

Response:

Please refer to the response to BCUC IR 1.3.1.

3.1.2 Please present the market price in 2007, and comment on whether the market price in 2007 is aligned with the gas producer break-even cost in 2007.

Response:

Please refer to the response to BCUC IR 1.3.1.

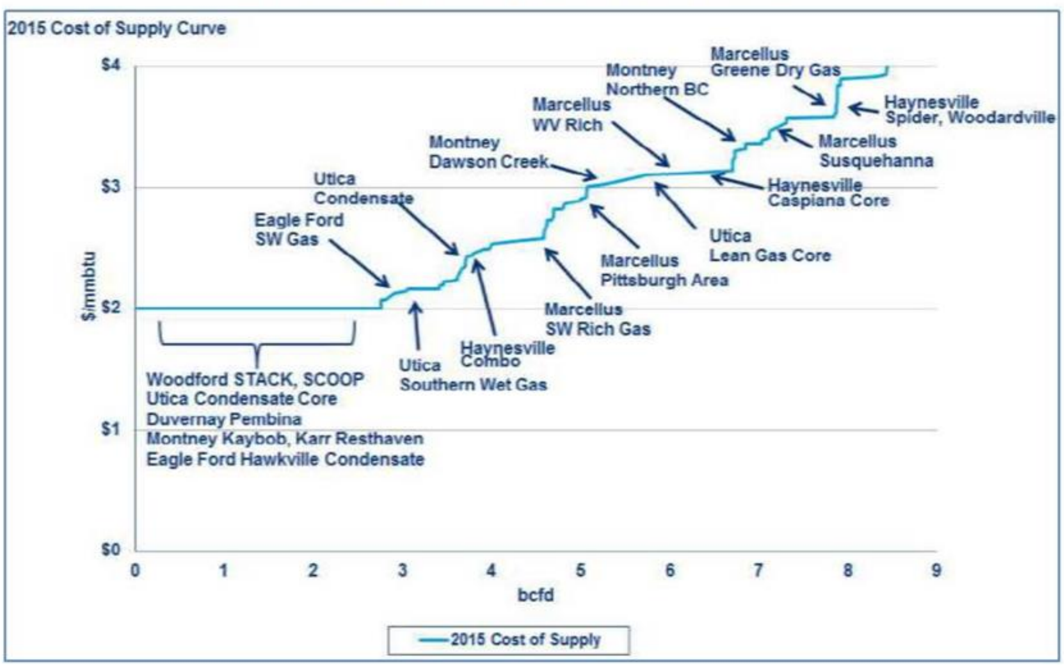
3.2 With reference to the historical market price and producer break-even cost in the past 10 years, please comment on whether gas producers' break-even costs have historically informed the likelihood and directional change in future market prices.

Response:

Gas producers' break-even costs have decreased over the last 10 years as gas producers have been able to lower their production costs and employ improved drilling techniques. This has enabled gas producers to produce more supply into the marketplace which, relative to demand over the past 10 years, has led to a decrease in market gas prices. So, overall, lower break-even costs have resulted in declining gas prices over time. Generally speaking, gas producers' break-even costs have also provided a "soft floor" for market gas prices as many producers will cut back on production if market prices fall below these levels. However, other factors have influenced the changes in market prices as well. These include, for example, temporary and sudden increases in demand due to weather or supply disruptions due to weather events or pipeline constraints.

In FEI's 2015 PRM Application, FEI presented the projected gas producer break-even cost on page 8, replicated below:

Figure 3: Projected Gas Producer Break-Even Costs[2]



3.3 Please confirm, or explain otherwise, that both of the gas producer break-even cost Figures included in the 2015 PRM and in the Application referenced above are reflective of a "low price environment" as characterized in Figure 3-1 of FEI's Application.

Response:

Confirmed.

3.4 Based on the two Figures referenced above showing the gas producer break-even costs in the Revised Application and in the 2015 PRM Application, please comment on whether the two Figures shows that break-even cost has reduced between 2015 and 2017.

Response:

Yes, the break-even costs have reduced since 2015. Based on the figure from the 2015 PRM Application the break-even cost was over $3.50 per GJ for production in the Montney region, compared to the average break-even of about $2 per GJ for most WCSB gas producers in Figure 3-2 of the 2018 PRMP.

3.4.1 If the two Figures referenced above are not directly comparable, please reproduce Figure 3 from the 2015 PRM Application to match the format presented in Figure 3-2 in the 2018 Application.

Response:

Please refer to the response to BCUC IR 1.3.4.

3.5 Please comment on whether FEI considers that the break-even cost can be further reduced in the future due to factors such as technological advancement, or producers' ability to sustain a low break-even cost due to recoveries from gas liquids or oil from liquid rich basins.

Response:

Break-even costs are near their lowest levels; however break-even costs could reduce further for some producers due to factors such as technological advancements. As Figure 3-2 of the

2018 PRMP shows, some producers already have break-even costs below $1 per GJ and near zero due to the recoveries from gas liquids or oil. It is possible that many liquids-rich producers may be able to sustain these low break-even costs as long as oil and liquids market prices remain high enough for them to generate profits.

4.0 Reference: PRICE RISK MANAGEMENT OBJECTIVES

Exhibit B-1-2, pp. 4, 6; FEI 2017 LTRGP, Exhibit B-1, p. 143

Historically low levels

FEI states on page 4 of the Revised Application that "FEI's objectives for its price risk management, which includes hedging, include the following:

- Mitigate market price volatility to support rate stability [objective 1], and
- Capture opportunities to maintain commodity rates at historically low levels [objective 2]."

FEI states on page 143 of the LTGRP Application that "The objectives for the medium and longer term are the same, but the tools for managing price risk management are different."

FEI states on page 6 of its Revised Application that "A low priced environment is one where market prices fall to near historical lows and natural gas producer break-even cost levels, so that it has for more potential upside price movement than downside… For the AECO/NIT market, a low priced environment is where market prices are near or below about $2.00 per GJ, with occasional price spikes above $3.00 per GJ."

Figure 3-1 on page 6 shows the historical AECO/NIT market prices from 1999 to 2017.

4.1 Please confirm that "historically low levels" in objective 2 refers to the low priced environment at around $2/GJ at the AECO/NIT market. If not confirmed, please elaborate on what is considered "historically low levels."

Response:

Confirmed, with the following clarification.

The reference to "historically low levels" in objective 2 is referring to maintaining FEI's commodity rates at historically low levels for customers, such as those during 2016 and 2017 in Figure 3-7 of the 2018 PRMP. FEI's commodity rates during these two years were among FEI's lowest commodity rates ever and are significantly lower than most of FEI's previous commodity rates. To help maintain these historically low rates, FEI's hedging strategy includes proposals for capturing low market prices if there is an opportunity to do so. The current low market priced environment is one where AECO/NIT market prices are at or below about $2 per GJ.

4.1.1 If confirmed, please provide the price range and sustained duration of AECO/NIT price to be considered in a low priced environment.

Response:

AECO/NIT prices near or below about $2.00 per GJ with temporary spikes up to $5.00 per GJ and dips to or below $1.00 per GJ for a period of years would be considered a continuation of the low priced environment.

4.2 Hypothetically, if the market prices further reduce to around $1/GJ and are sustained around the $1/GJ range, please comment on whether the price that would be considered at "historically low levels" per objective 2 would differ from the price level defined in response to the Information Request (IR) above?

Response:

If prices were to be sustained at the $1 per GJ range, they would still be at historically low levels. As noted in Section 3.1.1 in the 2018 PRMP, for the AECO/NIT market, a low priced environment is where market prices are near or below about $2.00 per GJ. Therefore, if prices were to fall below $2.00 for a sustained time they would still be at historically low levels.

4.3 Please explain whether FEI considers objective 2 to be relevant only to the current pricing environment, or in any time horizon irrespective of the pricing environment?

Response:

Objective 2 is only relevant in the current low price environment. As discussed in Section 4.3.2, in higher priced environments FEI would consider using other hedging instruments, such as call options or costless collars, which provide downside price participation, and avoid being locked in at potentially higher price levels.

4.4 In light of Figure 3-1 on page 6 of the Revised Application, would it be fair to say that the 1999 to 2009 period AECO/NIT market prices has experienced relatively higher price volatility and the 2010 to 2017 AECO/NIT market prices has experienced relatively lower price volatility?

Response:

Yes, in the 1999 to 2009 period AECO/NIT market prices have experienced relatively higher price volatility and in the 2010 to 2017 period AECO/NIT market prices have experienced relatively lower price volatility. The following table compares the volatility of the AECO/NIT market prices based on several metrics (in $ per GJ units), including price range and standard deviation, for the two time periods in question. It shows that the 1999 to 2009 period experienced a wider range of price movements and higher standard deviation than the 2010 to 2017 period.

Time Period	High Price	Low Price	Average	Standard Deviation
1999 to 2009	$12.91	$2.50	$5.95	2.10
2010 to 2017	$5.64	$1.04	$2.98	0.91

While market prices have averaged lower since 2009, market price volatility still occurs, albeit at a lower level than in the 1999 to 2009 period. This market price volatility continues to create volatility in FEI's commodity rate as FEI shows in Figure 4-1 of the 2018 PRMP, with commodity rates ranging from near $1 per GJ to almost $5 per GJ over the last few years.

4.4.1 To the extent possible, please provide any calculations and/or indices that show natural gas price volatility (e.g. AECO/NIT market prices) in the last 1, 3, 5, 10, and 20 years.

Response:

The following figure shows the volatility in AECO/NIT monthly settled prices for the last 1, 3, 5, 10 and 19 years based on price ranges and standard deviations (in $ per GJ units). FEI does not have market price information back 20 years.

Time Period	High Price	Low Price	Average	Standard Deviation
Last 19 Years	$12.91	$1.04	$4.55	2.22
Last 10 Years	$6.83	$1.04	$3.15	1.08
Last 5 Years	$5.64	$1.04	$2.84	0.88
Last 3 Years	$3.94	$1.04	$2.39	0.62
Last 1 Year	$3.33	$1.46	$2.39	0.54

5.0 Reference: PRICE RISK MANAGEMENT OBJECTIVES

Exhibit B-1-2, pp. 5, 11

Market view versus risk view

FEI states on page 5 of the Revised Application that "This objective reflects an opportunistic strategy based on the current price environment, and FEI does not know how long the opportunity may last… FEI's proposed opportunistic hedging strategy positions FEI to capture low market prices and improve the likelihood of maintaining low commodity rates for customers for a longer period…."

FEI states on page 11 of its Revised Application that "downside price movements are limited, given gas producer break-even costs discussed in Section 3.1.2, with greater potential upside price moves."

5.1 FEI cites "opportunistic hedging strategy" and not knowing "how long the [low market prices] opportunity may last." Please explain how FEI differentiates between hedging and speculation. What are the indicators that "capture opportunities to maintain commodity rates at historically low levels" may suggest the shift from a risk view to a market view over time.

<u>Response:</u>

Speculation involves trying to predict market price movements and implement hedges for the purpose of financial gain or trying to "beat the market". In contrast, FEI's hedging strategy involves hedging for the purposes of supporting commodity rate stability and capturing market prices at or below predetermined target values to maintain stable, low rates for customers. FEI's objectives do not include achieving the lowest possible market prices, but rather maintaining commodity rates at/near historically low levels. Furthermore, FEI's hedging price targets are based on consideration of production break-even costs, price probability analysis, third party price forecasts and the forward market price curve, rather than on FEI's speculation of future market price movements. These hedging price targets are determined through this analysis and are maintained for a period of time, at least until further analysis is done in the next PRMP, rather than being adjusted based on market price movements throughout the year. FEI's other objective is to provide rate stability through low hedging price targets so that this stability is not achieved at any cost or an unreasonable cost to customers. As discussed in Section 4.3.1 of the 2018 PRMP, FEI notes that this strategy can lead to hedging gains or costs due to differences between market prices and the prices that FEI has hedged at, and that the key to a successful hedging program is its ability to meet the objectives without incurring significant hedging costs for a period of time.

5.2 With respect to FEI's view that "downside price movements are limited" and that there is "greater potential update price moves", in addition to natural gas break-even cost levels, has FEI conducted any other fundamental[1] analysis to support its view? If so, please provide such analysis and if not, please explain.

Response:

In addition to natural gas break-even costs, FEI conducted analysis that examined the price probability of future AECO/NIT market prices. Figure 3-6 in the 2018 PRMP shows that downside price movements are limited to about $1 per GJ with greater probability of prices increasing to $4 per GJ and higher. FEI also reviewed gas market historical prices and the forward monthly prices and the price forecast from Wood Mackenzie, as shown in Figure 3-5 in the 2018 PRMP, to support the view that "downside price movements are limited".

5.3 With respect to FEI's view that "downside price movements are limited" and that there is "greater potential update price moves", in addition to market prices falling to near historical lows, are there any technical indicators[2] to show the likelihood of future gas prices increasing, decreasing, or remaining the same? If so, please provide such analysis and if not, please explain.

Response:

Please refer to the response to BCUC IR 1.5.2.

[1] Fundamentals refer to economic characteristics of a business, such as profitability, financial strength, and risk. https://www.cfainstitute.org/learning/tools/glossary/Pages/index.aspx.

[2] Technical indicators refer to momentum indicators based on price. https://www.cfainstitute.org/learning/tools/glossary/Pages/index.aspx.

6.0 Reference: PRICE RISK MANAGEMENT OBJECTIVES

Exhibit B-1-2, p. 26; 2015 PRM decision[3], p. 9; British Columbia Utilities Commission Order G-130-06 and Rules for Natural Gas Energy Supply Contracts[4]

Purpose of hedging tools

FEI states on page 26 of the Revised Application that:

> Hedging instruments involve locking in or capping market gas prices… Hedging can be used as a tool to stabilize market prices and protect customers from market price volatility. Hedging acts like insurance against adverse price movements. Hedging strategies can be tailored to different market price environments so that they protect customers and provide some rate stability in a cost effective manner. Hedging also provides the opportunity to help preserve relatively low commodity rates for customers by capturing opportunities when they arise.

In Order G-130-06, the Commission's Rules for Natural Gas Energy Supply Contracts (Rules), Rule 14.3 establishes that annual gas contracting plans shall provide for "diversity of pricing arrangements and other price risk management measures."

6.1 Please explain, in a financial context, what is the advantages and purpose of hedging over other financial instruments. Specifically, is the key purpose of hedging to provide price certainty, opportunity to gain from market speculation, or other?

Response:

The key purpose of FEI's proposed hedging is to support FEI's objectives, which include the following:

- Mitigate market price volatility to support rate stability, and
- Capture opportunities to maintain commodity rates at historically low levels.

FEI has recommended implementing financial fixed price swaps, or physical fixed price purchases, in this low market price environment in the interests of preserving historically low commodity rates for customers. Using fixed price swaps or physical fixed price purchases as hedges against the possibility of rising natural gas rates, enables FEI to lock in market prices thereby providing price and gas cost certainty for a portion of the commodity supply portfolio. This, in turn, helps provide more stability in commodity rates for customers. Other financial

3 https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/145161/1/document.do.

4 https://www.ordersdecisions.bcuc.com/bcuc/orders/en/item/116159/index.do?r=AAAAAQAIZy0xMzAtMDYB.

hedging instruments, such as call options or costless collars, which provide downside price participation and include a price cap, rather than locking in price certainty, could be considered in higher priced environments.

As FEI notes in Section 2 of the 2018 PRMP, taking a market position with the purpose of gaining from market speculation is not one of FEI's objectives.

6.2 In FEI's view, and in the context of physical and financial hedging, please compare and contrast between (i) hedging as proposed in the Revised Application and (ii) price risk management measures as contemplated in the Rules.

Response:

The hedging as proposed in the 2018 PRMP, which includes either physical or financial hedging, is related to the objectives of mitigating market price risk to support commodity rate stability and capturing opportunities to maintain commodity rates near historically low levels for customers. As FEI discusses in Section 2 of the 2018 PRMP, the hedging strategy is not related to supply security, which is an objective of the Annual Contracting Plan (ACP).

The price risk management measures as contemplated in the Rules are related to gas supply arrangements with the primary goal of reliably meeting customers' needs at a reasonable cost. These price risk management measures, as defined within the ACP, include tools such as physical gas storage, supply hub diversity and allocation between daily and monthly priced supply, discussed in Appendix B of the 2018 PRMP. The hedging strategy proposed in the 2018 PRMP is informed by the market price exposure determined through the ACP.

6.2.1 Are there any instances in the Revised Application where FEI use the terms "hedging" and "price risk management measures" interchangeably? Please specify and explain.

Response:

No, the terms are not used interchangeably because FEI does not consider hedging and price risk management measures to be the same thing. Price risk management measures includes all tools and strategies which can help to mitigate market price volatility or capture low market prices. Hedging is one of these tools, as noted in Appendix B of the 2018 PRMP.

6.3 Please comment on whether the proposed hedging strategy meets the objective of "Capture opportunities to maintain commodity rates at historically low levels" if the market price is further reduced.

Response:

Yes, the current proposed hedging strategy would meet the objective if the market price is further reduced. However, FEI would consider lowering its hedging price targets if the reduced market price was supported by gas production break-even costs, third party gas price forecasts, gas price probability analysis and other relevant information, as it has done in the 2018 PRMP.

6.4 Hypothetically, if the market environment suggests that there is a high likelihood for market prices to reduce in the future, please comment on whether FEI will still suggest the hedging proposal as proposed.

Response:

Please refer to the response to BCUC IR 1.6.3.

6.4.1 If yes, please explain how the proposed hedging strategy implemented in the hypothetical pricing environment mentioned above meets FEI's stated PRMP objectives.

Response:

As stated in the response to BCUC IR 1.6.3, FEI would look to lower hedging targets if the market price further reduced and was supported by analysis. Lower hedging targets would still allow FEI to continue to meet the stated objectives. Both the proposed hedging targets and the hypothetical lower hedging targets would mitigate price volatility to support rate stability and capture opportunities to maintain historically low commodity rates. However, it is important to note that FEI is not able to predict if future market prices will be further reduced and making this assumption would involve speculation.

6.4.2 If not, please explain whether FEI is taking a market view or a risk view in determining the appropriate price risk management tool to implement.

Response:

Please refer to the response to BCUC IR 1.6.4.1.

6.5 Hypothetically, if the market is in a "high-priced environment", would FEI recommend any hedging strategy in aims to achieve rate stability?

Response:

In a high-priced environment FEI would look at other hedging instruments to help with the objective of achieving more commodity rate stability. Section 4.3.2 of the 2018 PRMP describes other financial tools and strategies that FEI would consider using in a higher market price environment. This includes the use of call options or costless collars, which provide downside price participation and include a price cap or ceiling. These instruments can mitigate some market price volatility at a low cost. These instruments would be part of a more defensive hedging strategy designed to mitigate market price volatility rather than the current proposed opportunistic hedging strategy which is designed to meet this objective as well as capture low price opportunities.

7.0 Reference: PRICE RISK MANAGEMENT OBJECTIVES

Exhibit B-1-2, pp. 1, 5, 15–17

Incentive and purpose for the price risk management plan

On page 1 of the Revised Application, FEI states that "[t]he hedging strategy is the best tool available to FEI to lock in historically low market gas prices for the benefit of FEI's customers." The FEI cost of gas flows through to customers by way of the FEI commodity rate. In other words, FEI does not mark up the cost of gas.[5]

On the delivery rate component, as required by legislation, the Commission establishes a fair return for FEI's investments on the gas distribution system.[6] On the commodity side, the Gas Supply Mitigation Incentive Plan (GSMIP) compensate FEI's shareholder by way of maximizing gas cost savings to FEI customers though the Annual Contracting Plan (ACP).[7]

On pages 5, 15–17, FEI discusses that the ACP's objective is to manage supply security and notes various contracting strategies. In Order G-130-06, Rule 14.3 establishes that annual gas contracting plans shall provide for "diversity of pricing arrangements and other price risk management measures."

7.1 Please discuss the incentive for FEI to undertake the 2018 PRMP, from a FEI shareholder's perspective.

Response:

There is no direct incentive for FEI to undertake the 2018 PRMP from a shareholder's perspective as the price risk management strategies are designed for the benefit of FEI's customers.

7.1.1 Would FEI shareholders be willing to bear all of the risk, including any losses, associated with the proposed hedging strategy? Please explain.

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5 https://www.fortisbc.com/NaturalGas/Homes/Rates/Pages/Cost-of-gas.aspx .

6 http://www.bcuc.com/Documents/Proceedings/2016/DOC_46971_08-10-2016_FEI_CEC-ROE-2016_Decision.pdf.

7 http://www.bcuc.com/Documents/Proceedings/2016/DOC_47685_L-27-16_FEI-GSMIP-2016-2019_Term-Sheet.pdf.

Response:

No. The hedging strategy is related to achieving the price risk management objectives for customers.

7.1.2 Would FEI shareholders be willing to share the risk with ratepayers in FEI's proposed hedging strategy? If so, how would this sharing mechanism look like? If not, please explain.

Response:

Please refer to the response to BCUC IR 1.7.1.1.

7.2 Please clarify why FEI chooses to file a separate and standalone PRMP application instead of including its price risk management measures in the ACP process.

Response:

FEI's past practice has been to file separate and standalone PRMP applications rather than including the hedging strategies in the ACP. This is because it is the ACP which first determines the physical supply resources required to meet customers' needs and thereby determines the market price exposure of the physical portfolio. Based on this exposure, the PRMP determines the best strategies to mitigate this price risk.

Furthermore, FEI requires the ACP to be approved by the Commission in a timely manner in order to have sufficient time to procure and contract for the required physical resources for customers. FEI's experience is that the review and approval of FEI's PRMPs takes considerably longer than that for the ACP and so including its price risk management strategies within the ACP could delay the ACP review process.

8.0 Reference: SUPPORT FOR OBJECTIVES

Exhibit B-1 (2017 PRMP Application), Section 2, p. 4; Exhibit B-1-2, p. 13

Customer survey

On page 4 of the 2017 PRMP Application, FEI states objectives for its price risk management (including hedging), which include the following:

- Mitigate market price volatility to support rate stability, and
- Capture opportunities to maintain commodity rates at historically low levels

On page 13 of the Revised Application, FEI states the objectives of the customer survey conducted in 2017 as follows:

i) to help determine the importance of customers' gas bills in relation to other household bills;

ii) [to help determine] customer tolerances for bill changes in the current low price environment; and

iii) what, if any, premium customers are willing to pay for more bill stability.

The results would help FEI determine if its current price risk management tools (including hedging) to meet the objectives, are sufficient based on customer tolerances and preferences or whether more tools are required now or in the future.

8.1 Please discuss how each of the customer survey objectives relate to the objectives of FEI's price risk management as listed in the Revised Application.

Response:

The following are the customer survey objectives and how they relate to the stated objectives in the 2018 PRMP:

i) to help determine the importance of customers' gas bills in relation to other household bills;

This customer survey objective supports FEI's objective to mitigate market price volatility to support rate stability by helping determine the importance of customers' gas bills relative to other household expenses which provides insights into customers' sensitivity to changes in their gas bills.

ii) [to help determine] customer tolerances for bill changes in the current low price environment;

This customer survey objective relates to both of FEI's price risk management objectives by providing FEI an understanding of customers' tolerances for bill changes. FEI can translate tolerances in bill changes to tolerance in commodity rate changes given that typically the most volatile portion of the customers' bill is the commodity rate.

iii) what, if any, premium customers are willing to pay for more bill stability.

This customer survey objective supports both of FEI's price risk management objectives by determining what, if any, premium customers would be willing to pay for supporting bill stability. This provides insights into what degree of additional cost customers might be willing to bear for more stable natural gas bills as well as what level of increase in bills they could tolerate.

8.2 Please discuss how results of the survey have informed FEI about the sufficiency of existing price risk management tools or the need for more tools now or in the future.

Response:

The survey results support FEI's view that, at this time, an opportunistic hedging strategy is required to meet the interests of customers. As stated in Section 3.3 of the 2018 PRMP, the responses in the survey point to a willingness by many customers to pay a small premium for bill stability. The survey results show that, on average, residential customers would be willing to pay up to 3.6 percent each month and small commercial customers would be willing to pay up to 4.6 percent each month for greater stability in their natural gas bill. This translates into an average of about 19 to 24 percent premium on the commodity rate component of the bill. FEI believes the price risk management tools, including hedging as illustrated in Figure 4-5 of the 2018 PRMP, can provide customers with greater bill stability, while meeting customers' tolerances for potential bill increases. For further analysis on the hedging cost and the commodity rate component of the bill, please refer to the response to BCUC IR 1.19.4.

If the market price environment were to change, such as if market prices were significantly higher and more volatile, FEI would consider more customer research to help determine if customers' concerns or tolerances for gas rates or bills has changed, and consider other price risk management tools or strategies, such as call options or costless collars, as discussed in Section 4.3.2 of the 2018 PRMP.

8.2.1 Please discuss how the importance of customer gas bills in relation to other household bills relate to a need for more price risk management tools?

Response:

The importance of customer gas bills in relation to other household bills provides insight into the importance of customers' gas bills and therefore how sensitive they might be to gas bill changes. Based on where customers rank the importance of gas bills relative to other household bills and their tolerance for bill increases, its proposed price risk management strategies are appropriate. However, for example, if customers had ranked their gas bills as having more importance than any other household bills, FEI might consider more robust price risk management, such as greater amounts of hedging, to help manage commodity rates for customers.

8.2.2 Please discuss how i) customer tolerance for bill changes and ii) willingness to pay for more bill stability inform FEI about customer willingness to bear the costs and risks of hedging?

Response:

Please refer to the response to BCUC IR 1.8.2.

8.2.3 Please discuss which of the survey objectives relate to establishing customer tolerance to risks associated with hedging.

Response:

Customers' willingness to pay for more bill stability relates to establishing customer tolerance to risks, i.e. the potential cost associated with hedging. The responses in the survey point to a willingness by many customers to pay a small premium for bill stability. As stated in Section 3.3 of the 2018 PRMP, the survey indicates that 62 percent would be willing to pay a small premium for bill stability while 31 percent indicated they would not be willing to pay a premium and 7 percent were uncertain. The survey results show that, on average, residential customers would be willing to pay up to 3.6 percent each month and small commercial customers would be willing to pay up to 4.6 percent each month for greater stability in their natural gas bill. This translates into an average of about 19 to 24 percent premium on the commodity rate component of the bill. This provides FEI with an idea of the magnitude of potential hedging costs that could be tolerated by customers through rates.

9.0 Reference: SUPPORT FOR OBJECTIVES

Exhibit B-1, Appendix A, p. 5

Customer survey sample

On page 5 of Appendix A to the 2017 PRMP Application, it is stated:

> Residential customers were sourced from an online panel provider. Targeted oversampling was conducted to ensure an adequate base size of low income households. A total of 99 residential customers fall into the low income category.

9.1 Please explain what an "online panel provider" is and why it is used to source residential customer survey participants.

Response:

An online panel provider is a company that recruits people to participate in online market research. Market research vendors may either run their own panel or contract that service from a third party. The use of an online approach permitted the presentation of complex information that could not be feasibly done using a telephone methodology.

9.2 Please discuss the reason for targeted oversampling of low-income households and what is meant by an "adequate base size" of low-income households.

Response:

Lower income households are likely more sensitive to rate or bill increases and, in particular, to unexpected rate or bill increases. They are also more likely to be under-represented in surveys. It was therefore important that FEI took steps to ensure an adequate level of representation of low income customers in the overall sample to allow for the comparison of responses between low income and non-low income customers.

9.2.1 Please explain in detail FEI's survey sampling model, its underlying assumptions and inherent interpretation risks, with a particular emphasis on why FEI thought oversampling low-income households was necessary?

Response:

Sentis Research (Sentis) was instructed to ensure that the sample was representative of the BC population (18+) in our service territory by age and gender. While the FEI customer base may not mirror the BC population exactly, in the absence of information about the makeup of FEI's customer base, Sentis used the characteristics of the overall population as a proxy. Sentis was also asked to oversample low income customers. To do so the following steps were undertaken:

1. The first priority was to ensure that there was a representative sample of BC residents aged 18 and older entering the survey to answer the qualifying questions, so targets for age and gender within region were set. The assumption is that, if the incoming sample (i.e. those entering the survey) accurately reflects the BC public aged 18 and older, then Sentis can be confident that the resulting qualified sample of residential FEI customers falling out of that larger group will also be accurate.

2. During data tabulation, mathematical weighting was applied to the sample entering the survey based on age, gender and region to ensure it was an exact match to actual population figures.

3. Prior to oversampling with low income customers, the actual proportion of FEI residential customers qualifying as low income was sourced from the representative, weighted sample of 824 FEI residential customers. 8 percent of these customers qualified as low income (or 66 unweighted respondents).

4. Sentis then completed another 33 surveys with FEI residential customers who qualified as low income to bring the total for this group to 99, which provided a more valid sample size for analysis. To elaborate, a sample size of 66 has a margin of error of +/-12.1 percent, while a sample size of 99 has a margin of error of +/-9.8 percent, at the 95 percent level of confidence.

5. To ensure the sub-group of low income FEI residential customers were not over-represented in the total sample of FEI residential customers, mathematical weighting was applied to ensure they represented 8 percent of that total sample.

It was necessary for FEI to understand differences, if any, in the preferences and tolerances of low income customers so that it could ensure that its price risk management strategy is meeting the needs of all customers. Given the greater sensitivity low income customers could likely have to gas rates and bills, the possible concerns, preferences and tolerance levels of these low income customers needed to be identified.

Further, by identifying in what ways low income customers may differ from a typical FEI residential customer (e.g. in their knowledge around natural gas billing, tolerance to bill increases, natural gas usage, etc.), FEI is better able to develop pricing strategies and communication that respects the needs of this customer group, while still meeting the needs of the entire FEI residential customer class.

9.3 Please compare in percentages, a proportion of low-income households sample to total residential sample in this survey, and a proportion of low-income households to total number of households in the FEI service area.

Response:

The percentage of low income customers who participated in the survey was 11.3 percent of the overall residential sample. While FEI does not know the percentage of its customers that are classified as low income, the 2016 census reported that 11 percent of BC residents fall below the low income cutoff (LICO). When Sentis undertook the initial phase of the survey they determined that 8 percent (66 completed surveys) of the respondents were low income. This percentage was used to weight the results. However, they then completed another 33 surveys to ensure that the percentage of low income respondents at least matched the provincial level.

9.3.1 Please discuss whether a proportion of low-income households in the survey sample reflects a proportion of low-income households in a total number of households which are FEI's customers. If not, please discuss the discrepancy and impact such discrepancy may have on survey results, considering that low-income customers are likely to be more sensitive to bill fluctuations.

Response:

Please refer to the response to BCUC IR 1.9.3.

10.0 Reference: SUPPORT FOR OBJECTIVES

Exhibit B-1, Appendix A, Questionnaire, p. 27; Exhibit B-1-2, p. 13

Customer survey

On page 13 of the Revised Application, FEI states:

> The survey indicates that 62% would be willing to pay a small premium for bill stability while 31% indicate they would not be willing to pay a premium and 7 % were uncertain.

On page 27 of Appendix A of the 2017 PRMP Application, it is stated that:

> Approximately four-in-ten residential customers, low-income residential customers and small commercial customers are willing to pay more each month to provide greater stability in their natural gas bill, <u>with equal percentages</u> holding a contrary view.
>
> ….
>
> Q12 How much more do you think is reasonable to pay each month to provide greater stability in your natural gas bill? [Emphasis added]

10.1 Please explain how FEI defines “bill stability.”

<u>Response:</u>

FEI defines bill stability as minimizing bill differences from month to month. Bill variations can be caused by changes in: distribution and midstream charges; the cost of gas; and the volume of gas used. However, as distribution and midstream charges are more than likely only adjusted on an annual basis and so do not fluctuate during the year, the primary causes of volatility are commodity related. The cost of gas can be adjusted on a quarterly basis and customer volumes used are dependent on factors such as temperature. Therefore, they have greater potential to cause bill instability for customers. While the Equal Payment Plan (EPP) offers customers an opportunity to smooth out volumetric changes, this 2018 PRMP addresses the issue of bill instability due to changes in the commodity rate.

10.1.1 Please state the difference between “bill stability” and “rate stability” as defined in objective 1 of the Revised Application.

Response:

As discussed in the response to BCUC IR 1.10.1, bill stability refers to minimizing bill differences from month to month whether due to changes in any component of the bill or due to changes in the volume of gas used. Rate stability refers to minimizing changes in rates. Objective 1 of the Revised Application relates to commodity rate stability.

10.2 Please explain how and where FEI defined "bill stability" to survey respondents?

Response:

The concept of bill stability and the role of commodity rate changes play in bill volatility was conveyed to survey respondents through the preamble to question 12 which reads: "Paying extra to ensure stable bills/payments applies to natural gas. Since it is possible for natural gas prices to fluctuate, this could mean that your natural gas bill could go up and/or down several times a year even if your usage remains the same".

10.2.1 If not defined in the survey, please explain what FEI understands the customers' interpretation of "bill stability" to be and how that conclusion was reached.

Response:

As discussed in the response to BCUC IR 1.10.2, the concept of bill stability was conveyed to survey respondents through the preamble to question 12 which discusses how natural gas bills can go up and/or down several times a year even if customer usage stays the same.

10.3 Please confirm that "equal percentages holding a contrary view" means an equal percentage of survey respondents indicate <u>no willingness</u> to pay more each month to provide greater stability in their natural gas bill.

Response:

The exact breakdown of those willing to pay versus no willingness to pay more each month is as follows:

- All residential: 44% vs. 40% (Margin of error +/- 3%);
- Low-income: 35% vs. 47% (Margin of error +/- 10%); and
- Commercial: 40% vs. 40% (Margin of error +/- 8%).

The results confirm that the breakdown is relatively equal.

10.3.1 If confirmed, please reconcile that statement with the statement on page 13 of the Revised Application, as referred to above.

Response:

Question 12 addressed directly how much the customers were willing to pay for bill stability, whereas question 13 addressed customers' opinion about the general idea of paying extra for bill stability.

When asked about the general idea, 62 percent of respondents liked or were ok with paying extra to ensure a more stable natural gas bill. Three-in-ten (31 percent) were against the idea and nearly one-in-ten had no opinion.

However, when respondents were asked about specific percentage increases to pay for bill stability, four-in-ten residents were willing to pay.

10.3.2 If not confirmed, please explain what "equal percentages holding a contrary view" means.

Response:

Please refer to the response to BCUC IR 1.10.3.1.

11.0 Reference: SUPPORT FOR OBJECTIVES

Exhibit B-1, Appendix A, Managing Energy Costs and Payments Survey (Questionnaire), p. 6; Exhibit B-1-2, p. 4; FortisBC Inc. – Sample Bill for Mainland Customers[8]

Customer survey

On page 4 of the Revised Application, FEI states its objectives for price risk management (including hedging), which include the following:

- Mitigate market price volatility to support rate stability, and
- Capture opportunities to maintain commodity rates at historically low levels.

On page 6 of the Questionnaire, questions related to "awareness of natural gas pricing" read as follows:

> **Awareness Of Natural Gas Pricing**
>
> Your natural gas bill is made up of several different components.
>
> One component of the bill is the Cost of Gas, which is the price FortisBC pays for natural gas on the open market. These charges are passed on to customers without a mark-up. All customers, unless they have signed a contract with a natural gas marketer, pay the same rate for the Cost of Gas.
>
> **In the rest of the survey we will be talking about the Cost of Gas part of the bill.**
> **SHOW EXPLANATION ABOVE AND QUESTIONS 5 & 6 ON THE SAME SCREEN**
>
> **Q5** Prior to this survey, were you aware that you pay the same price for your natural gas that FortisBC pays?
>
> 1. Yes, definitely aware of this
> 2. Yes, assumed this was the case
> 3. No, did not know this
>
> **Pop up Q6 on same page as Q5 once C5 Answered**
> **Q6** And prior to this survey, how well did you understand the Cost of Gas charge?
>
> 1. Understood it very well
> 2. Understood it somewhat
> 3. Didn't understand it very well
> 4. Didn't understand it at all

On the FortisBC website, the following sample bill for Mainland customers is presented:

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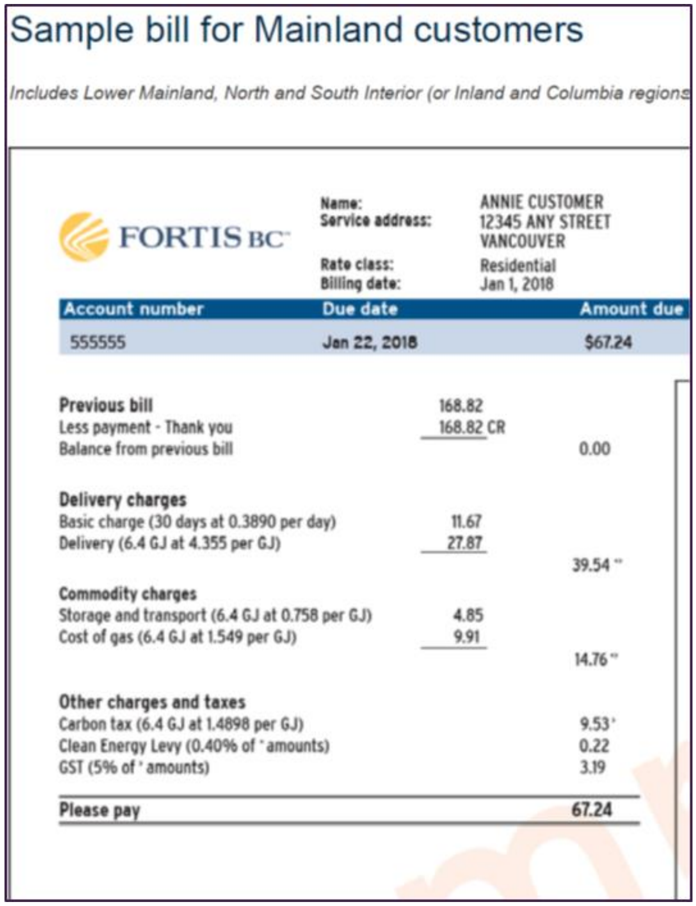
8 https://www.fortisbc.com/NaturalGas/Homes/Rates/Mainland/Pages/Sample-bill-for-Mainland-customers.aspx.



Sample bill for Mainland customers

Includes Lower Mainland, North and South Interior (or Inland and Columbia regions

FORTIS BC

Name: ANNIE CUSTOMER
Service address: 12345 ANY STREET VANCOUVER
Rate class: Residential
Billing date: Jan 1, 2018

Account number	Due date	Amount due
555555	Jan 22, 2018	$67.24

Previous bill	168.82	
Less payment - Thank you	168.82 CR	
Balance from previous bill		0.00
Delivery charges		
Basic charge (30 days at 0.3890 per day)	11.67	
Delivery (6.4 GJ at 4.355 per GJ)	27.87	
		39.54 **
Commodity charges		
Storage and transport (6.4 GJ at 0.758 per GJ)	4.85	
Cost of gas (6.4 GJ at 1.549 per GJ)	9.91	
		14.76 **
Other charges and taxes		
Carbon tax (6.4 GJ at 1.4898 per GJ)		9.53 *
Clean Energy Levy (0.40% of * amounts)		0.22
GST (5% of * amounts)		3.19
Please pay		**67.24**

11.1 As presented above, FEI gas bills have three components: i) Delivery Charges, ii) Commodity Charges, and iii) Other Charges and Taxes. Please discuss the share of each of those components in a total bill for a) residential and b) small commercial customers.

Response:

Please refer to the tables below which outline the share (in percent) that each FEI bill component (delivery charges, commodity charges and other charges and taxes) currently comprise of the total monthly bill for a residential rate schedule 1 customer and a small commercial rate schedule 2 customer.

As evidenced by the tables below, commodity charges currently make up less than a quarter of a residential customer's monthly bill and one quarter of a small commercial customer's monthly bill. However, in the past FEI's commodity charges have been and contributed to a larger percentage of the overall bill. As FEI has stated in the Revised Application, one of FEI's objectives for its price risk management is to capture opportunities to maintain commodity rates at historically low levels.

Residential Customer (Rate Schedule 1)			
FEI Charges	**Rate ($/GJ) or (%)**	**Monthly Dollar Amount**	**% of Total Monthly Bill**
Delivery charges			
Basic Charge per day (based on 30 days)	$0.3890	$11.67	17.36%
Delivery charge per gigajoule	$4.355	$27.87	41.45%
Subtotal		**$39.54** [+ >]	**58.80%**
Commodity charges			
Storage and Transport charge per gigajoule	$0.758	$4.85	7.21%
Cost of gas per gigajoule	$1.549	$9.91	14.74%
Subtotal		**$14.76** [+ >]	**21.95%**
Other charges and taxes			
Carbon tax per gigajoule	$1.4898	$9.53 [>]	14.18%
Clean Energy Levy (0.40% of [+]amounts)	0.40%	$0.22	0.32%
GST 5% of [>]amounts)	5%	$3.19	4.75%
Subtotal		**$12.94**	**19.24%**
Total Monthly Bill		**$67.24**	

Small Commercial Customer (Rate Schedule 2)			
FEI Charges	**Rate ($/GJ) or (%)**	**Monthly Dollar Amount**	**% of Total Monthly Bill**
Delivery charges			
Basic Charge per day (based on 30 days)	$0.8161	$24.48	9.53%
Delivery charge per gigajoule	$3.508	$99.28	38.63%
Subtotal		**$123.76** [+ > *]	**48.16%**
Commodity charges			
Storage and Transport charge per gigajoule	$0.765	$21.65	8.42%
Cost of gas per gigajoule	$1.549	$43.84	17.06%
Subtotal		**$65.49** [+ > *]	**25.48%**
Other charges and taxes			
Carbon tax per gigajoule	$1.4898	$42.16 [>]	16.41%
Clean Energy Levy (0.40% of [+]amounts)	0.40%	$0.76	0.29%
GST 5% of [>]amounts)	5%	$11.57	4.50%
PST 7% of [*]amounts)	7%	$13.25	5.15%
Subtotal		**$67.74**	**26.36%**
Total Monthly Bill		**$256.99**	

Assumptions:

Rate Schedule 1 Residential monthly bill based on a monthly consumption of 6.4 GJ.
Rate Schedule 2 Small Commercial monthly bill based on a monthly consumption of 28.3 GJ.
The FEI Basic, Delivery, Storage and Transport, and Cost of Gas charges are effective January 1, 2018 and are inclusive of the applicable rate riders.

11.2 Please discuss survey respondents' understanding of the Commodity Charges share of their total bill and which question(s) in the survey test that understanding.

Response:

Survey participants were provided with a description of the Cost of Gas component of their bill and then asked if they understood the Cost of Gas charge (Question 6) and had been aware that FEI does not mark up the cost of gas (Question 5) prior to being told in the survey.

Nearly one-half (46 percent) of all residential customers claimed prior awareness that FEI did not mark up the cost of gas (per page 18 of Appendix A of the 2018 PRMP). Nearly two-thirds (65 percent) claimed to have understood the Cost of Gas charge, albeit only 16 percent claimed to have understood it very well (per page 19 of Appendix A of the 2018 PRMP).

11.3 Please discuss survey respondents' understanding that FEI's objective to "mitigate market price volatility to support rate stability" relates only to the mitigation of volatility of commodity portion of the natural gas bill and explain which question in the survey tests that understanding.

Response:

Question 12 addresses the customer's willingness to pay to "provide greater stability in your natural gas bill". In the prelude to the question, the customer is reminded that the volatility relates to the commodity price, "Since it is possible for natural gas prices to fluctuate, this could mean your natural gas bill could go up and/or down several times a year even if your usage remains the same."

11.3.1 If such a question was not included in the survey, please discuss why.

Response:

As discussed in the response to BCUC IR 1.11.3, question 12 addresses the customer's willingness to pay more to "provide greater stability in your natural gas bill". In the prelude to the question, the customer is reminded that the volatility relates to the commodity price: "Since it is possible for natural gas prices to fluctuate, this could mean your natural gas bill could go up and/or down several times a year even if your usage remains the same."

12.0 Reference: SUPPORT FOR OBJECTIVES

Exhibit B-1-2, Section 3.3, p. 14

Customer survey

On page 14 of the Revised Application, FEI states:

> The survey results support FEI's view that, at this time, <u>an opportunistic hedging strategy is required to meet the interests of customers.</u> [Emphasis added]

12.1 Please indicate which question in the survey tests customers' general understanding of hedging, and their understanding of the hedging tools that FEI proposes in its Application.

<u>Response:</u>

The survey questionnaire does not directly refer to the concept of hedging nor to any specific approach to hedging or hedging tools that FEI has proposed. Instead, it addresses the customers' willingness to pay for greater bill stability which is tied to FEI's objectives for hedging. FEI has taken this approach in the survey because introducing hedging and hedging tools to customers in the survey would add more complexity to the questions given that many customers most likely are not familiar with hedging strategies or tools. Customers are more likely able to relate to the concept of fluctuating bills and paying more to protect against future bill changes.

12.1.1 If this was not explored with survey questions, please explain why.

<u>Response:</u>

Please refer to the response to BCUC IR 1.12.1.

12.2 Please indicate which question in the survey tests customers' understanding of hedging risks.

Response:

Customer understanding of the risks associated with hedging is not directly addressed in the survey. Please also refer to the response to BCUC IR 1.12.1.

12.2.1 If this was not explored with survey questions, please explain why.

Response:

The survey sought information regarding customer interest in paying extra for bill stability rather than addressing hedging specifically. Therefore, there were no questions about the potential risks of hedging.

12.3 Please specify which question(s), and responses to those question(s), lead to the conclusion that "an opportunistic hedging" strategy is required.

Response:

The conclusion that "an opportunistic hedging" strategy is required is based on the responses to questions 3, 11, 12, 13 and 14 which are reproduced here.

Q3. How concerned are you about the price of the following (natural gas) increasing in the next few years?

Over one-half (54%) of residential respondents and almost two-thirds (63%) of commercial respondents were concerned.

Q11. When it comes to paying for a product that has a fluctuating price, which most closely matches your point-of-view

- *Would rather pay a bit extra to protect against increases*
- *Would rather not pay a bit extra / not be protected against increases*
- *Don't know*

Four-in-ten residential and commercial customers favoured paying extra to protect against increases with an equal number opposed to the idea.

Q12. How much more do you think is reasonable to pay each month to provide greater stability in your natural gas bill?

Nearly four-in-ten customers would be willing to pay more for price stability with an equal amount opposed.

Q13. Generally, what do you think of the idea of paying extra now to ensure a more stable natural gas bill?

Over six-in-ten customers either liked the idea or were ok with the idea. Three-in-ten didn't like the idea.

Q14. Which of the following best matches your opinion?

- *I prefer that FortisBC makes smaller, more frequent adjustments to the Cost of Gas rate to help ensure stability in the gas bill, even it means customers pay more; or*
- *I prefer that FortisBC makes larger, less frequent adjustments to the cost of gas rate even if the changes in the rate maybe larger each time*

Over half of both residential respondents (52 percent) and commercial respondents (56 percent) preferred FEI to make small adjustments to help ensure bill stability.

13.0 Reference: SUPPORT FOR OBJECTIVES

Exhibit B-1-2, Section 3.3 p. 13

Customer survey

On page 13 of the Revised Application, FEI states:

> By hedging near the low end of market prices in the current price environment, FEI does not expect hedges to be significantly out-of-the-money for an extended period and believes <u>there is also the likelihood</u> of hedging gains rather than costs over time. [Emphasis added]

13.1 Please confirm that “a likelihood of hedging gains” also means that <u>there is no certainty</u> of hedging gains, i.e. hedging includes an inherent risk of costs, rather than gains.

<u>Response:</u>

Confirmed, there is no certainty of hedging gains just as there is also no certainty of hedging costs for any particular period. As discussed in Section 4.3.1 of the 2018 PRMP, with any hedging strategy or program, there is always the potential for hedging costs and gains.

13.2 Please indicate which questions in the survey test customers’ tolerances for risks of potential losses associated with hedging tools.

<u>Response:</u>

The survey sought information regarding customer interest in paying extra for bill stability rather than addressing hedging specifically. Therefore, there were no questions about any hedging concepts nor about the potential gains or risks of potential losses associated with hedging.

13.2.1 If such questions were not included, please explain.

<u>Response:</u>

Please refer to the response to BCUC IR 1.13.2.

14.0 Reference: SUPPORT FOR OBJECTIVES

Exhibit B-1, Appendix A p. 6; Questionnaire, p.8

Customer survey

On page 6 of Appendix A to the 2017 PRMP Application, it is stated that:

A key component of the analysis for this study is understanding the views and preferences as <u>a function of their position on the concept of 'hedging' (Q11)</u>, their general perceptions regarding the concept of paying extra to ensure a more stable natural gas bill (Q13) and how much more, if any, they are willing to pay each month for natural gas bill stability [Q12). [Emphasis added]

On page 8 of the Questionnaire, question 11 reads as follows:

ASK ALL

Q11. Some products fluctuate in price because they are traded on the open market, which means no one knows for sure if the price will go up or down. When it comes to paying for a product that has a fluctuating price, which most closely matches your point-of-view? **RANDOMIZE TWO OPTIONS**

1. I would rather pay a bit extra each month to protect against possible, larger monthly increases in the future
2. I would rather **<u>not</u>** pay a bit extra each month and not be protected against possible, larger monthly increases in the future

98. Don't know

14.1 Please confirm whether a response to question 11, which tests customers' willingness to "pay a bit extra each month to protect against possible, larger monthly increases in the future", was interpreted as a reflection of survey respondents' position "on the concept of hedging."

<u>Response:</u>

Confirmed.

14.1.1 If not confirmed, please reconcile FEI's position with its statement on page 6 of Appendix A as referred to above.

<u>Response:</u>

Please refer to the response to BCUC IR 1.14.1.

15.0 Reference: SUPPORT FOR OBJECTIVES

Exhibit B-1-2, p. 14; Exhibit B-1, Appendix A, pp. 8, 26

Customer survey

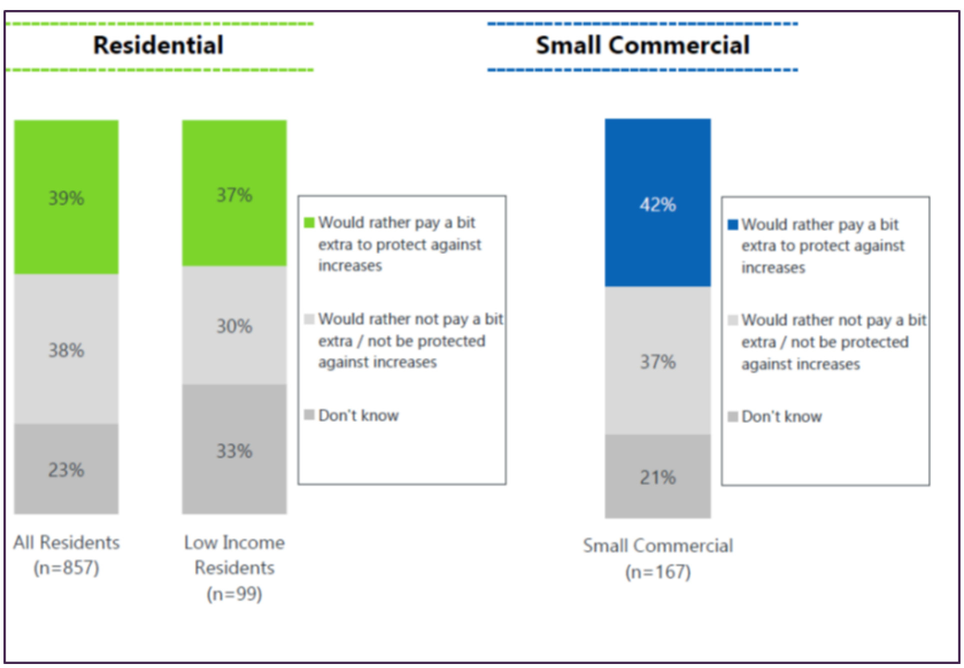
On page 14 of the Revised Application, FEI states:

> The survey results support FEI's view that, at this time, an opportunistic hedging strategy is required to meet the interests of customers [emphasis added].

On page 8 of Appendix A to the 2017 PRMP Application, it is stated:

> **In general, residential and small commercial customers place high value on stability.** Among both residential and small commercial customers, three-in-ten indicated that they did not support the idea of paying extra now to ensure a more stable natural gas bill. While it is understandable that a relatively small percentage of customers "like the idea" of paying extra (19% of residential customers, 17% of small commercial customers), the plurality of customers are "okay" with paying extra (43% of residential customers, 46% of small commercial customers), albeit with some concerns about paying too much.

On page 26 of Appendix A to the 2017 PRMP Application, titled "Views on Hedging", the following charts present the survey responses to question 11:



15.1 Please confirm the following:

a) 39% of the total residential customers, and 42% of the small commercial customers indicated willingness to pay extra each month to protect against possible, larger monthly increases in the future;

b) 38% of the total residential customers indicated they are not willing to pay extra, while 23% responded that they "do not know";

c) 37% of the total small commercial customers indicated they are not willing to pay extra, while 21% responded that they "do not know".

Response:

a) Confirmed.

b) Confirmed.

c) Confirmed.

15.1.1 Please confirm that the above referenced survey results are the basis for the statement that "residential and small commercial customers place high-value on stability."

Response:

The above referenced survey results regarding customers' willing to pay more for stability as well as the survey results on page 28 of Appendix A of the 2018 PRMP regarding customers' perceptions of paying extra for stability (as discussed in Section 3.3 of the 2018 PRMP) are the basis for the statement.

15.1.1.1 If not, please explain the basis for the quoted statement.

Response:

Please refer to the response to BCUC IR 1.15.1.1.

15.2 Please confirm that the results of the survey as presented above, and a view that "residential and small commercial customers place high value on stability" formed the basis for the statement on page 14 of the Revised Application, that "at this time, an opportunistic hedging strategy is required to meet the interests of customers"(emphasis added).

Response:

The survey results indicate that a significant percentage of, "residential and small commercial customers place high value on stability". They also indicate that customers have concerns about increasing bills (page 23 of Appendix A of the 2018 PRM) and are sensitive to bills increasing (page 30 of Appendix A of the 2018 PRMP). These findings, in combination, form the basis for the statement on page 14 of the Revised Application, that "at this time, an opportunistic hedging strategy is required to meet the interests of customers".

15.2.1 If not confirmed, please indicate which questions in the survey, and which responses, lead to the conclusion that "an opportunistic hedging strategy is required to meet the interests of customers."

Response:

Please refer to the response to BCUC IR 1.15.2.

16.0 Reference: SUPPORT FOR OBJECTIVES

Exhibit B-1, Appendix A, Questionnaire, p. 8

Customer survey

On page 8 of the Questionnaire, the following is presented as question 12 of the survey:

> **Q12.** Paying extra to ensure stable bills/payments applies to natural gas. Since it is possible for natural gas prices to fluctuate, , this could mean your natural gas bill could go up and/or down several times a year even if your usage remains the same.
>
> Knowing this, how much more do you think is reasonable to pay each month to **provide greater stability in your natural gas bill**? *Type in the percentage increase below*
>
> Paying ________% more each month on my natural gas bill is reasonable **RANGE IS 1-100%**
> ☐ Zero/ Do not want to pay more for greater stability
> ☐ Don't know

16.1 Please explain whether question 12 was asked only to those survey respondents who selected option 1 in question 11 (i.e. those who indicated their willingness to pay extra each month) or to all survey participants, regardless of their responses to question 11.

Response:

Question 12 was asked of all respondents, regardless of their responses to question 11.

16.1.1 If the question was posed to all the survey participants, please explain why.

Response:

Question 11 addresses the concept of paying for price stability in a general sense, whereas question 12 addresses directly its relevance to natural gas bills. Question 12 gives the survey participant the option of checking the box: "Zero/Do not want to pay more for greater stability."

In the preamble to question 12, FEI states: “Paying extra to ensure stable bills/payments applies to natural gas.”

16.2 Given that respondents were asked to indicate “How much more […] is reasonable…”, please discuss the purpose of the above statement and its potential impact on survey results when combined with an underlining assumption, from question 12, that <u>customers are in support of paying more.</u>

<u>Response:</u>

The purpose of the preamble was to move from the general concept of paying extra to ensure stable bills/payments to the specific concept of paying extra to ensure stable bills/payments for natural gas. The results from both questions (Question 11 and Question 12) indicate that respondents’ view of the general concept and its specific application to natural gas prices align. Moreover, Question 12 specifically provided survey participants with the option of responding with “zero” or “I don’t know.” It is therefore highly unlikely that the statement had any unintended impact on the results.

17.0 Reference: SUPPORT FOR OBJECTIVES

Exhibit B-1, Appendix A, p 28; Appendix A, Questionnaire, p. 8; Exhibit B-1-2, p. 13, 14

Customer survey

On page 13 of the Revised Application, FEI states:

> By hedging near the low end of market prices in the current price environment, FEI does not expect hedges to be significantly out-or-the-money for an extended period and believes <u>there is also the likelihood</u> of hedging gains rather than costs over time. [Emphasis added]

FEI further states on page 13 of the Revised Application:

> The survey indicates that 62 percent would be willing to pay a small premium for bill stability while 31 percent indicated they would not be willing to pay a premium and 7 percent were uncertain.

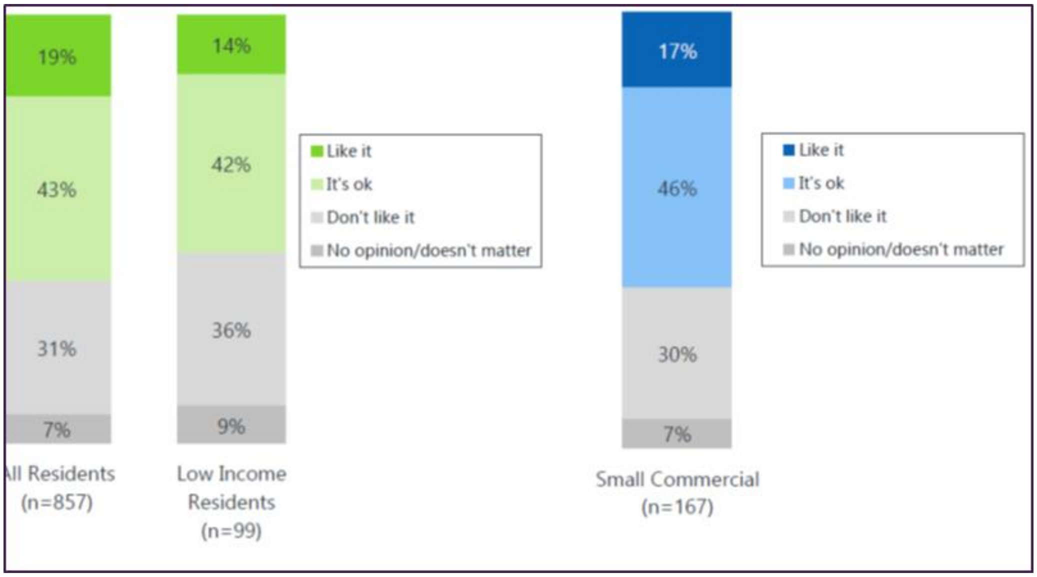
On page 14 of the Revised Application, FEI states:

> The survey results support FEI's view that, at this time, an opportunistic hedging strategy is required to meet the interests of customers [emphasis added].

On page 28 of Appendix A to the 2017 PRMP Application, it is stated:

- Another four-in-ten residential customers (43%) and small commercial customers (46%) think the idea is ok, but they worry they will end up paying too much for natural gas.

- About three in ten among both customer classes don't like the idea and want FortisBC to just buy the natural gas needed at the market rate and let it fluctuate.



On page 8 of the Questionnaire, question 13 of the survey is presented:

Q13. Generally, what do you think of the idea of paying extra now to ensure a more stable nature gas bill? *Select only one.*

1. I like it, keeping **IF RES:** my / **IF BUS:** our natural gas bill stable should be a top priority for FortisBC
2. It's ok, but I worry that **IF RES:** I / **IF BUS:** we will end up paying too much for natural gas
3. I don't like it, FortisBC should just buy the natural gas needed at the market rate and let it fluctuate
97. No opinion/ doesn't matter to me.

17.1 Please confirm that a third of residential and a third of commercial customers who participated in the survey are against paying extra to ensure a more stable natural gas bill (31% and 30% respectively).

Response:

Confirmed.

17.2 Please confirm that 43% of the residential and 46% of small commercial customers who participated in the survey are concerned that "paying extra to ensure a more stable natural gas bill" may result in paying too much for natural gas?

Response:

Confirmed, with the clarification that those respondents that have concerns about paying too much, also indicated that they are “ok” with the idea of paying extra now to ensure a more stable natural gas bill. Therefore it is reasonable to interpret their response as an acceptance, albeit it with reservations, of paying extra to provide natural gas bill stability.

17.2.1 If confirmed, please explain whether (and, if so, why) FEI interprets these responses as “customers willingness to pay a small premium for bill stability.”

Response:

Please refer to the response to BCUC IR 1.17.2.

17.2.2 If confirmed, please explain how these responses support the statement made on page 14 of the Revised Application as referred to above.

Response:

Please refer to the response to BCUC IR 1.17.2.

18.0 Reference: SUPPORT FOR OBJECTIVES

Exhibit B-1-2, p. 13.

Customer survey

On page 13 of the Revised Application, FEI states:

> The survey results show that, on average, residential customers would be willing to pay up to 3.6 percent each month and small commercial customers would be willing to pay up to 4.6% each month for greater stability in their natural gas bill.

18.1 Please explain the methodology and show the calculation.

Response:

Page 27 reports on the results from survey question 12. Question 12 was:

> **Q12.** Paying extra to ensure stable bills/payments applies to natural gas. Since it is possible for natural gas prices to fluctuate, this could mean your natural gas bill could go up and/or down several times a year even if your usage remains the same.
>
> Knowing this, how much more do you think is reasonable to pay each month to **provide greater stability in your natural gas bill**? *Type in the percentage increase below*
>
> Paying __________% more each month on my natural gas bill is reasonable **RANGE IS 1-100%**
>
> ☐ Zero/ Do not want to pay more for greater stability
> ☐ Don't know

All data tabulation, including calculating mean scores was completed using a statistical software program (SPSS). For this question, SPSS calculated a mean score among those respondents who provided a response (i.e. those responding 'don't know' **were not included** in the calculation). Those responding with 'Zero/do not want to pay more for greater stability' **were included** in the mean calculation. The table below details the sample or base sizes for the calculation.

Respondent Group	# responding to Q12	# responding 'Don't Know' to Q12	# included in mean calculation
All residents	857	140	717
Low income residents	99	19	80
Small commercial customers	167	35	132

The formula used to calculate the mean score for each respondent group is as follows:

Mean Score = (Sum of all responses to Q12 among those giving a valid response [i.e. excluding Don't Know]) ÷ (Total number of respondents answering Q12 excluding those responding with Don't Know)

A simplified example is below:

Imagine 5 respondents answered question 12 and their responses were as follows:

Respondent 1:3

Respondent 2:Don't Know

Respondent 3:2

Respondent 4:0

Respondent 5:2

The calculation would be as follows: (3+2+0+2) ÷4 = 1.75

B. PRICE RISK MANAGEMENT TOOLS

19.0 Reference: PRICE RISK MANAGEMENT TOOLS

Exhibit B-1-2, p. 13, 26

Hedging tools

FEI states on page 13 of the Revised Application:

> The survey results show that, on average, residential customers would be willing to pay up to 3.6 percent each month and small commercial customers would be willing to pay up to 4.6 percent each month for greater stability in their natural gas bill.

FEI states on page 26 of the Revised Application:

> Hedging gains or costs relative to market prices are recorded, reflecting the difference between the hedge prices and the market prices. It is FEI's commodity rate customers who receive the benefits and incur the costs related to any hedging, as reflected in the commodity rate. There are no additional costs incurred by ratepayers from hedging activity.

19.1 Please confirm that there are no fees, costs, or premiums to place or execute fixed price swaps. If not confirmed, please elaborate.

Response:

Confirmed.

19.2 Please explain whether FEI will be managing its proposed hedging activities internally or externally.

Response:

FEI will manage its proposed hedging activities internally through its existing employees and processes. The Senior Manager, Price Risk & Resource Planning and the Price Risk & Market Specialist monitor the hedging targets, implement the hedges, review and assess the hedging strategy and prepare the Annual Report and PRMPs. The Compliance and Reporting Analyst is also required for monitoring counterparty credit, financial hedging invoice preparation and financial reporting of hedging results such as mark-to-market.

19.2.1 Please provide a breakdown of the costs associated with the implementation of the hedging proposal, including internal operating costs, subscription cost, external management cost, etc.

Response:

There are no incremental costs associated with the implementation of the hedging proposal. It would be managed internally through existing roles within the Gas Supply group that manage price and counterparty credit risk, monitor gas market developments that impact FEI's customers and provide compliance and reporting. Minor administrative and support costs provided by other internal departments are covered in a shared services charge. Finance and Regulatory groups also provide minor support to Gas Supply as well as other departments in the organization.

19.2.2 Please indicate on which account these cost will be recorded. For example, would the costs be recorded in the Commodity Cost Reconciliation Account (CCRA) or Midstream Cost Reconciliation Account (MCRA)?

Response:

The hedging gains or costs are recorded in the Commodity Cost Reconciliation Account (CCRA) as this is the appropriate account for recording hedging gains and costs applicable only to the commodity rate.

Internal management costs related to hedging management and reporting are recorded through the Core Market Administration Expense (CMAE) account. The CMAE costs are captured as a total for all gas supply functions and then allocated 30 percent to CCRA and 70 percent to MCRA based on the contribution of the various Gas Supply roles to the commodity and midstream functions. FEI reviews this allocation periodically to confirm that the allocation is still appropriate or requires adjustment.

19.3 Please explain how FEI monitors and evaluates the performance of its hedging proposal.

Response:

FEI plans to continue to monitor the market price environment and the effectiveness of its price risk management. FEI intends to submit to the Commission an Annual Report by May 1st each year, which discusses the effectiveness of the hedging program, if approved, in meeting the objectives. More specifically, this report would include the following items:

- A financial summary of any hedging gains or costs.
- A description of the impact on rate volatility of any hedging activity as compared to what would have occurred had hedging not been undertaken.
- The commodity rates achieved relative to historical averages.
- An overall assessment of the effectiveness of any hedging activities undertaken and comments on potential improvements or changes.
- A description of the impact on rate volatility related to the implementation of the recent enhancements made to the commodity rate setting mechanism and comments on any issues arising.

19.4 Please quantify how much hedging cost on the commodity supply portfolio ($) would result in a customer paying 3.6% of an average residential natural gas monthly bill and 4.6% of an average small commercial natural gas monthly bill, respectively.

Response:

The hedging cost on the commodity supply portfolio that would result in a customer paying 3.6 percent of an average residential natural gas monthly bill and 4.6 percent of an average small commercial natural gas monthly bill, respectively, depends on the total bill amounts.

To answer this question for a residential customer, FEI has based its response on the effective residential bill rate of $8.241 per GJ (before taxes)[9]. At this rate, an annual hedging cost of $40.5 million or a monthly hedging cost of $3.4 million on the commodity supply portfolio would

[9] $8.241 per GJ reflects the current per unit total bill rate for the average residential customer using 90 GJ per year.

result in a customer paying 3.6 percent more for an average residential natural gas monthly bill[10]. Assuming FEI executes its hedges at the price targets up to the proposed implementation limit of 50 percent of the portfolio, the corresponding differential between market prices and FEI's hedged prices would have to be $0.60 per GJ "out-of-the-money" to equal the 3.6 percent residential customer threshold.

To answer this question for a small commercial customer, FEI has based its response on the effective small commercial bill rate of $6.70 per GJ (before taxes)[11]. At this rate, an annual hedging cost of $41.8 million or a monthly hedging cost of $3.5 million on the commodity supply portfolio would result in a customer paying 4.6 percent more for an average small commercial natural gas monthly bill[12]. Assuming FEI executes its hedges at the price targets up to the proposed implementation limit of 50 percent of the portfolio, the corresponding differential between market prices and FEI's hedged prices would have to be $0.62 per GJ "out-of-the-money" to equal the 4.6 percent small commercial customer threshold.

19.4.1 Assuming FEI executes its hedges at the price targets up to the proposed implementation limit of 50% of the portfolio, please explain the corresponding market price spread from the hedging target that would equal the 3.6% and 4.6% threshold as explained above.

<u>Response:</u>

Please refer to the response to BCUC IR 1.19.4.

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[10] 370 TJ/d annual load x 365 days x 50% hedged x $0.60/GJ hedging cost = $40.5 million.

[11] $6.70 per GJ reflects the current per unit total bill rate for the average small commercial customer using 340 GJ per year.

[12] 370 TJ/d annual load x 365 days x 50% hedged x $0.62/GJ hedging cost = $41.8 million.

20.0 Reference: PRICE RISK MANAGEMENT TOOLS

Exhibit B-1-2, p. 30

Customer choice program

FEI states on page 30 that:

> FEI residential and small commercial customers (rate classes 1, 2 and 3) can currently enter into fixed rate commodity supply offerings from marketers for terms up to five years with natural gas marketers under the Customer Choice program. This provides customers with rate stability for up to five years and customers can benefit if market prices and the alternative FEI commodity rate increase above their fixed rate with the marketer.

20.1 Please discuss the difference between the commodity supply offerings from marketers versus the commodity supply that would be offered by FEI if it executes its hedging proposal. Specifically, please explain the customer's exposure to price volatility, benefits/costs involved if market price is different from fixed/hedged rates, and the ability for both scenarios to change underlying commodity rates.

Response:

The main difference in the commodity rate offerings from marketers and the FEI commodity rate is the degree of commodity rate volatility. The marketers' rates are 100 percent fixed while FEI's commodity rate is considered a semi-variable rate, which is reviewed and potentially reset quarterly.

As discussed in Appendix B of the 2018 PRMP, customers choosing to enroll in the Customer Choice program with marketers are locked into a fixed rate for terms up to five years. The fixed rate offerings may also include a profit margin for the marketers. Customers are provided with 100 percent rate stability – they benefit if market prices move above their fixed rate but they do not benefit if market prices fall below their fixed rate during the period they are locked in. It is up to the individual marketer to decide whether or not they wish to make use of hedges for their commodity rate offerings.

If FEI were to execute the hedging proposal in this current low market price environment, FEI customers would benefit from receiving commodity rates near historically low levels and reduced commodity rate volatility as compared to without hedging. FEI customers may not realize the lowest commodity rates achievable but would benefit if market prices increased in the future. Hedging can be like insurance in this regard as there can be a small cost with hedging. As Figure 4-5 of the 2018 PRMP shows, FEI's commodity rates would still remain somewhat variable, but hedging would reduce customers' exposure to the more significant market price volatility and would mitigate the impact if market prices increase in the future.

20.2 Please discuss whether FEI observes that there are differences in customer preference between those who prefer buying commodity from gas marketers versus those who prefers to buy from FEI.

Response:

The Customer Volatility Preferences research conducted in 2017 excluded customers currently enrolled in Customer Choice. Therefore, FEI has no objective insight into possible differences that may or may not exist between those who prefer to buy commodity from gas marketers versus those who prefer to buy from FEI.

20.3 Please explain whether an FEI bundled service customer would have the option to be fully exposed to the market price if desired under FEI's hedging proposal.

Response:

FEI bundled service customers are never fully exposed to market prices. FEI uses the following rate setting mechanisms which provide some degree of rate stability.

- Quarterly rate setting and use of the Commodity Cost Reconciliation Account (CCRA) deferral account;
- CCRA rate change trigger mechanism utilizing the ± 5 percent trigger ratio plus a minimum rate change threshold of ± $0.50 per GJ (per Commission Letter L-40-11);
- Flexibility for utilization of commodity rate change proposals using 24-month timeframes rather than the standard 12-month prospective period when the appropriate criteria are met (per Commission Letter L-15-16); and
- A commodity rate change cap of +/- $1.00 per GJ with two provisions:
    - The $1.00 per GJ cap is restricted for use in two consecutive quarterly review periods where the rate change has been in the same direction. The cap cannot be applied for the third quarter once it has been applied for the preceding two quarters.

- A requirement for the use of the $1.00 per GJ cap is that the CCRA deferral account does not exceed the plus or minus maximum of +/- $60 million after tax (per Commission Letter L-15-16).

In addition, FEI's gas supply contracting strategy of using 60 percent monthly priced and 40 percent daily priced supply provides a degree of stability in the commodity rate.

FEI's hedging proposal is applicable and for the benefit of all customers receiving their commodity supply from FEI.

20.3.1 If the option is not available, please discuss how the customer survey supports limiting that option for FEI bundled service customers.

Response:

As discussed in the response to BCUC IR 1.20.3, even if FEI's hedging is not approved, FEI standard commodity offering customers are never 'fully exposed to the market' due to other price risk management tools such as quarterly rate setting and deferral accounts.

The customer survey supports the view that many customers prefer rate/bill stability and are sensitive to bill changes and increases – so the hedging proposal is designed to support that. FEI believes that alternative commodity rate offerings would be confusing to customers, receive little uptake and require significant administrative, communications and systems expenditure.

21.0 Reference: PRICE RISK MANAGEMENT TOOLS

Exhibit B-1-2, pp. 27–30

Summary of hedging tools

On pages 27 to 30 of the Revised Application, FBC describes fixed price swaps, call options, and costless collars.

21.1 Please confirm, or otherwise revise, the accuracy of the table below summarizing the difference between fixed price swap, call option, and costless collar. In addition, please complete the table comparing the resources required (e.g. internal effort required by FEI to administer each hedging option, external management, etc.).

	Upside Protection	Participation In Downside Price Movements	Any Premium Or Transaction Costs	Resource Required
Fixed Price Swap	Yes, price capped at hedged price	No	No	
Call Option	Yes, price capped at call price	Yes	Yes	
Costless Collar	Yes, up to a predetermined range	Yes, up to a predetermined range	No	

<u>Response:</u>

FEI has revised and completed the table as follows.

	Upside Protection	Participation In Downside Price Movements	Any Premium Or Transaction Costs	Resource Required
Fixed Price Swap	Yes, price fixed at hedged price	No	No	Internal management
Call Option	Yes, price capped at strike price	Yes	Yes, call premium	Internal management
Costless Collar	Yes, price capped at collar ceiling price	Yes, down to collar floor price	No	Internal management

22.0 Reference: PRICE RISK MANAGEMENT TOOLS

Exhibit B-1-2, p. 33

Long-term hedging

FEI states on page 33 of its Application that long-term hedging "is effective in meeting the primary price risk management objectives over a longer period. However, long-term fixed purchases can result in higher than market costs if market prices move lower after locking in the fixed price." FEI further states: "FEI is not pursuing hedges with terms of greater than five years at this time."

22.1 Please discuss and compare the benefits, costs, and risks of short-term hedging (as approved by Order E-10-16), medium hedging (up to 5 years as proposed in the Revised Application), and long-term hedging beyond 5 years.

__Response:__

Hedging for the short-term, medium-term and long-term, in the current low market price environment, provides customers with rate stability and the opportunity to maintain commodity rates at historically low levels. As Figure 3-6 in the 2018 PRMP illustrates, the price probability for low price potential is around $1 per GJ for all terms but the upside goes from about $4 per GJ in the short-term to higher prices the longer term. This reflects the market expectations on supply and demand tightening in the future at AECO/NIT and the more upside than downside for prices over the long term as discussed in Section 3.1 of the 2018 PRMP.

Assuming FEI were to hedge 50 percent of the 370,000 GJ per day at $2 per GJ and market prices settled at a low of $1 per GJ or high of $3.50 per GJ for the short-term, the potential cost would be around $67.5[13] million and the potential benefit would be around $101.2[14] million for the short-term. Medium-term and Long-term market prices have highs of $4 and $7 per GJ, respectively, and potential benefits would be around $135[15] million for the medium-term and $337.6[16] million for the long-term. Both medium-term and long-term hedges would have similar potential costs as the short-term but would have potentially greater benefits based on the price probability, third party price forecasts and the forward market prices at AECO/NIT.

[13] 370 TJ/d annual load x 365 days x 50% hedged x $1.00/GJ hedging cost = $67.5 million.
[14] 370 TJ/d annual load x 365 days x 50% hedged x $1.50/GJ hedging benefit = $101.2 million.
[15] 370 TJ/d annual load x 365 days x 50% hedged x $2.00/GJ hedging benefit = $135 million.
[16] 370 TJ/d annual load x 365 days x 50% hedged x $5.00/GJ hedging benefit = $337.6 million.

22.1.1 In consideration of any similarity in costs, benefits, and risks associated with short, medium and long-term hedging, please elaborate on why FEI has proposed hedging up to the medium term only.

Response:

FEI believes that implementation of hedges up to five years in term is appropriate in the current low market price environment, as discussed in Section 3 of the 2018 PRMP. As discussed in Section 4.5 of the 2018 PRMP, FEI is also exploring longer term alternatives such as Volumetric Production Payments (VPPs) or other types of arrangements. However, at this time, FEI has not fully discussed options with gas producers. If there is interest among producers and, provided it meets the price risk management objectives over the long term, FEI will bring forward a long term alternative to the Commission for review.

23.0 Reference: PRICE RISK MANAGEMENT TOOLS

Exhibit B-1-2, p. 34

Volumetric Production Payment

FEI states on page 34 of its Revised Application: "FEI is planning to explore this option [of a VPP] further with producer counterparties to determine if there is interest among producers and if it meets the price risk management objectives over the long term."

23.1 Please confirm that FEI is not requesting Panel acceptance, in the Revised Application, on its plan to explore VPP as a potential long-term PRM tool. If not confirmed, please elaborate.

<u>Response:</u>

Confirmed. FEI is planning to explore Volumetric Production Payment and or other arrangements with gas producers as potential long-term price risk management tools and may request acceptance in future applications for implementation of such strategies.

24.0 Reference: PRICE RISK MANAGEMENT TOOLS

Exhibit B-1-2, pp. 15–17; Appendix B;

Commission Letter L-27-16, FEI Gas Supply Mitigation Incentive Program (GSMIP) for the Period November 1, 2016 to October 31, 2019, Letter L-4-18, FEI Gas Supply Mitigation Incentive Program Year End Report November 2016 – October 2017

Mitigation revenues

On pages 15–17 and in Appendix B, FEI provides a number of price risk management tools.

Attached as Appendix A to Commission Letter L-27-16, the mitigation revenue under the GSMIP model is shared amongst FEI ratepayers and FEI shareholders. As indicated in Letter L-4-18, in the 2015/16 and 2016/17 gas years, FEI generated $97 million and $78 million, respectively.

24.1 Please explain whether FEI's GSMIP should be considered as a price risk management tool, from the perspective that the mitigation revenue will benefit FEI's ratepayers in the form of lower rates. If not, why not?

Response:

FEI's GSMIP is not considered a price risk management tool. The mitigation activities as measured by the GSMIP mechanism include capturing value in storage and transportation resources due to market conditions. These opportunities serve to help reduce the Midstream Cost Reconciliation Account (MCRA) costs, and storage and transport rates for customers. The mitigation activity measured by GSMIP is not specifically designed to meet the price risk management objectives of mitigating market price volatility or capturing opportunities to maintain low commodity rates for core customers.

24.1.1 If so, please include the GSMIP as part of the price risk management tool in Appendix B of the Revised Application, and provide the corresponding analysis.

Response:

Please refer to the response to BCUC IR 1.24.1.

24.2 At a high level, please estimate the savings/gains in FEI's hedging proposal. How would the hedging strategy benefits compare to the mitigation revenue generated by the GSMIP?

Response:

Please refer to the response to BCUC IR 1.22.1 for the high level estimated savings/gains in FEI's hedging proposal.

However, FEI's proposed hedging strategy is not about trying to 'beat the market' by capturing forward prices at levels below those where market prices ultimately settle; it is about locking in favourable market prices to help preserve low commodity rates for customers. FEI's hedging proposal would mitigate market price volatility and help maintain low commodity rates for core customers.

FEI's GSMIP mechanism captures value creation due to market conditions and enables FEI to recover midstream costs against the assets prescribed in the ACP, helping to reduce storage and transport rates for core customers. Under FEI's GSMIP model, total mitigation revenues for the 2016/17, 2015/16 and 2014/15 gas years were $97.176 million, $78.148 million and $72.250 million, respectively.

25.0 Reference: PRICE RISK MANAGEMENT TOOLS

Exhibit B-1-2, pp. 17–26; Letter L-5-01, BC Gas Utility Ltd. Guidelines for Gas Recovery Rates and Management the Gas Cost Reconciliation Balance; Letter L-40-11, FEI Report on Gas Cost Deferral Accounts and Rate Setting Mechanisms; Letter L-15-16, FEI 2015 Price Risk Management Application

Rate setting mechanisms

Commission Letters L-5-01, L-40-11, and L-15-16 sets out the guidelines for reviewing the quarterly gas cost reporting for FEI Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA) and for setting the respective gas cost rates.

FEI on pages 17 and 18 of the Revised Application discusses the current rate setting mechanism as part of the price risk management portfolio. In addition to Letter L-5-01 and L-40-11, from the 2015 PRM Application, enhancements to the guidelines were approved as follows:

- To implement a commodity rate change cap of +/- $1.00 with the following two provisions that applies to the FEI CCRA rate and the CCRA deferral account:
    - The $1.00/GJ cap is restricted for use in two consecutive quarterly review periods where the rate change has been in the same direction. The cap cannot be applied for the third quarter once it has been applied for the preceding two quarters.
    - A requirement for use of the $1.00/GJ cap is that the CCRA deferral account does not exceed the plus or minus maximum of $60 million after tax.
- Three criteria to assist the Commission when considering commodity rate change proposals using timeframes of 24 months rather than the standard 12-month prospective period with the proviso that all of the criteria are met.
    - When a commodity rate change is indicated using a standard 12-month prospective period;
    - When there is a difference of $0.75/GJ or more between the average CCRA weighted average cost of gas (WACOG) for year one versus year two of the 24-month prospective period; and
    - When the direction of the commodity rate change indicated using a standard 12-month prospective period is opposite to the direction of the CCRA WACOG for year two compared to the CCRA WACOG for year one.

In the Revised Application, Figure 3-7 on page 12 provides the FEI historical commodity rate. Figure 4-1 on page 20 shows the market prices vs. FEI commodity rate (without hedging).

As of January 1, 2018, the cost of gas component of the FEI bill is $1.549/GJ.[17]

25.1 Please state the number of instances by which FEI has used any of the rate setting mechanism enhancements since their approval in 2015.

Response:

There have been no instances by which FEI has used any of the rate setting mechanism enhancements since their approval in 2015.

25.2 Please provide corresponding commodity rate in $/GJ to accompany Figure 3-7.

Response:

Please see the table below for the requested information relating to Figure 3-7.

Date	$/GJ
1-Jan-05	7.005
1-Apr-05	7.005
1-Jul-05	7.658
1-Oct-05	9.292
1-Jan-06	9.774
1-Apr-06	7.662
1-Jul-06	7.662
1-Oct-06	7.662
1-Jan-07	7.662
1-Apr-07	7.662
1-Jul-07	7.662
1-Oct-07	6.926
1-Jan-08	6.926
1-Apr-08	8.287

17 https://www.fortisbc.com/NaturalGas/Homes/Rates/Pages/Cost-of-gas.aspx
https://www.fortisbc.com/About/RegulatoryAffairs/GasUtility/NatGasTariffs/Documents/FEIOnePageRateSummary.pdf.

Date	$/GJ
1-Jul-08	9.780
1-Oct-08	7.536
1-Jan-09	7.536
1-Apr-09	5.962
1-Jul-09	5.962
1-Oct-09	4.953
1-Jan-10	4.953
1-Apr-10	5.609
1-Jul-10	4.976
1-Oct-10	4.976
1-Jan-11	4.568
1-Apr-11	4.568
1-Jul-11	4.568
1-Oct-11	4.005
1-Jan-12	4.005
1-Apr-12	2.977
1-Jul-12	2.977
1-Oct-12	2.977
1-Jan-13	2.977
1-Apr-13	2.977
1-Jul-13	3.913
1-Oct-13	3.272
1-Jan-14	3.272
1-Apr-14	4.640
1-Jul-14	4.640
1-Oct-14	3.781
1-Nov-14	3.781
1-Jan-15	3.781
1-Apr-15	2.486
1-Jul-15	2.486
1-Aug-15	2.486
1-Oct-15	2.486
1-Jan-16	1.719
1-Mar-16	1.719
1-Apr-16	1.141
1-Jul-16	1.141
1-Oct-16	2.050

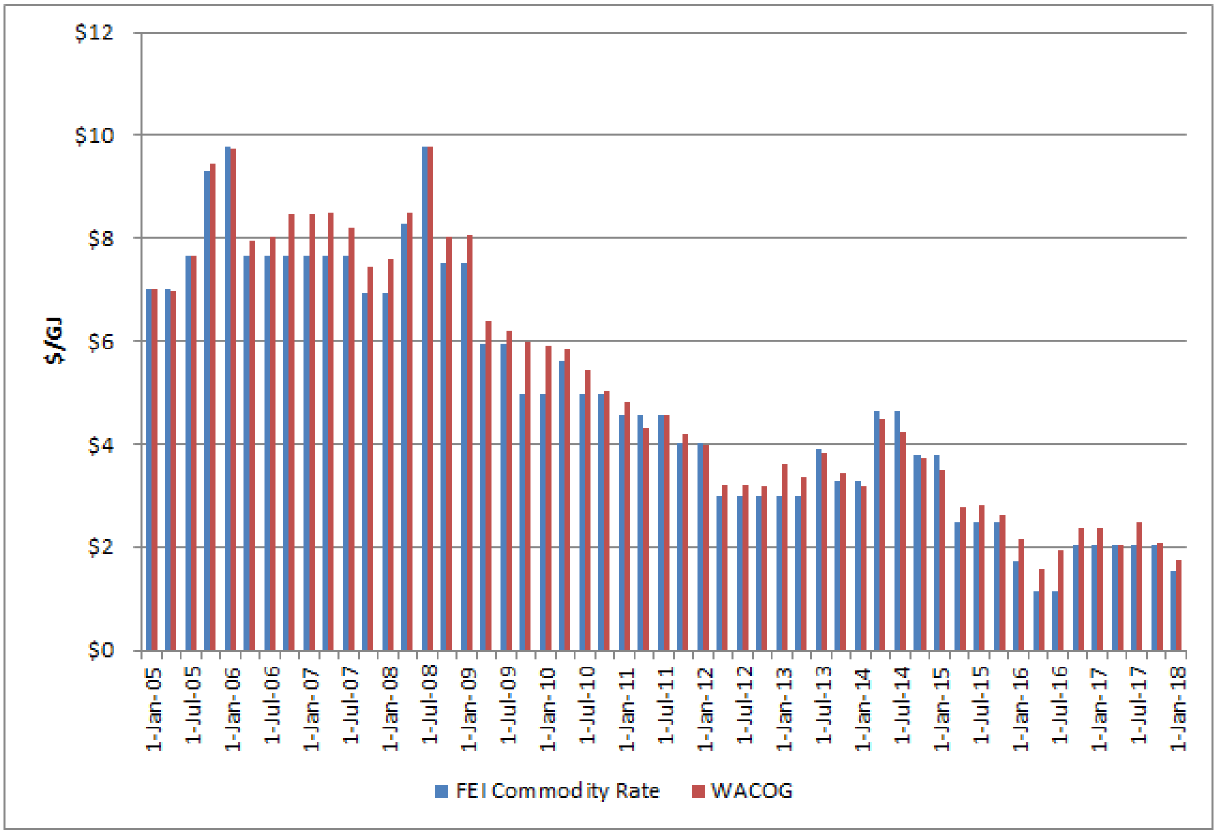
Date	$/GJ
1-Jan-17	2.050
1-Apr-17	2.050
1-Jul-17	2.050
1-Oct-17	2.050
1-Jan-18	1.549

25.3 In a separate graph with supporting data, please add the WACOG to Figure 3-7 to show the relationship between WACOG and the FEI commodity rate.

Response:

The following figure shows the Weighted Average Cost of Gas (WACOG) in $ per GJ added to Figure 3-7.

The WACOG in the figure is based on the 12-month prospective cost of gas for the commodity portfolio based on the forward strip date(s) used in the quarterly gas cost report at the time the rates were reviewed or reset.



The corresponding data for the figure is provided in the following table.

Notes:

[1] The data for the Jan 1, 2005 to Jan 1, 2008 period is based on the commodity portfolio costs being allocated on a fixed / variable allocation basis, consistent with the rate setting methodology in place at that time, and resulted in some minor differences in the commodity rate applicable to the various rate classes. The data for the Apr 1, 2008 to Jan 1, 2018 period is based on the commodity portfolio costs being allocated on a fully variable allocation basis, consistent with the current rate setting methodology, and results in a common rate to all rate classes.

[2] WACOG is the forecast weighted average cost of gas for the commodity portfolio for the 12-month prospective period based on the forward strip date(s) used in the quarterly gas cost report at the time the rates were reviewed or reset. Prior to 2013/14 gas year, the baseload supply hub allocations were 70% Station 2, 15% each for AECO/NIT and Huntingdon. Thereafter the baseload supply hub allocations are 75% Station 2 and 25% AECO/NIT.

[3] For the purposes of this table, the Jan 1, 2005, Apr 1, 2005, Jul 1, 2006, and Oct 1, 2006 WACOG and unitized deferral balance amounts have been calculated based on a variable or energy-based average of commodity portfolio costs as comprehensive rate class cost allocations are not readily available.

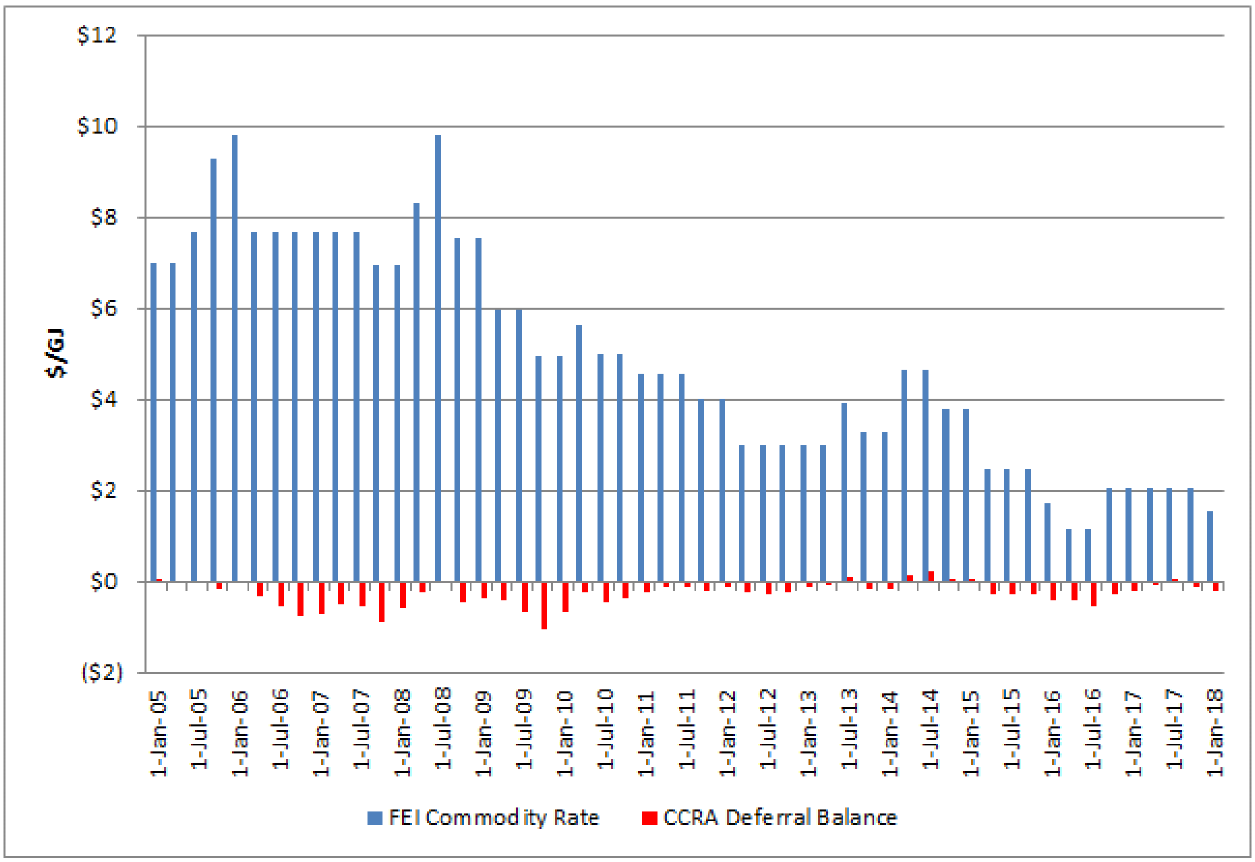
[4] Commodity Rate effective Oct 1, 2007 was approved based on a 75 percent flowthrough, per BCUC Order G-105-07.

Commodity Rate Effective Date	FEI Mainland Rate Schedule 1		
		Commodity Rate [1] ($/GJ)	WACOG [2] ($/GJ)
Jan 1, 2005	[3]	7.005	7.0081
Apr 1, 2005	[3]	7.005	6.9849
Jul 1, 2005		7.658	7.6938
Oct 1, 2005		9.292	9.4637
Jan 1, 2006		9.774	9.7741
Apr 1, 2006		7.662	7.9780
Jul 1, 2006	[3]	7.662	8.0175
Oct 1, 2006	[3]	7.662	8.4545
Jan 1, 2007		7.662	8.4429
Apr 1, 2007		7.662	8.5101
Jul 1, 2007		7.662	8.2316
Oct 1, 2007	[4]	6.926	7.5588
Jan 1, 2008		6.926	7.6811
Apr 1, 2008		8.287	8.5160
Jul 1, 2008		9.780	9.7792
Oct 1, 2008		7.536	8.0267
Jan 1, 2009		7.536	8.0646
Apr 1, 2009		5.962	6.3774
Jul 1, 2009		5.962	6.2178
Oct 1, 2009		4.953	6.0189
Jan 1, 2010		4.953	5.9157
Apr 1, 2010		5.609	5.8542
Jul 1, 2010		4.976	5.4234
Oct 1, 2010		4.976	5.0297
Jan 1, 2011		4.568	4.8143
Apr 1, 2011		4.568	4.3008
Jul 1, 2011		4.568	4.5712
Oct 1, 2011		4.005	4.2142
Jan 1, 2012		4.005	3.9618
Apr 1, 2012		2.977	3.2302
Jul 1, 2012		2.977	3.2141
Oct 1, 2012		2.977	3.1624
Jan 1, 2013		2.977	3.5972
Apr 1, 2013		2.977	3.3596
Jul 1, 2013		3.913	3.8291
Oct 1, 2013		3.272	3.4305
Jan 1, 2014		3.272	3.1928
Apr 1, 2014		4.640	4.5056
Jul 1, 2014		4.640	4.2197
Oct 1, 2014		3.781	3.7394
Jan 1, 2015		3.781	3.5037
Apr 1, 2015		2.486	2.7703
Jul 1, 2015		2.486	2.8019
Oct 1, 2015		2.486	2.6158
Jan 1, 2016		1.719	2.1373
Apr 1, 2016		1.141	1.5715
Jul 1, 2016		1.141	1.9454
Oct 1, 2016		2.050	2.3633
Jan 1, 2017		2.050	2.3604
Apr 1, 2017		2.050	2.0542
Jul 1, 2017		2.050	2.4782
Oct 1, 2017		2.050	2.0809
Jan 1, 2018		1.549	1.7600

25.4 In a separate graph with supporting data, please add the CCRA deferral balances to Figure 3-7 to show the relationship between the CCRA and the FEI commodity rate.

Response:

The following figure shows CCRA deferral balances in $ per GJ added to Figure 3-7.



The corresponding data for the figure above is provided in the following table along with the pre-tax projected CCRA balance ($ millions) on the indicated date – the CCRA deferral account balance on a referenced date includes the over / under recoveries to the end of the current period, before determination of any over / under recoveries related to the 12-month prospective period.

Commodity Rate Effective Date		FEI Mainland Rate Schedule 1		CCRA Deferral Balance (gross-up after tax)
		Commodity Rate [1] *($/GJ)*	Deferral Balance Unitized *($/GJ)*	*($ M)*
Jan 1, 2005	2	7.005	0.0504	1.9
Apr 1, 2005	2	7.005	(0.0447)	(5.5)
Jul 1, 2005		7.658	(0.0361)	(4.4)
Oct 1, 2005		9.292	(0.1714)	(18.6)
Jan 1, 2006		9.774	-	0.0
Apr 1, 2006		7.662	(0.3159)	(35.2)
Jul 1, 2006	2	7.662	(0.5426)	(57.0)
Oct 1, 2006	2	7.662	(0.7728)	(82.8)
Jan 1, 2007		7.662	(0.3159)	(75.7)
Apr 1, 2007		7.662	(0.5002)	(52.3)
Jul 1, 2007		7.662	(0.5513)	(55.5)
Oct 1, 2007	3	6.926	(0.8789)	(85.4)
Jan 1, 2008		6.926	(0.6516)	(56.6)
Apr 1, 2008		8.287	(0.2288)	(21.6)
Jul 1, 2008		9.780	0.0007	(0.1)
Oct 1, 2008		7.536	(0.4910)	(46.5)
Jan 1, 2009		7.536	(0.3892)	(33.4)
Apr 1, 2009		5.962	(0.4151)	(35.6)
Jul 1, 2009		5.962	(0.6687)	(57.2)
Oct 1, 2009		4.953	(1.0657)	(96.1)
Jan 1, 2010		4.953	(0.6947)	(65.0)
Apr 1, 2010		5.609	(0.2456)	(23.0)
Jul 1, 2010		4.976	(0.4475)	(42.3)
Oct 1, 2010		4.976	(0.3921)	(37.5)
Jan 1, 2011		4.568	(0.2464)	(24.2)
Apr 1, 2011		4.568	(0.1451)	(5.8)
Jul 1, 2011		4.568	(0.1206)	(11.6)
Oct 1, 2011		4.005	(0.2095)	(20.2)
Jan 1, 2012		4.005	(0.1457)	(14.5)
Apr 1, 2012		2.977	(0.2535)	(25.0)
Jul 1, 2012		2.977	(0.2781)	(27.8)
Oct 1, 2012		2.977	(0.2399)	(24.4)
Jan 1, 2013		2.977	(0.1292)	(13.7)
Apr 1, 2013		2.977	(0.0701)	(7.5)
Jul 1, 2013		3.913	0.0839	9.0
Oct 1, 2013		3.272	(0.1583)	(17.3)
Jan 1, 2014		3.272	(0.1527)	(16.6)
Apr 1, 2014		4.640	0.1348	14.7
Jul 1, 2014		4.640	0.2023	22.2
Oct 1, 2014		3.781	0.0413	4.5
Jan 1, 2015		3.781	0.0309	3.6
Apr 1, 2015		2.486	(0.2840)	(33.4)
Jul 1, 2015		2.486	(0.3009)	(35.3)
Oct 1, 2015		2.486	(0.2963)	(34.8)
Jan 1, 2016		1.719	(0.4187)	(48.8)
Apr 1, 2016		1.141	(0.4302)	(50.5)
Jul 1, 2016		1.141	(0.5313)	(62.1)
Oct 1, 2016		2.050	(0.3129)	(37.1)
Jan 1, 2017		2.050	(0.2259)	(27.0)
Apr 1, 2017		2.050	(0.0795)	(9.5)
Jul 1, 2017		2.050	0.0372	4.4
Oct 1, 2017		2.050	(0.1103)	(14.0)
Jan 1, 2018		1.549	(0.2110)	(27.2)

Notes:

[1] The data for the Jan 1, 2005 to Jan 1, 2008 period is based on the commodity portfolio costs being allocated on a fixed / variable allocation basis, consistent with the rate setting methodology in place at that time, and resulted in some minor differences in the commodity rate applicable to the various rate classes. The data for the Apr 1, 2008 to Jan 1, 2018 period is based on the commodity portfolio costs being allocated on a fully variable allocation basis, consistent with the current rate setting methodology, and results in a common rate to all rate classes.

[2] For the purposes of this table, the Jan 1, 2005, Apr 1, 2005, Jul 1, 2006, and Oct 1, 2006 WACOG and unitized deferral balance amounts have been calculated based on a variable or energy-based average of commodity portfolio costs as comprehensive rate class cost allocations are not readily available.

[3] Commodity Rate effective Oct 1, 2007 was approved based on a 75 percent flowthrough, per BCUC Order G-105-07.

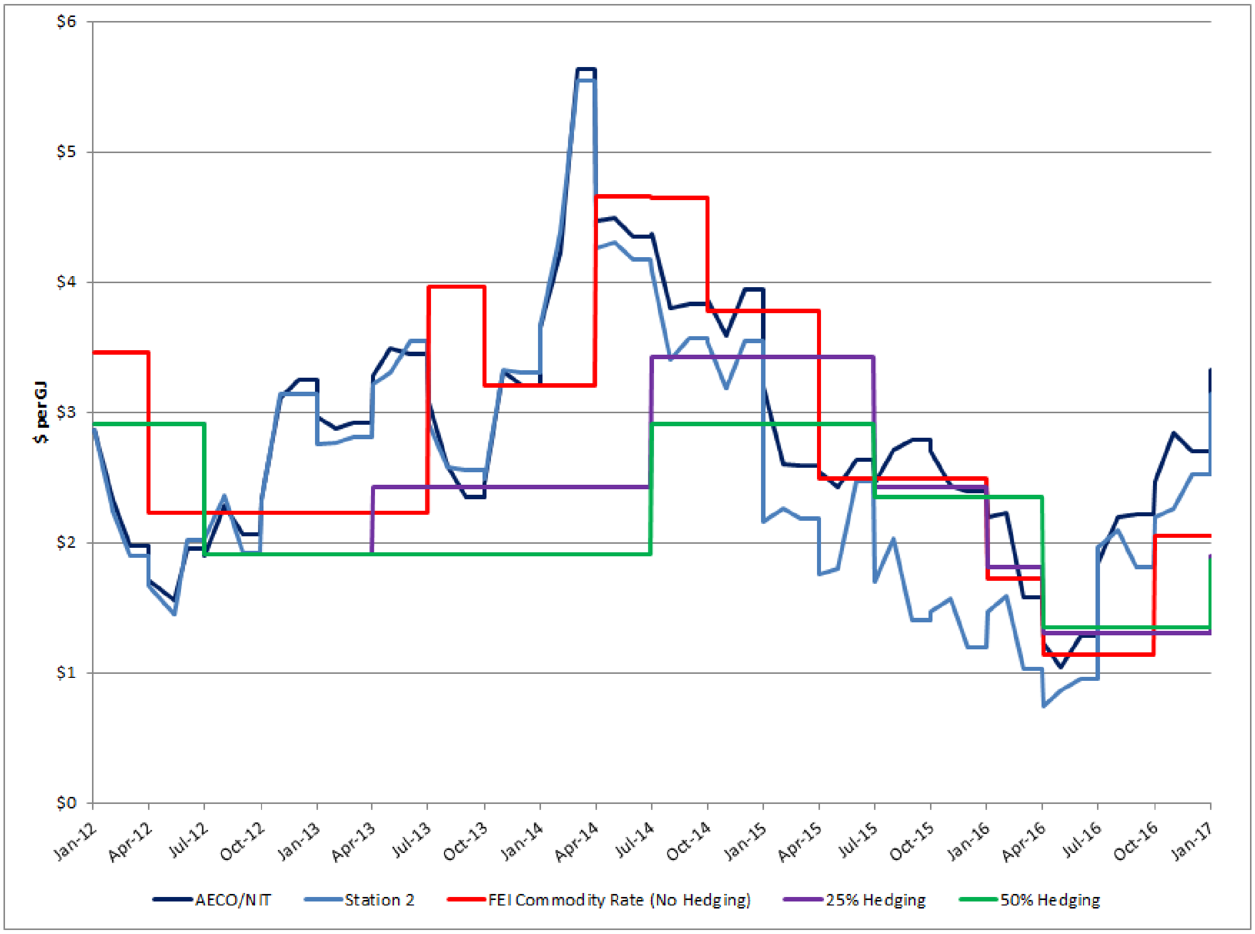
25.5 To the extent possible, please re-model Figure 4-1 with hedging, hypothetically in 5% hedging increments from 5% up to 50%.

Response:

The following is Figure 4-1 with hypothetical hedging of 25 percent and 50 percent of the total commodity portfolio run through a simulation model. The assumptions used in the model to calculate the hypothetical hedges and their impact on the commodity rate include:

- Effective start date of the hedges was April 1, 2012, the first full winter or summer season of the simulation period.
- The model used a programmatic hedging approach which implemented hypothetical hedges at $2 per GJ, regardless of market prices. This was necessary because the hypothetical hedge price target of $2 per GJ would not have been reached based on previous forward market prices in the simulation period.
- Rate setting mechanisms used in the model included the quarterly rate setting and use of CCRA deferral account, $0.50 per GJ minimum rate change threshold and 0.95/1.05 cost recovery ratio deadband.
- The model also includes a rate change cap of $1 per GJ, which was not actually available for use by FEI until mid-2016 when it was approved by the Commission, pursuant to Letter L-15-16. In addition to the impacts from the actual hedging from 2012

to 2014 (approved under previous PRMPs), this is why rates produced from the model differ from FEI's actual commodity rates during the period.



The following table includes the data for hedging in 5 percent increments, starting from 5 percent up to 50 percent hedging of FEI's total commodity supply from January 2012 to January 2017. The assumptions provided above apply to the data provided in this table.

RevisionDate	FEI Commodity Rate (No Hedging)	5% Hedge	10% Hedge	15% Hedge	20% Hedge	25% Hedge	30% Hedge	35% Hedge	40% Hedge	45% Hedge	50% Hedge
1-Jan-12	$3.463	$2.913	$2.913	$2.913	$2.913	$2.913	$2.913	$2.913	$2.913	$2.913	$2.913
1-Apr-12	$2.226	$2.913	$2.913	$2.913	$2.913	$2.913	$2.913	$2.913	$2.913	$2.913	$2.913
1-Jul-12	$2.226	$2.067	$2.015	$1.964	$1.913	$1.913	$1.913	$1.913	$1.913	$1.913	$1.913
1-Oct-12	$2.226	$2.067	$2.015	$1.964	$1.913	$1.913	$1.913	$1.913	$1.913	$1.913	$1.913
1-Jan-13	$2.226	$2.067	$2.015	$1.964	$1.913	$1.913	$1.913	$1.913	$1.913	$1.913	$1.913
1-Apr-13	$2.226	$2.778	$2.698	$2.618	$2.538	$2.420	$1.913	$1.913	$1.913	$1.913	$1.913
1-Jul-13	$3.967	$2.778	$2.698	$2.618	$2.538	$2.420	$1.913	$1.913	$1.913	$1.913	$1.913
1-Oct-13	$3.201	$2.778	$2.698	$2.618	$2.538	$2.420	$2.904	$2.721	$2.538	$1.913	$1.913
1-Jan-14	$3.201	$2.778	$2.698	$2.618	$2.538	$2.420	$2.904	$2.721	$2.538	$1.913	$1.913
1-Apr-14	$4.652	$2.778	$2.698	$2.618	$2.538	$2.420	$2.369	$2.721	$2.538	$1.913	$1.913
1-Jul-14	$4.640	$3.778	$3.698	$3.618	$3.538	$3.420	$3.369	$3.470	$3.339	$2.913	$2.913
1-Oct-14	$3.781	$3.778	$3.698	$3.618	$3.538	$3.420	$3.369	$3.470	$3.339	$2.913	$2.913
1-Jan-15	$3.781	$3.778	$3.698	$3.618	$3.538	$3.420	$3.369	$2.761	$2.670	$2.913	$2.913
1-Apr-15	$2.486	$3.778	$3.698	$3.618	$3.538	$3.420	$2.804	$2.761	$2.670	$2.913	$2.913
1-Jul-15	$2.486	$2.778	$2.698	$2.618	$2.538	$2.420	$2.246	$2.051	$2.029	$2.350	$2.350
1-Oct-15	$2.486	$2.216	$2.183	$2.618	$2.538	$2.420	$2.246	$2.051	$2.029	$2.350	$2.350
1-Jan-16	$1.719	$2.216	$2.183	$1.786	$1.768	$1.814	$2.246	$2.051	$2.029	$2.350	$2.350
1-Apr-16	$1.141	$1.266	$1.268	$1.242	$1.251	$1.307	$1.246	$1.210	$1.220	$1.350	$1.350
1-Jul-16	$1.141	$1.266	$1.268	$1.242	$1.251	$1.307	$1.246	$1.210	$1.220	$1.350	$1.350
1-Oct-16	$2.050	$1.266	$1.268	$1.242	$1.251	$1.307	$1.246	$1.210	$1.220	$1.350	$1.350
1-Jan-17	$2.050	$1.892	$1.890	$1.882	$1.882	$1.894	$1.874	$1.866	$1.867	$1.862	$1.862

The results from the hypothetical hedging scenarios show that higher levels of hedging would have provided more commodity rate stability (i.e. fewer and smaller rate changes) and maintained FEI's commodity rate at lower levels, on average, throughout the simulation period.

25.6 For Figure 4-1, please calculate the degree of variability for AECO/NIT market prices, Station 2 market prices, and the FEI commodity rate (no hedging). For market prices, calculate both by month and by quarters.

Response:

The following table provides several measures of the degree of monthly price variability including the high price, low price, average price and standard deviation for AECO/NIT and Station 2 monthly prices from January 2012 to January 2017.

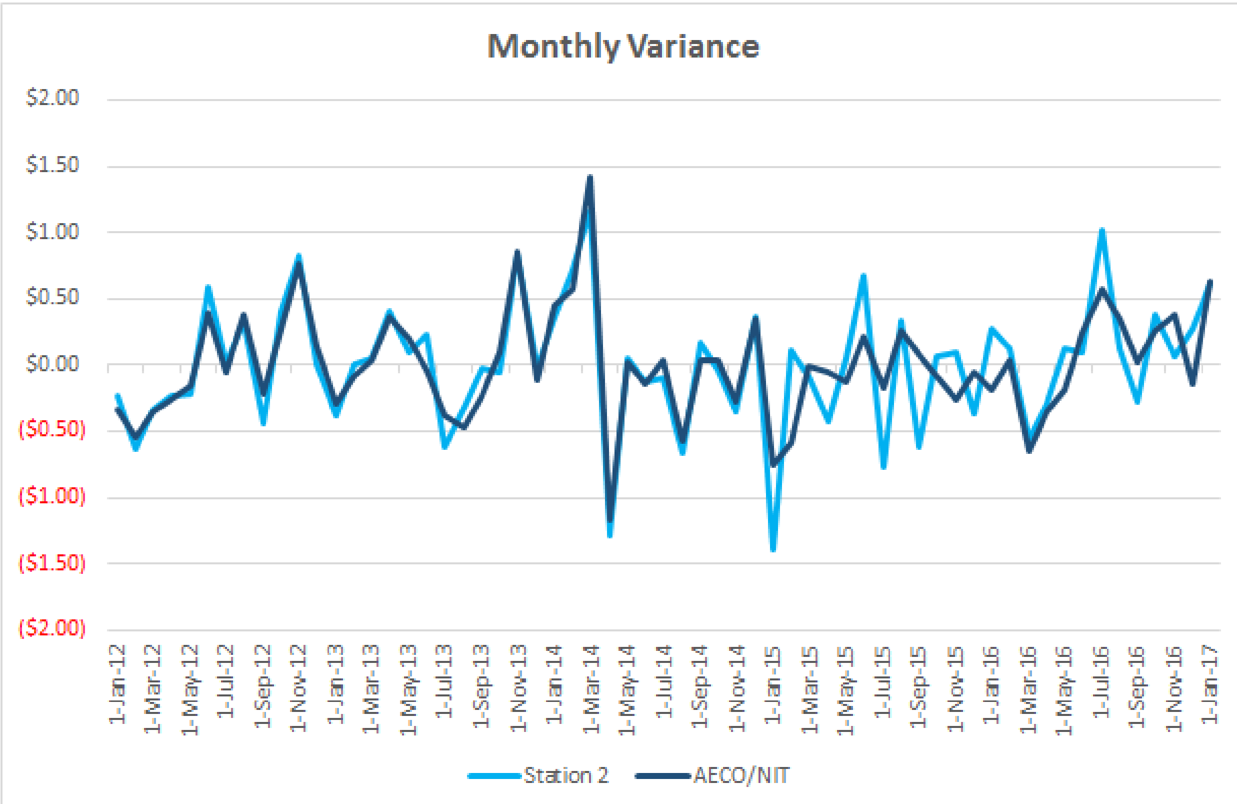
Monthly Variability				
	High Price	Low Price	Average Price	Standard Deviation
AECO/NIT	$5.64	$1.04	$2.82	0.89
Station 2	$5.54	$0.74	$2.54	0.99

The following table shows the monthly variances in the prices which were calculated by taking the difference in each month's settled price from the previous monthly settled price at each hub.

	Station 2	AECO/NIT
Date	**Monthly Variance**	
Jan-12	($0.227)	($0.345)
Feb-12	($0.629)	($0.540)
Mar-12	($0.333)	($0.349)
Apr-12	($0.237)	($0.261)
May-12	($0.223)	($0.154)
Jun-12	$0.578	$0.389
Jul-12	$0.011	($0.051)
Aug-12	$0.330	$0.383
Sep-12	($0.446)	($0.220)
Oct-12	$0.411	$0.279
Nov-12	$0.816	$0.767
Dec-12	($0.002)	$0.144
Jan-13	($0.381)	($0.287)
Feb-13	$0.007	($0.081)
Mar-13	$0.047	$0.038
Apr-13	$0.400	$0.366
May-13	$0.095	$0.203
Jun-13	$0.233	($0.043)
Jul-13	($0.627)	($0.375)
Aug-13	($0.330)	($0.477)
Sep-13	($0.030)	($0.239)
Oct-13	($0.060)	$0.099
Nov-13	$0.836	$0.860
Dec-13	($0.023)	($0.109)
Jan-14	$0.360	$0.456
Feb-14	$0.719	$0.567
Mar-14	$1.159	$1.412
Apr-14	($1.286)	($1.171)
May-14	$0.046	$0.023
Jun-14	($0.126)	($0.145)
Jul-14	($0.099)	$0.030
Aug-14	($0.672)	($0.578)
Sep-14	$0.164	$0.034
Oct-14	($0.038)	$0.036

	Station 2	AECO/NIT
Date	**Monthly Variance**	
Nov-14	($0.350)	($0.276)
Dec-14	$0.368	$0.351
Jan-15	($1.394)	($0.752)
Feb-15	$0.104	($0.585)
Mar-15	($0.080)	($0.013)
Apr-15	($0.431)	($0.048)
May-15	$0.046	($0.123)
Jun-15	$0.671	$0.209
Jul-15	($0.768)	($0.177)
Aug-15	$0.332	$0.258
Sep-15	($0.625)	$0.080
Oct-15	$0.068	($0.091)
Nov-15	$0.096	($0.260)
Dec-15	($0.370)	($0.048)
Jan-16	$0.268	($0.195)
Feb-16	$0.117	$0.032
Mar-16	($0.557)	($0.652)
Apr-16	($0.287)	($0.352)
May-16	$0.129	($0.183)
Jun-16	$0.087	$0.240
Jul-16	$1.010	$0.567
Aug-16	$0.122	$0.347
Sep-16	($0.280)	$0.020
Oct-16	$0.382	$0.252
Nov-16	$0.063	$0.372
Dec-16	$0.271	($0.143)
Jan-17	$0.617	$0.630

The following figure shows the monthly variance data from the previous table in graphical form.



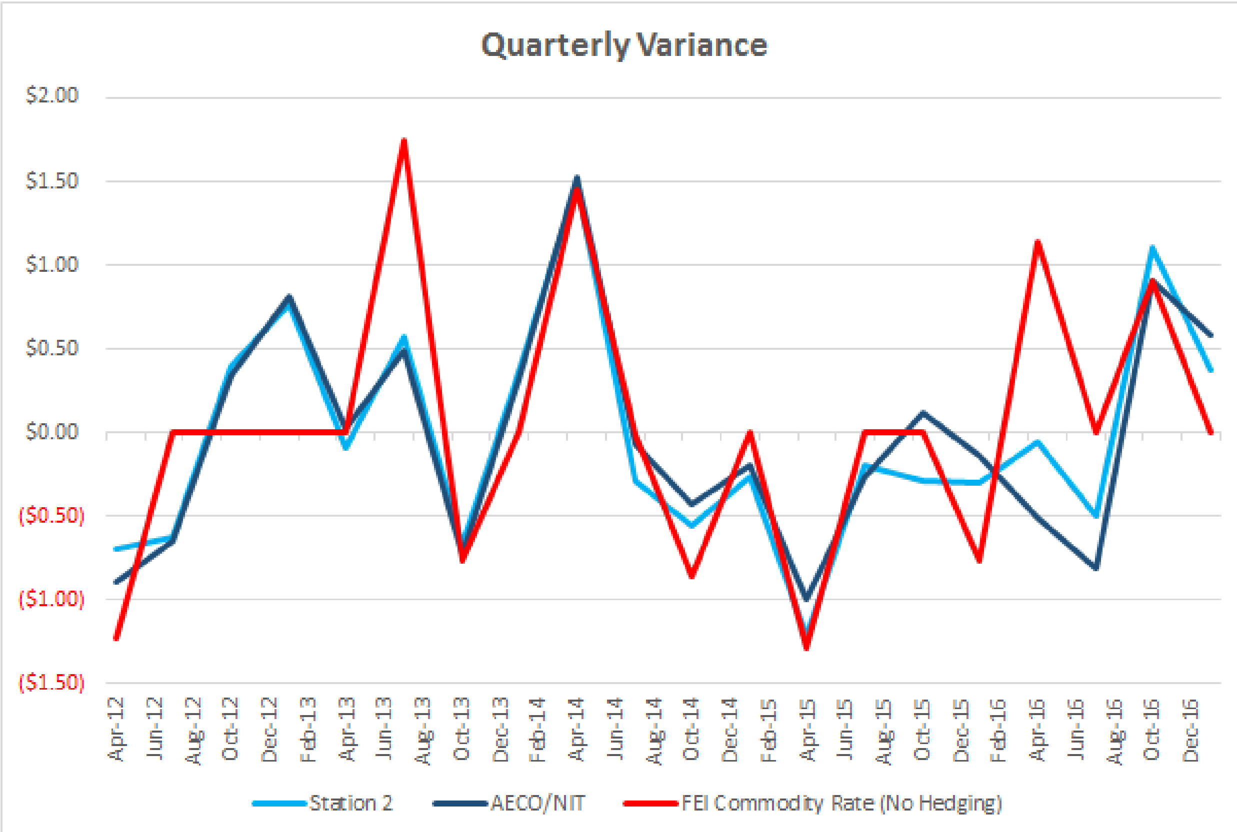
The following table provides the quarterly variability by showing the high price, low price, average price and standard deviation for AECO/NIT, Station 2 and the FEI commodity rate (without hedging) from January 2012 to January 2017.

Quarterly Variability				
	High Price	Low Price	Average Price	Standard Deviation
AECO/NIT	$4.51	$1.18	$2.84	0.85
Station 2	$4.53	$0.86	$2.55	0.95
FEI Commodity Rate (No Hedging)	$4.65	$1.14	$2.83	1.04

In the following table, the quarterly variances were calculated by taking the average of the quarter's monthly settled price minus the average of the previous quarter's monthly settled price at each hub. The variance in the FEI Commodity Rate (No Hedging) was calculated by taking the difference between each commodity rate and the previous commodity rate.

	Station 2	AECO/NIT	FEI Commodity Rate (No Hedging)
Date	Quarterly Variance		
Apr-12	($0.696)	($0.900)	($1.237)
Jul-12	($0.625)	($0.646)	$0.000
Oct-12	$0.394	$0.339	$0.000
Jan-13	$0.767	$0.818	$0.000
Apr-13	($0.090)	$0.023	$0.000
Jul-13	$0.574	$0.485	$1.741
Oct-13	($0.670)	($0.733)	($0.766)
Jan-14	$0.360	$0.318	$0.000
Apr-14	$1.488	$1.519	$1.451
Jul-14	($0.286)	($0.074)	($0.012)
Oct-14	($0.560)	($0.434)	($0.859)
Jan-15	($0.263)	($0.201)	$0.000
Apr-15	($1.223)	($1.005)	($1.295)
Jul-15	($0.196)	($0.264)	$0.000
Oct-15	($0.292)	$0.120	$0.000
Jan-16	($0.297)	($0.141)	($0.767)
Apr-16	($0.054)	($0.510)	$1.141
Jul-16	($0.504)	($0.818)	$0.000
Oct-16	$1.100	$0.904	$0.909
Jan-17	$0.368	$0.582	$0.000

The following figure shows the quarterly variance data from the previous table in graphical form.



For clarification, the market price variability being shown relates to the change in the monthly settled prices from one month to the next month, whereas the forecast gas costs used in setting the commodity rate are based on the forward market prices on the forward strip dates used in the quarterly report at the time the commodity rate is reset. Variances between the forecast gas costs embedded in the commodity rate and the actual incurred gas costs, based on the settled prices, are captured in the CCRA deferral account.

25.7 Considering the quarterly rate setting mechanism, including the enhancements approved in 2015, please model the maximum price volatility that can be absorbed without triggering a commodity rate change in one quarter.

Response:

Commodity rate changes can be viewed as being driven by two components – the first component relates to the over / under recovery of gas costs to the end of the current period (these amounts are the result of previous price variances and are embedded in the deferral account balance), and the second component relates to the over / under recovery of the forecast gas costs for the next 12 months compared to the forecast recoveries at the current commodity rate. The quarterly rate setting mechanism incorporates a minimum rate change threshold of ± $0.50 per GJ which means the total combined over / under recovery of the two components described above can fall within a range of ± $0.499 per GJ of the current commodity rate and not trigger a commodity rate change at that quarterly review. Thus the rate setting mechanism can absorb a maximum “rate volatility” of ± $0.499 per GJ to the current commodity rate.

Although this maximum “rate volatility” of ± $0.499 per GJ is symmetrical to the current commodity rate, it is the calculated value of the first component (the over / under recovery embedded in the CCRA deferral account) that will determine the symmetry of the market price volatility within the 12-month forecast gas costs that can be absorbed without triggering a commodity rate change.

The following two examples demonstrate how the rate impact of the CCRA deferral balance affects the symmetry of the ± $0.499 per GJ threshold available to absorb market price volatility within the 12-month forecast gas costs.

Example 1:

- Current commodity rate is $1.50/GJ.
- CCRA deferral account at the end of the current period is a surplus balance equivalent to -$0.25/GJ; shifting the symmetry of the range available to absorb the impacts of market prices on the 12-month forecast gas costs upwards, towards higher market prices.

Therefore the 12-month forecast of gas costs can fall within a range of -$0.249 per GJ to +$0.749 per GJ compared to the commodity rate or, in other words, the forecast weighted average cost of gas for the 12-month prospective period can be between $1.251 to $2.249 per GJ without triggering a commodity rate change.

Example 2:

- Current commodity rate is $1.50/GJ.
- CCRA deferral account at the end of the current period is a deficit balance equivalent to $0.25/GJ; shifting the symmetry of the range available to absorb the impacts of market prices on the 12-month forecast gas costs opposite to that demonstrated in Example 1.

Therefore, the 12-month forecast of gas costs can fall within a range of -$0.749 per GJ to +$0.249 per GJ compared to the commodity rate or, in other words, the forecast weighted average cost of gas for the 12-month prospective period can be between $0.751 to $1.749 per GJ without triggering a commodity rate change.

The table below uses information from the FEI 2018 First Quarter Gas Cost Report, filed with the Commission on March 7, 2018, to illustrate the price volatility in the forecast weighted average cost of gas for the 12-month prospective period that could have been absorbed without triggering a commodity rate change.

	2018 Q1 Gas Cost Report		**Range Without Triggering Rate Change**			
Particulars ($/GJ)	(Tab 1, Page 2)		maximum		minimum	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Rate Setting Mechanism Volatility				$ 0.4990		$ (0.4990)
(Over) / Under Recovery in CCRA Deferral Balance at March 31, 2018		$ (0.2426)		(0.2426)		(0.2426)
Forecast 12-month Gas Costs	$ 1.4306		$ 2.2906		$ 1.2926	
Forecast 12-month Recoveries	(1.5490)		(1.5490)		(1.5490)	
(Over) / Under Recovery of Forecast 12-month Gas Costs		(0.1184)		$ 0.7416		$ (0.2564)
Tested Rate (Decrease) / Increase		$ (0.361)				
Forecast 12-month Weighted Average Cost of Gas				**$ 2.2906**		**$ 1.2926**

26.0 Reference: PRICE RISK MANAGEMENT TOOLS

Exhibit B-1-2, pp. 22 and 25;

Decision on the FEI 2015 PRM Application dated June 17, 2016, p. 31

Impacts on credit facilities

In the 2015 PRMP decision, on page 31, the panel directed FEI to include an evaluation of the option of increasing the acceptable CCRA deferral account balance limit to +/- $200 million to manage CCRA during periods of extreme volatility if FEI wished to extend the hedging program.

On pages 22 and 25 of the Revised Application, FEI indicates that increasing the CCRA limit above +/- $60 million would negatively impact FEI's credit facilities, including increasing financing costs.

26.1 Please provide the credit agency reports that comment specifically on FEI's commodity cost deferral accounts. Are there any concerns raised by the credit agencies with respect to FEI's commodity cost deferral accounts since 2008?

<u>Response:</u>

In Attachment 26.1, FEI has provided the credit agency reports from Moody's and DBRS which were issued between 2009 and 2017. The credit rating agencies have not specifically raised concerns with the gas cost deferral accounts in their current reports; however, recent statements in Moody's reports imply that an increase to debt financed deferral accounts may negatively impact FEI's credit profile.

In several recent Moody's ratings reports, including the report dated July 26, 2017, Moody's stated, "*The Company has a track record of passing through its commodity costs in rates and has no direct exposure to commodity price risk and limited volume risk. To the extent that these and many other costs differ from forecast values, deferral or true up mechanisms limit exposure to forecast error*". However further on in the same section of the report, Moody's states, "*We view debt-financed deferral accounts as a credit negative, however the balances remain small.*"

Furthermore, in 2012 and 2013, Moody's also stated the following in regards to the BCUC's 2011 decision to eliminate the majority of FEI's commodity hedging activities: "*Although we expect a sustained period of low natural gas prices, this philosophical change is viewed negatively from a credit perspective and could increase the volatility of FEI's cash flow and increase its liquidity requirements*."

These statements imply that despite FEI's ability to recover differences in commodity prices from customers over time, large price movements in the near term could result in greater volatility in liquidity and short term borrowings, which may require greater credit facility capacity and increase FEI's short term financing costs.

26.2 Did FEI engage in any independent credit analysis to evaluate how the potential +/- $200 million CCRA deferral account balance may affect its credit facilities? If so, please provide the analysis. If not, why not?

Response:

FEI did not engage in any independent credit analysis to evaluate how the potentially larger CCRA deferral account balance may impact credit facilities, as FEI was able to provide its own assessment based on previous credit rating agencies' reports.

As stated in the response to BCUC IR 1.26.1, FEI expects that if the size of the CCRA deferral account deficit balance were to increase beyond current limits, it would result in greater volatility in liquidity and short-term borrowings, which may require greater credit facility capacity and increase FEI's short term financing costs.

In addition, larger deficit balances would have an impact on future customer rates, and could negatively affect recoverability.

27.0 Reference: PRICE RISK MANAGEMENT TOOLS

Exhibit B-1-2, p. 32; Appendix B, p. 5

Optional customer bill and rate tools

On page 5 of Appendix B, FEI provides current option customer bill and rate tools, including the Equal Payment Plan and Customer Choice Program, as follows:

Management Tool	Description	Degree to which meets objectives	Limitations
Equal Payment Plan (EPP)	Customers can elect to sign up for a program that smooths out their monthly bill payments. Customers' consumption and commodity rates are forecast in order to average out the next twelve months' bills.	Some monthly bill payment smoothing will occur for customers during periods of relatively stable rates and when customers' actual consumption of gas is close to their expected consumption.	During periods of volatile rates and/or higher or lower expected consumption, periodic adjustments may be required within the twelve month period. This is to prevent large adjustments for EPP customers at the end of the twelve month term.
Customer Choice Program	Customers can elect to receive their commodity supply from a natural gas marketer rather than FEI and pay a fixed rate for terms up to five years.	Provides commodity rate stability for customers up to five years. Customers can benefit if market prices increase above their fixed rate.	Customers do not benefit if market prices fall below their fixed rate. Ability to achieve low rate depends on marketers' offerings and terms. Marketers' rates may include a profit margin.

On page 32, FEI states: "Currently, about one third of customers are signed up for the EPP."

27.1 Please confirm that the optional EPP program smooths out the customer's total bill and thereby providing bill stability, rather than smoothing out a specific rate component (e.g. the commodity rate portion of the total bill). If not confirmed, please explain.

<u>Response:</u>

Confirmed with the following clarification. The EPP program does smooth out the customer's total bill and may provide bill stability for a twelve-month period. However, the EPP is limited as it does not affect underlying gas prices like other price risk management tools, such as hedging.

Hedging provides greater commodity rate stability which leads to improved bill stability. Ultimately, customers using the EPP will pay the same amounts through commodity rates as they would without the EPP (assuming constant gas consumption). Therefore, while customers may have improved bill predictability, there is no financial risk or benefit for customers using EPP versus not using EPP (assuming equal gas consumption). Furthermore, under the EPP, the equal twelve-month payment instalments are reviewed every three months and adjusted if necessary to reflect changes in weather, gas usage or gas rates. This is done to avoid significant billing adjustments at year end caused by large changes in weather-related consumption or quarterly rates. As a result, during periods of extremely volatile market prices and subsequent quarterly rate changes, EPP customers may be subject to quarterly, rather than annual, bill changes. As such, the EPP is not a substitute for other forms of price risk management, such as hedging, but rather should be included as part of a portfolio approach in reducing rate and bill volatility for customers.

27.2 On an annual basis and by rate class, please provide the average number of customer sign-ups for the EPP since the program's inception. Please breakdown this information for bundled vs. unbundled gas customers, if applicable.

<u>Response:</u>

Please note that FEI has responded based on the starting date of January 1, 2012, which represents the date that customer service was no longer outsourced and the start date for customer data being captured in SAP. Due to the change of systems as of January 1, 2012, information prior to January 1, 2012 is not readily available.

Below is a breakdown of the average number of new customer sign-ups for EPP per year since 2012.

Rate Class	2012	2013	2014	2015	2016	2017	2018 YTD[18]
COMMERCIAL[19]	1,100	1,000	900	800	800	750	200
INDUSTRIAL[20]	1	1	1	1	1	1	1
RESIDENTIAL[21]	35,000	27,000	25,000	23,000	20,000	18,000	4,000

[18] As of March 12, 2018.
[19] Includes Rate Schedules 2, 3, 23.
[20] Includes Rate Schedules 4, 5, 6, 6P, 46, 7, 22, 25, 27.
[21] Includes Rate Schedules 1.

FEI has not provided the response disaggregated between customers who are on the Customer Choice program and those who are not because FEI does not track customer data in that way and, as such, it is not available.

27.3 Out of the 33% of customers who elect to sign up for the EPP, please provide the customers' characteristics (e.g. residential or commercial rate class, higher or lower than average gas users, etc.)

Response:

FEI does not track individual EPP customer data based on customer characteristics such as use rates and, as such, this information is not available.

Please refer to the table below for a breakdown of the percentage of EPP customers by Residential and Commercial customer type.[22]

Customer Type	2012	2013	2014	2015	2016	2017	2018 YTD[23]
Residential[24]	97%	97%	97%	97%	97%	96%	97%
Commercial[25]	3%	3%	3%	3%	3%	4%	3%

27.4 Given that 33% of customers elect to sign up for the EPP, would it be fair to say that 66% of customers are willing to tolerate variability, or have no preference on the variability, in their gas bills or rates?

Response:

No, it would not be reasonable to infer that 66 percent of customers are willing to tolerate variability, or have no preference on the variability, in their gas bills or rates based on the

[22] Relative to the number of Residential and Commercial customers, the percentage of Industrial customers on the EPP is zero percent.
[23] As of March 12, 2018.
[24] Includes Rate Schedules 1.
[25] Includes Rate Schedules 2, 3, 23.

percentage of customers that elect to sign up for EPP. There are several factors that contribute to a customer's decision to sign up for EPP such as personal budgeting and bill payment preferences, awareness and knowledge of the EPP and overall level of engagement and awareness of their energy bills.

As described in the Application, according to the customer survey conducted in March of 2017, the majority of customers surveyed indicated that they would definitely or probably make some changes to their household behavior to offset bill increases of 25 percent or more[26]. The responses in the survey point to a willingness by many customers to pay a small premium for bill stability. The survey indicates that 62 percent would be willing to pay a small premium for bill stability while 31 percent indicated they would not be willing to pay a premium and 7 percent were uncertain[27].

27.5 Please discuss the reasons for natural gas unbundling in BC. Is one of the reasons for unbundling to give a market price signal to customers? To what extent should FEI's cost of gas rate serve as a market price signal to customers?

Response:

The Customer Choice program was not designed to give a market price signal to customers. Natural gas unbundling arose in response to the 2002 Provincial Energy Plan, which stated, "Natural gas marketers will be allowed to sell directly to small volume customers, and will be licensed to provide consumer protection."[28] Based on the information provided in the plan, FEI understands that allowing gas marketers to sell commodity contracts directly to customers was designed to encourage private sector opportunities.

The program was developed in consultation with gas marketers and its design reflects three primary drivers. First, it needed to be developed quickly to permit gas marketers to start business as soon as feasible. Second, FEI strived to limit the financial impact of the program's design, implementation and ongoing maintenance on customer rates. Last, the Customer Choice design recognized commodity capacity limitations particular to BC's commodity transportation infrastructure.

FEI believes that any value achieved (i.e., short-term conservation activity) from more frequent adjustments to a variable rate, is outweighed by the value that all customers may achieve from the proposed hedging proposal. Customer research indicates that many customers prefer some

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[26] Appendix A page 30 – Impact of Natural Gas Bill Increases on Behavior.
[27] Appendix A page 28 - 62% of All Residents includes 19% that "Like it" and 43% that state "It's ok".
[28] Energy for our future: a plan for BC, 2002, page 8.

rate stability in order to manage household or business budgeting and significant rate or bill surprises make this difficult. However, most customers also do not want to be locked into a fixed rate, with no potential downward rate movement opportunities.

27.5.1 With FEI's objective to provide rate stability, would this be inconsistent with the rationale for natural gas unbundling in BC?

Response:

Please refer to the response to BCUC IR 1.27.5.

27.6 On an annual basis and by rate class, please provide the average number of customers who have been enrolled in the Customer Choice Program since the program's inception. Please provide the customers' characteristics (e.g. residential or commercial rate class, higher or lower than average gas users, etc.)

Response:

Figure 1 below summarizes the customer characteristics of those eligible for and participating in the Customer Choice Program from 2007 through 2017. The information requested is not available for the commercial phase of the Commodity Unbundling Program that ran from November 2004 to October 2007. The residential phase was launched in November 2007 and promoted as the Customer Choice Program. From that time, existing commercial unbundled customers were then captured in the data included in Figure 1. Residential customers participating in Customer Choice as of 2017 generally consumed about 4.4 GJ per year less than the average for all residential customers. Commercial customers enrolled in the program typically use about 60 GJ per year more than the average for all eligible commercial customers.

Beyond any possible behavioral implications, variances noted may be associated with a variety of other variables like size and age of homes, or the type and scale of businesses choosing to participate in Customer Choice versus those that do not.

Figure 1: Customer Choice eligibility and participation by year and customer type (2007-2017)

Eligible Customers	Nov-Dec 2007	2008	2009	2010	2011	2012	2013	2014	2015**	2016	2017
Average Customers											
Residential	739,651	747,594	752,416	759,240	764,241	758,460	765,402	772,804	884,847	896,154	909,445
Commercial	79,037	80,317	80,573	80,658	81,050	76,659	77,824	78,838	90,120	91,000	92,154
Total	818,688	827,911	832,989	839,898	845,291	835,119	843,226	851,642	974,967	987,154	1,001,599
Consumption GJs											
Residential	20,756,917	78,153,731	72,348,221	64,909,943	73,431,258	68,275,387	69,613,919	67,075,940	66,267,258	70,239,124	82,043,532
Commercial	10,322,363	43,495,663	41,792,954	38,187,717	43,205,599	41,209,017	40,797,421	39,949,300	42,279,362	44,042,944	51,450,604
Total	31,079,280	121,649,393	114,141,174	103,097,660	116,636,857	109,484,404	110,411,340	107,025,240	108,546,621	114,282,068	133,494,136
Average use/customer GJs											
Residential	28.06	104.54	96.15	85.49	96.08	90.02	90.95	86.80	74.89	78.38	90.21
Commercial	130.60	541.55	518.70	473.45	533.07	537.56	524.23	506.73	469.15	483.99	558.31

Enrolled	Nov-Dec 2007	2008	2009	2010	2011	2012	2013	2014	2015**	2016	2017
Average Customers											
Residential	88,385	102,250	119,929	115,037	105,833	92,977	46,657	36,800	29,740	28,247	26,762
Commercial	20,029	19,904	20,090	18,087	14,969	11,393	8,334	6,609	4,371	3,411	3,060
Total	108,414	122,154	140,019	133,124	120,802	104,370	54,991	43,409	34,111	31,658	29,822
Consumption GJs											
Residential	2,558,173	10,752,306	11,534,654	9,717,368	10,012,635	7,428,583	3,553,653	2,560,456	2,177,064	2,141,817	2,297,223
Commercial	2,440,742	10,725,679	10,167,009	8,518,034	8,059,063	6,134,519	3,999,822	2,980,109	2,343,430	1,991,785	1,891,386
Total	4,998,915	21,477,985	21,701,664	18,235,402	18,071,698	13,563,102	7,553,475	5,540,565	4,520,494	4,133,602	4,188,609
Average use/customer GJs											
Residential	28.94	105.16	96.18	84.47	94.61	79.90	76.17	69.58	73.20	75.82	85.84
Commercial	121.86	538.87	506.07	470.95	538.38	538.45	479.94	450.92	536.13	583.93	618.10

Participation	Nov-Dec 2007	2008	2009	2010	2011	2012	2013	2014	2015**	2016	2017
Residential	12%	14%	16%	15%	14%	12%	6%	5%	3%	3%	3%
Commercial	25%	25%	25%	22%	18%	15%	11%	8%	5%	4%	3%

**VI & Whistler started in Nov 2015

27.7 FEI's proposed hedging program if approved would affect all FEI customers who pay FEI's commodity rate. Have FEI or gas marketers considered any other offerings that allow voluntary participation for those customers who are risk averse to (i) natural gas market price volatility, (ii) rate instability, or (iii) bill instability? Please explain.

Response:

There have been discussions during Customer Choice Annual General Meetings by the gas marketers about alternative program offerings for customers, but in general the alternatives contravened the Essential Services Model that underpins the program. Commission staff invited gas marketers to submit a written submission if they are interested in pursuing alternative program offerings.

Research indicates that customers generally prefer fewer pricing options and have a low understanding of their natural gas bill,[29] which would make offering alternative rate products

[29] Sentis Alternatives for Managing Natural Gas Price Volatility – Focus Group Report, October 24, 2012, page 15 provided in Appendix D.

challenging for FEI, and potentially costly for ratepayers. FEI refers to the Manitoba Hydro example, where the utility was directed to provide fixed rate offerings to customers in order to provide greater competition for natural gas marketers. The uptake of the utility fixed rate offerings has been minimal to date, amounting to less than 0.5 percent of the total.

27.7.1 Is it feasible for FEI or gas marketers to provide fixed commodity rate, or partially fixed commodity rate options for shorter (e.g. 6 to 18 months) and longer term (e.g. more than 5 years) durations?

Response:

This question asks to discuss possible short and long-term rate options that might be delivered by either gas marketers or FEI. Each is addressed in turn below.

FEI discusses customer research and the Company's position with respect to creating new rate options with terms of less than one year in BCUC IR 1.27.7.

For gas marketers, it is not feasible to sell fixed commodity contracts for terms of less than 12 month increments due to the Essential Service Model (ESM) that underpins the Customer Choice Program. Under the ESM, a gas marketer delivers to FEI a quantity of the natural gas commodity based on FEI's normalized forecast of the gas marketers' customers annual load requirements. The delivery is at a 100 percent annual load factor and is allocated to Receipt Points at the two supply/market hubs. They are currently at Station 2 and AECO, with delivery allocated on the same basis as that approved by the BCUC in the Annual Contract Plan for FEI.

Under the ESM, customers must remain enrolled at the same commodity price point for one-year increments. This ensures, on a normalized annual basis, that the amount of energy consumed by customers and which varies from month to month equals the amount of energy supplied by the gas marketers. Under the model, each premise is allocated a daily commodity allocation. This equates to the amount of natural gas that FEI anticipates the customer will consume at their premises in the next year divided by 365. Gas marketers deliver this calculated premises allocation of gas at each market hub every day. FEI then pays gas marketers to compensate for the commodity they deliver to FEI at the market hubs. The normalized annual amounts billed customers and paid gas marketers, on average, only balance to zero at the end of each 12-month interval (i.e., the anniversary date). This is called the 12-month rule.

The desire by gas marketers to allow customers more pricing options and to cancel contracts outside of the anniversary date influenced FEI to re-evaluate the possible implementation of an ESM Fee in 2014. The ESM Fee in principle is a fee designed to protect the 12-month fixed price rule. As part of the scoping phase, leading up to the submission of FEI's April 13, 2006

CPCN Application for Commodity Unbundling for Residential Customers, FEI was requested to review the issue of offering greater pricing flexibility. The goal was to provide gas marketers the ability to offer products other than those just with 12-month fixed price intervals. Allowing gas marketers the ability to vary their customers' price other than a 12-month fixed price can have a significant negative financial impact on costs that all customers share in. The original ESM Fee design recovered commodity costs stranded when gas marketers violated the model's 12-month rule and customers returned to the FEI default rate. The design did not include a mechanism for gas marketers to change rates and enable customers to stay with the existing gas marketer at a different price point. Allowing gas marketers to simply change a customer's rate outside of the anniversary date was not explored during the scoping phase of Customer Choice. FEI has since investigated gas marketers' desire for more price flexibility. Through this process, it was determined that this change would be inconsistent with the ESM and would necessitate a complete revision of the unbundling model. It is FEI's position that the ESM is working as designed and is best suited to address the unique demands of the gas supply marketplace in BC.

FEI does not see any value in facilitating contracts past five years. Personal situations can change rapidly with unforeseen events pertaining to health, family or employment. Gas marketers have asked for simplified renewal processes in the past, but FEI believes it's important to have customers go through the formality of rigorous customer protection activities at regular intervals to ensure consumers fully understand contracts.

C. HEDGING PROPOSALS

28.0 Reference: HEDGING PROPOSALS

Exhibit B-1-2, p. 8

Jurisdiction support for hedging proposal

FEI states on page 8 of its Revised Application that "FEI recognizes that some gas producers have hedges in place that protect a percentage of their production from low market prices."

28.1 Please compare and contrast the reasons that a gas producer and a gas distribution utility may hedge.

Response:

Both a gas producer and a gas distribution utility may hedge to lock in prices to help mitigate volatility in market prices. A gas producer may hedge a portion of the supply to protect from decreasing market prices, which would reduce the profit margin for production. A gas distribution utility may hedge to protect its customers from increasing market prices, which would otherwise cause increases in the commodity rate portion of the customer bill, and also to provide more stable commodity rates. In general, a gas producer hedges to protect incoming revenue from production and a gas distribution utility hedges to protect customers from adverse commodity rates and subsequent impacts on their bills.

28.2 Please explain whether FEI is aware of any other gas distribution utilities in North America that hedges part of its commodity gas portfolio.

Response:

FEI is aware that other gas distribution utilities in Canada and the U.S. use hedging for part of their commodity gas portfolios.

In Canada, SaskEnergy Incorporated (SaskEnergy) uses AECO/NIT physical fixed price purchases and financial fixed price swaps for up to five years out to help manage rate volatility for customers. SaskEnergy uses more physical fixed price purchases rather than financial swaps in order meet their physical supply requirements and meet their price risk management objectives at the same time. Like FEI, SaskEnergy's primary price risk exposure is to the AECO/NIT market. Unlike FEI, SaskEnergy has a significant amount of underground gas storage close to their load centre. SaskEnergy utilizes more storage as a percentage of winter load requirements than FEI due to their more extreme winter heating load requirements, flexibility requirement and proximity of storage to their load centres.

FEI is also aware of gas and electric utilities operating in the U.S. Pacific Northwest region that use hedging to manage rate volatility for customers. These include Cascade Natural Gas (Cascade), Puget Sound Energy, Avista Utilities and Northwest Natural Gas Company. These utilities operate in the same regional gas marketplace as FEI, but have market price exposure to other market hubs such as Sumas and Rockies, in addition to AECO/NIT. These utilities use financial hedges, including fixed price swaps and options, and/or fixed price purchases to manage gas and electric rate volatility for up to several years out for customers. Cascade uses physical fixed price purchases over financial swaps and indicates that one of the reasons for this includes concerns over the administrative impacts of U.S. financial derivatives regulation[30]. Like FEI, these utilities also have access to underground storage facilities such as Mist and/or Jackson Prairie and their own on-site liquefied natural gas storage for short-term price risk mitigation.

28.2.1 If yes, please list the utilities that use hedging strategies, and explain the reason why those utilities implemented hedging as part of their price risk management tool. In the response, please also highlight any similarities and differences between the other utilities' operating environment as compared to FEI.

Response:

Please refer to the response to BCUC IR 1.28.2.

28.2.1.1 Please explain whether those hedges are physical hedge or financial hedge, and whether there is a rationale for any preference for physical or financial hedge in those jurisdictions.

Response:

Please refer to the response to BCUC IR 1.28.2.

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[30] Cascade 2016 Integrated Resource Plan, page 4-20.

29.0 Reference: HEDGING PROPOSALS

Exhibit B-1-2, pp. 36–37; FEI 2017-2018 Annual Contract Plan (FEI 2017/18 ACP) – Executive Summary, p. 5

Medium-term hedging program

FEI states on page 36 of its Revised Application that "FEI is requesting Commission approval of refinements to FEI's existing medium-term hedging program, including extending the current hedging horizon and adjusting the hedging price targets, and approval of a 5-year term hedging program." FBC elaborates on the hedging price targets and volumetric limit, and states that "the maximum hedging for any term is limited to 50 percent of the FEI commodity supply portfolio."

FEI states on page 37 that "The hedging requests … are based on the hedging implementation plan for year 1."

In the FEI 2017/18 ACP executive summary, on page 5, FEI provides that the daily baseload supply that will be received by FEI Midstream on behalf of Commodity Providers in accordance with the requirements of the Essential Service Model, will be 339 TJ/d in 2017/18. The FEI 2017/18 ACP was accepted by Commission Letter L-15-17.

Table ES-1: Forecast Peak Day, Design, and Normal Volumes by Region

Contract Year	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	(TJ/d)	*(TJ/d)*	*(TJ/d)*	*(TJ/d)*	*(TJ/d)*	*(TJ/d)*
Columbia	26	27	27	27	27	28
Lower Mainland	881	887	895	904	913	921
Ft. Nelson	5	5	5	5	5	5
Inland	294	298	301	305	308	312
Whistler	7	7	7	7	6	6
Vancouver Island	103	102	105	108	112	115
Total Peak Day Load	**1,316**	**1,325**	**1,341**	**1,356**	**1,372**	**1,387**
Yr/Yr Change	n/a	9	16	15	16	15
Winter Design Load	652	664	668	680	683	691
Summer Design Load	235	240	242	245	248	251
Average Daily Design Load	**408**	**415**	**419**	**426**	**429**	**434**
Yr/Yr Change	n/a	7	4	7	3	5
Winter Normal Load	534	539	539	542	537	535
Summer Normal Load	188	198	197	197	197	196
Average Daily Normal Load	**331**	**339**	**339**	**340**	**338**	**337**
Yr/Yr Change	n/a	5	0	2	-4	-2
	(PJ/yr)	*(PJ/yr)*	*(PJ/yr)*	*(PJ/yr)*	*(PJ/yr)*	*(PJ/yr)*
Annual Normal Load	**121**	**124**	**124**	**124**	**124**	**123**

Notes:

All numbers in terajoules per day except Annual Normal Load, which is in petajoules per year

29.1 Please confirm, or otherwise explain, that the implementation limit of 50% of the commodity supply portfolio is based on the baseload gas requirement as accepted in the ACP each year, which would have been 339 TJ/d for the 2017/18 gas year.

Response:

The commodity supply portfolio is generally based on a normalized annual demand forecast provided in the ACP each year. FEI's maximum hedging implementation for any term is limited to 50 percent of FEI's commodity supply portfolio. The commodity supply portfolio for the 2017/18 gas year was 339 TJ/d as per the 2017/18 ACP. Therefore, FEI's maximum hedging implementation was approximately 165 TJ/d for the winter 2017/18. However, the forecast normalized annual demand for the August 4, 2017 Filing of the Annual Review for the 2018 Rates Application (the Filing), showed an increase in 2018 annual normal consumption compared to 2017. The increase in forecast consumption caused the commodity supply portfolio including fuel to increase to 371 TJ/d effective January 1, 2018. The Filing was approved by the Commission via Order G-196-17 on December 21, 2017. As a result, FEI's maximum hedging implementation increased to approximately 185 TJ/d for the summer 2018 term.[31]

29.2 Suppose the hedging implementation limit is 50%. In light of FEI's medium-term hedging proposal, is FEI proposing to hedge up to 50% given its price targets based on (i) 198 GJ/d of the summer normal load and (ii) 539 GJ/d of the winter normal load? Please clarify.

Response:

FEI does not base its maximum hedging volume percentage relative to normal summer and normal winter load requirements. FEI bases the maximum hedging volume relative to the normal annual baseload requirements for the commodity portfolio. Based on the 2017/18 ACP, this amount was 339 TJ per day, subject to the adjustments described in the response to BCUC IR 1.29.1.

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[31] The maximum hedging implementation for the winter term (Nov 1, 2017 to March 31, 2018) remained at 165 TJ/D.

D. STAKEHOLDER CONSULTATION

30.0 Reference: STAKEHOLDER CONSULTATION

Exhibit B-1-2, p. 40

Support for hedging

On page 40 of the Revised Application, FEI states:

> While there was state support from some stakeholders in the 2015 workshops for capturing market price opportunities, there was no stated support from stakeholders for the strategy of limiting market price increases or price spikes with low-cost options.

30.1 Please list the stakeholders who were in support of capturing market price opportunities and those who were not.

Response:

As discussed in Section 6 of the 2018 PRMP, the representatives from the BC Ministry of Social Development, CEC and BCOAPO expressed support for the objective of capturing market price opportunities. The other workshop participants, primarily natural gas marketers, had mixed opinions about FEI's proposed hedging objectives but some believed that some rate stability is important for customers. One marketer noted that they would generally support a hedging program as long as it is transparent and mechanical with predefined strategies and targets. FEI does not have information on which specific gas marketers were in favour of the hedging objective and those who were not. Those opposed to the objective did not specify why they were opposed. However, FEI believes it is because more volatile FEI commodity rates help make the marketers' fixed rate offerings under the Customer Choice program or transportation service more attractive for customers seeking stability in rates.

30.1.1 Please discuss stated reasons for a lack of support by stakeholders who opposed capturing market price opportunities.

Response:

Please refer to the response to BCUC IR 1.30.1.

30.2 Please discuss stated reasons for no support from stakeholders for the strategy of limiting market price increases or price spikes with low-cost options.

Response:

FEI believes that stakeholders feel the current rate setting mechanism and the then-proposed (now-approved) commodity rate change cap provide this protection against market price increases or price spikes.

Attachment 26.1

Rating Report

Report Date:
May 27, 2009

Previous Report
May 20, 2008

Insight beyond the rating.

Terasen Gas Inc.

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The Company

Terasen Gas Inc. (TGI or the Company) is the largest natural gas distributor in British Columbia, serving approximately 834,000 customers, representing 90% of the province's natural gas users. The Company is 100% owned by Terasen Inc. (rated BBB (high)), which is a wholly-owned subsidiary of Fortis Inc. (rated BBB (high)). The ratings assigned to TGI are based predominantly on a stand-alone basis.

Recent Actions

February 20, 2009
Rates New Issue

May 13, 2008
Rates New Issue

April 14, 2008
Confirmed with a Stable Trend

Rating

Debt	Rating	Rating Action	Trend
Commercial Paper	R-1 (low)	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	Stable
MTNs & Unsecured Debentures	A	Confirmed	Stable

Rating Update

DBRS has confirmed the Purchase Money Mortgages and the MTNs & Unsecured Debentures ratings of Terasen Gas Inc. (TGI or the Company) at "A" and its Commercial Paper rating at R-1 (low), all with Stable trends. The rating confirmations reflect TGI's low business risk natural gas distribution operations, a favourable regulatory environment with strong ring-fencing provisions, a strong franchise area with a large customer base and a stable financial profile.

The regulatory environment continues to remain stable, and provides for a number of cost-recovery mechanisms which, when combined with the rate-setting methodology, allows for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame. The Company's performance based regulation (PBR), which had been in place from 2004 to 2007, was extended through to 2009. TGI recently filed an application to review its allowed return on equity (ROE) and capital structure, and is expected to file a new revenue requirement application with the continuation of its numerous deferral accounts. Although the ROE has been in general decline (8.47% in 2009 as opposed to 9.42% in 2003) because of the low interest rate environment, the impact on earnings and cash flow has been modest and is largely offset by increases in the rate base, higher approved equity thickness in the capital structure (35% since 2006, up from 33% previously), incentive earnings, and stable levels of debt.

TGI continues to maintain a stable financial profile and credit metrics (albeit weaker than its peers), reflecting the regulated nature of its operations and its limited gas-cost exposure. DBRS expects lower customer growth than in the past few years due to a slowing economy, fewer new housing starts, and a shift in the housing mix to more multi-family dwellings. TGI is expected to focus on retaining customers through expanded energy conservation and efficiency programs. (Continued on page 2.)

Rating Considerations

Strengths

(1) Low business risk and supportive regulatory framework
(2) Strong regulatory ring-fencing provisions
(3) Reasonable balance sheet and stable credit metrics
(4) Strong franchise area with a large customer base

Challenges

(1) Earnings and cash flow affected by lower ROE
(2) Long-term competitiveness of natural gas relative to alternative energy sources
(3) Volume exposure in the industrial and transportation segment
(4) Loss of PBR incentive earnings upon expiry

Financial Information

	12 mos. ended Mar. 31 '09	For the year ended December 31			
	2009	2008	2007	2006	2005
EBIT interest coverage (1)	1.89	1.88	1.95	2.00	1.94
% debt in capital structure (1)	63.6%	66.4%	66.5%	64.7%	67.6%
Cash flow/total debt (times) (1)	9.6%	8.8%	8.4%	9.7%	8.9%
Cash flow/capital expenditures (times)	1.21	1.24	1.35	1.47	1.52
Net income bef. extras (CAD millions)	79	78	70	68	70
Operating cash flow (CAD millions)	151	152	146	160	157

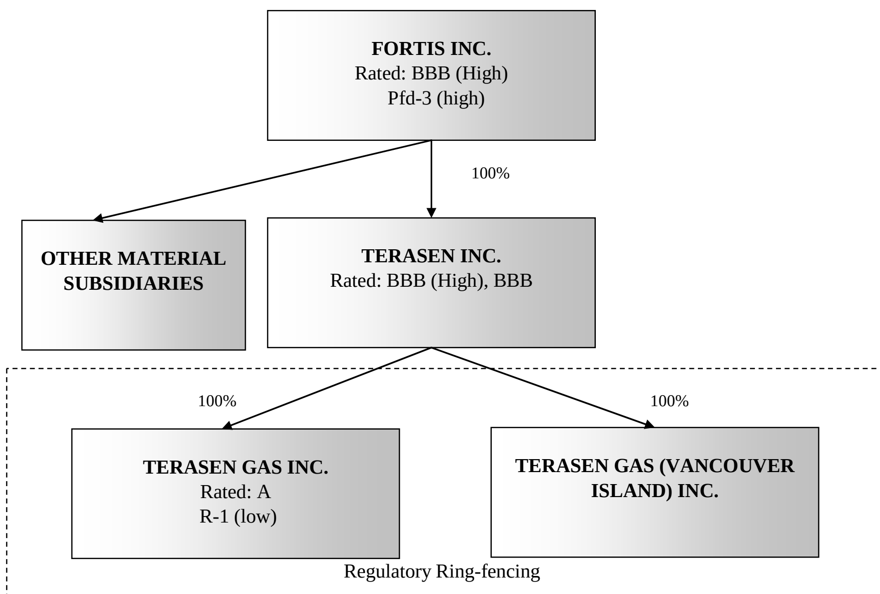
(1) Includes operating leases

Rating Update (Continued from page 1.)

Minimal to modest free cash flow deficits are expected over the medium term, attributable to the replacement and refurbishment of existing infrastructure (which is expected to go into the rate base in a timely manner) and modest customer growth. Any deficits would be expected to be financed with a combination of the $500 million revolving bank facility ($389 million available at March 31, 2009) and long-term debt issuance. TGI's balance sheet should remain stable over the medium term as the Company is expected to manage its dividends to maintain its capital structure within the regulatory-approved debt-to-equity ratio of 65% to 35%.

The Company's credit metrics have historically remained consistent and are expected to continue to do so, with minor variability. DBRS notes that while TGI's credit metrics are weaker than those of similarly-rated gas distribution peers, this has historically been offset by the Company's more stable credit metrics and business risk profile. The Company continues to maintain a price advantage relative to electricity, the primary competitor to natural gas. The current weak gas pricing environment both improves TGI's competitiveness, and reduces working capital and liquidity requirements. TGI's financial strength and credit profile over the longer term will depend to an extent on the continued competitiveness of natural gas relative to alternative energy sources (mainly electricity).

Simplified TGI Ownership and Rating Chart



Rating Considerations Details

Strengths

(1) TGI benefits from having all its operations in a low-risk, stable regulated environment within a supportive regulatory framework. TGI operates under a full cost-of-service recovery regime, with deferral accounts existing to stabilize earnings and to adjust for the recovery/refund of shortfalls/overages of natural gas costs from/to customers. TGI has no exposure to commodity costs (subject to a recovery lag) as natural gas costs are fully passed on to customers, with quarterly adjustments.

(2) Regulatory ring-fencing conditions imposed on TGI in the April 30, 2007, British Columbia Utilities Commission (BCUC) order approving acquisition of Terasen Inc. by Fortis Inc. are viewed as positive for TGI's credit profile, offering protection from significant changes in its capital structure.

(3) TGI maintains a stable balance sheet and credit metrics, reflecting the following: (a) a debt-to-capital ratio consistently in the mid-60% area; (b) an EBIT interest coverage ratio historically close to 2.0 times; and (c) a cash flow-to-debt ratio that has been in the 8% to 10% range over the past five years. While the EBIT coverage and cash flow-to-debt ratios are on the low end for an "A" rating compared with its gas distribution peers, historically TGI's credit metrics have shown the most stability.

(4) TGI serves a large customer base of approximately 834,000, located in a stable franchise area that includes the city of Vancouver. The customer mix is favourable, with residential and commercial customers accounting for 90% of distribution revenues. There is no volume risk (but recovery lag exists) associated with this customer segment.

Challenges
(1) The approved ROE of 8.47% for 2009 (8.62% in 2008) is low and has been in gradual decline in recent years due to the low interest rate environment. Despite a modestly growing rate base ($2.5 billion in 2008 compared with $2.3 billion in 2004), earnings and cash flow have remained flat, largely as a result of the lower ROE. Under the current adjustment mechanism, approved ROEs could trend even lower in the future, depending on Government of Canada bond (Canada Bonds) yields.

(2) TGI's earnings and financial profile over the longer term will largely depend on the competitive position of natural gas relative to alternative energy sources (mainly electricity) in British Columbia. Despite the significant increases in natural gas prices from 1999 through 2008, natural gas maintained a competitive advantage in terms of pricing compared with electricity. While gas prices have retreated significantly in 2009, it is expected that under reasonable gas price assumptions, TGI will remain competitive relative to electricity, with electricity prices expected to rise gradually in the medium term, according to BC Hydro.

(3) The Company is exposed to variances from forecasts when it comes to its industrial fixed-price contracts and transportation-services segments, which represent approximately 45% of throughput volumes (5% of revenues). However, this exposure is mitigated by the fact that their usage is less likely to be significantly affected by weather and is therefore more predictable. TGI conducts an annual survey of its industrial customer segment to minimize forecast variances in throughput volumes. Further mitigating this risk is the fixed demand charges derived from this segment.

(4) Under the PBR, TGI shares earnings above or below the allowed ROE on a 50/50 basis with customers. This sharing mechanism will expire along with the PBR, which will likely exert some downward pressure on earnings, as TGI's incentive earnings averaged over $10 million per year in 2007 and 2008.

Regulation

Regulatory Overview
- TGI is regulated by the BCUC on a test-year forecast basis under a rate-of-return/cost-of-service regime. TGI applies to the BCUC annually for approval of its forecast cost-of-service, throughput, revenue and capital additions.
- TGI's cost of service includes the cost of purchased gas and the cost of gas transportation and distribution through the pipeline system, including operating, maintenance and administrative expenses (OM&A); depreciation of facilities; income and other taxes; and a return on equity.
- TGI purchases gas for resale, without markup, to residential and commercial customers; transportation customers and some large commercial and industrial customers arrange for their own gas supply and contract with TGI for the transportation of that gas.
- TGI's rates are based on estimates of several items, such as natural gas sales volumes, cost of natural gas and interest rates. In order to manage the risks associated with some of these estimates, a number of regulatory deferral accounts are in place.
  - **Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account:** The differences between actual and forecast gas costs are recorded in these deferral accounts to be recovered or refunded in future rates. This exposes TGI to a recovery lag (the balances are anticipated to be fully recovered or refunded within the next fiscal year), but price adjustments in the price forecast are made on a quarterly basis to better reflect prevailing gas commodity prices. This mitigates the impact of recovery lag.

- **Revenue Stabilization Adjustment Account (RSAM):** The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in the forecast versus actual customer use throughout the year. The RSAM account is anticipated to be recovered in rates over three years (for comparison, in Ontario, gas distribution companies are exposed to volume risk, which can be significant due to changes in the weather). Variances in usage by large-volume industrial transportation and sales customers, which account for 45% of total throughput, are not covered by this deferral account. However, their usage is more predictable and less likely to be significantly affected by weather.
- TGI also has in place short- and long-term interest rate deferral accounts to absorb interest rate fluctuations.

- Variances between forecast and actual cost of service and revenue are generally approved by the BCUC for recovery in future rates, with the exception of excess OM&A costs and base-capital expenditures, which are subject to an incentive formula.
  - In 2003, the BCUC approved a negotiated settlement of a performance-based rate (PBR) plan covering the 2004 to 2007 period. In 2007, the BCUC approved a TGI application to extend the PBR through 2009.
  - Under the PBR plan, operating and maintenance costs and base-capital expenditures are subject to an incentive formula that reflects increasing costs as a result of customer growth and inflation less a productivity factor equal to 50% of inflation during the first two years of the plan and 66% of inflation during 2006 and 2007.
  - The PBR plan provides for a 50-50 sharing mechanism of earnings above or below the allowed ROE.
  - Allowed ROE is set annually according to a formula based on a forecast of 30-year Canada Bonds plus a 3.90% risk premium when the forecast yield is 5.25%. The risk premium is adjusted annually by 75% of the difference between 5.25% and the forecast yield. Based on this formula, for F2009, the ROE is set at 8.47% (8.62% in 2008), with an equity thickness of 35%. The equity thickness was increased to 35% from 33% in 2006.
- Declining yields on 30-year Canada Bonds have reduced approved ROEs (and could continue to do so), which, when coupled with increased credit spreads on long-term debt offerings, has resulted in a declining spread between approved ROEs and debt costs. The Company recently filed an application with the BCUC seeking changes to the current generic ROE adjustment mechanism and deemed equity thickness; TGI requested that its ROE be set at 11% (and not be adjusted by an automatic mechanism) and its equity thickness increased to 40%.
- Forecast capital expenditures are also approved by the BCUC. For capital projects that are not covered by the annual capital plan or PBR, TGI submits a separate application to the BCUC. If actual capital costs exceed the amount approved, the excess cost may be subject to a prudence review.

Regulatory Ring-Fencing

A summary of the regulatory ring-fencing conditions in the April 30, 2007, BCUC order imposed on TGI approving the Fortis Inc. acquisition of Terasen Inc. is as follows:

- TGI must maintain the equity in the capital structure at least at the deemed equity level approved by the BCUC (35%).
- TGI must obtain approval from the BCUC before paying dividends to its parent if the paying of dividends can be reasonably expected to increase leverage above the approved level.
- The Company will not be allowed to lend to, guarantee or financially support any affiliates of Terasen Inc. or its non-regulated businesses.
- TGI will not be allowed to enter a tax-sharing agreement with any of its affiliates unless the agreement has been approved by the BCUC.
- TGI must maintain the continued independence of directors.

Earnings and Outlook

Consolidated Earnings

(CAD millions)	12 mos. ended Mar. 31 '09 2009	For the year ended December 31 2008	2007	2006	2005
Net revenues	517	513	507	517	505
EBITDA	291	292	293	301	302
EBIT	211	214	215	217	222
Gross interest expense	112	111	108	106	112
Pre-tax income	101	103	108	112	111
Income taxes	22	25	38	44	42
Net income (before extras)	79	78	70	68	70
Net income	92	92	78	68	65
Return on avg. common equity (bef. extras.)	8.8%	8.9%	7.9%	7.8%	8.4%
EBIT margin (net of gas costs)	40.9%	41.7%	42.3%	42.0%	44.1%
Rate Base	n/a	2,510	2,484	2,516	2,406
Approved common equity	35.0%	35.0%	35.0%	35.0%	33.0%
Allowed ROE	8.47%*	8.62%	8.37%	8.80%	9.03%

* 8.47% for 2009

Summary

- TGI has historically demonstrated very stable levels of EBITDA and EBIT, reflective of modest net additions to its customer base, increases in its rate base and a stable approved equity component, all largely offset by declining allowed ROE.
  - Earnings volatility is further reduced due to the customer breakdown, with residential and commercial customers providing the majority of its margin and industrial customers normally under contract.
- Though in recent years housing starts in British Columbia have been strong, growth in multi-family housing continues to have an impact on net additions as natural gas is less prevalent in this type of dwelling. The BCUC’s 2006 decision to increase TGI’s equity thickness to 35% from 33% had a positive impact on TGI’s performance.
- The gas distribution segment (residential and commercial customers) has historically accounted for more than 50% of total throughput volumes and 90% of total revenues. Throughputs for this segment have exhibited stability over the past five years, and volume risk is mitigated as shortfalls/overages in volume revenues are deferred and recovered/refunded through future rates.
- The transportation segment and industrial customers under fixed-price contracts have historically accounted for approximately 50% of total throughput volumes and less than 10% of total revenues. Although transportation and industrial customer segments are exposed to volume risk, it is mitigated by the fact that their usage is less likely to be significantly affected by weather and is therefore more predictable. Further mitigating this risk is the fixed demand charges derived from these segments.
- Interest expense has been relatively stable over the past five years due to fairly consistent levels of total debt.

Outlook

- In the shorter term, earnings will likely be moderately impacted by the loss of incentive earnings upon expiry of the PBR mechanism. Over the medium term, as a mature gas distribution utility, TGI is expected to have relatively stable earnings with some variability due to allowed ROE, population growth, new housing starts and customer conversions. DBRS expects lower customer growth than in the past few years due to a slowing economy and fewer new housing starts. TGI is expected to focus on retaining customers through expanded energy conservation and efficiency programs.
- Over the longer term, earnings will largely depend on the competitiveness of natural gas relative to electricity in British Columbia. While TGI has maintained a competitive advantage in terms of pricing compared with electricity, its competitive position would weaken should gas prices increase significantly for a prolonged period of time, potentially having a negative impact on TGI’s financial and credit profile. The competitiveness of natural gas will also be affected by the provincial consumption tax on carbon-based fuels.

Terasen Gas Inc.

Report Date:
May 27, 2009

Financial Profile

(CAD millions)	12 mos. ended Mar. 31 '09 2009	For year ended Dec. 31 2008	2007	2006	2005
Net income before extraordinary items	79	78	70	68	70
Depreciaton & amortization	79	78	79	84	79
Other non-cash adjustments	(7)	(5)	(3)	8	8
Cash Flow From Operations	151	152	146	160	157
Capital expenditures	(125)	(122)	(108)	(109)	(103)
Common dividends	(58)	(100)	(111)	(40)	(60)
Free Cash Flow Before W/C Changes	(32)	(70)	(73)	12	(7)
Working capital changes	25	33	(28)	83	(45)
Net Free Cash Flow	(7)	(37)	(101)	95	(51)
Acquisitions/divestitures	0	14	0	0	(42)
Other adjustment/comprehensive	38	36	11	(7)	(2)
Cash flow before financing	31	13	(90)	88	(95)
Net change in debt financing	(23)	(5)	89	(98)	109
Net change in pref. share financing	0	0	0	0	0
Net change in equity financing	0	0	0	0	0
Net Change in Cash	8	8	(1)	(9)	14
Total adjusted debt (CAD million) (1)	1,569	1,730	1,744	1,655	1,763
Cash flow/total debt (times) (1)	9.6%	8.8%	8.4%	9.7%	8.9%
% debt in the capital structure (1)	63.6%	66.4%	66.5%	64.7%	67.6%
EBIT interest coverage (times)	1.89	1.88	1.95	2.00	1.94
Dividend payout ratio (%)	73.2%	127.7%	158.0%	58.5%	86.3%

(1) Includes operating leases

Summary

- TGI continues to maintain stable cash flow from operations, which historically has been largely adequate to fund both capital expenditure and dividend payments.
- The relatively large dividend payments in F2007 and F2008 were primarily due to the significant reduction in dividend payment in F2006.
  - Dividend payments in F2006 were modest as TGI, through retained earnings, increased its equity thickness from 33% to the new regulatory-approved 35%. Going forward, DBRS expects that dividend payments will be made in such a way as to keep the Company's debt-to-capital in line with that allowed by the regulator.
  - As part of the ring-fencing condition, TGI is prohibited from paying dividends unless it has in place at least as much equity as required by the BCUC for rate-making purposes. As such, free cash flow has varied along with the level of dividend payments in recent years. Free cash flow deficits over the past five years have been manageable and were funded with debt.
- Leverage remains reasonable at approximately 66%, offset by a weak but acceptable cash flow-to-debt ratio, which is typically in the 8% to 10% range. The stability of TGI's credit metrics is a key factor in its current ratings.

Outlook

- Minimal to modest free cash flow deficits are expected over the medium term, attributable to the replacement and refurbishment of existing infrastructure and modest customer growth. Any deficits are expected to be financed with a combination of TGI's $500 million revolving bank facility ($218 million available at December 31, 2008) and long-term debt issuance.
  - DBRS expects the capital expenditure to be approximately $150 million (before customer contributions) annually over the medium term, with maintenance capital expenditure expected to account for approximately 70% to 80% of the total.
- TGI's financial profile should remain relatively stable over the medium term as the Company is expected to manage its dividends to maintain its capital structure within the regulatory-approved 65% to 35% debt-to-equity (unchanged from 2008).
- Longer term, under reasonable gas and electricity price assumptions, it is expected that TGI will remain competitive relative to alternative energy sources.

Long-Term Debt Maturities and Liquidity

As at Dec. 31, 2008 (CAD millions)	2009	2010	2011	2012	2013	Thereafter	Total
Long-Term Debt	62	2	2	2	2	1,345	1,413

- Currently, TGI has a five-year, $500 million unsecured committed revolving credit facility with a syndicate of banks that matures in August 2013. Approximately $389 million was unutilized at March 31, 2009. The credit facility is used to support TGI's $500 million commercial paper (CP) program and working capital requirements, which vary to a large extent with seasonal gas inventory levels. Gas inventory levels and working capital requirements (and, therefore, short-term debt) typically peak in the fall and winter seasons, with reductions in the spring and summer.
- The debt-repayment schedule is very modest through to 2015. In February 2009, TGI issued $100 million of 30-year notes, which more than pre-funds the 2009 maturities.
- TGI's bond indenture contains an EBIT-to-interest coverage test in order to issue additional indebtedness. EBIT for 12 consecutive months out of the previous 23 months must be at least 2.0 times its annual pro forma interest requirements for debt that has a maturity term longer than 18 months.
  - The covenant does not apply to debt issuance for refinancing, and interest expenses do not include interest expenses related to short-term debt or Purchase Money Mortgages.

Terasen Gas Inc.

Balance Sheet
(CAD millions)

Assets	Mar. 31 2009	As at December 31 2008	2007	**Liabilities & Equity**	Mar. 31 2009	As at December 31 2008	2007
Cash	17	13	6	Short-term debt	68	239	305
Accounts receivable	388	346	310	L.t.d. due in one year	62	62	190
Inventories	64	192	187	A/P	371	366	331
Prepaid expenses	27	3	4	Tax payables	62	66	39
Rate stabilization accts	116	54	61	Rate stabilization acct.	55	24	0
Current Assets	613	608	568	**Current Liabilities**	617	755	865
Net fixed assets	2,369	2,432	2,380	Long-term debt	1,439	1,340	1,151
Rate stabilization accts	0	0	12	Deferred credits	183	138	78
Deferred charges	305	0	40	Deferred taxes	249	1	51
Long-term rec. + investments	101	69	23	Shareholders' equity	900	875	878
Total	3,387	3,109	3,022	**Total**	3,387	3,109	3,022

Ratio Analysis	12 mos. ending Mar. 31/09	For the year ended December 31			
Liquidity Ratios	2009	2008	2007	2006	2005
Current ratio	0.99	0.80	0.66	0.65	0.74
Accumulated depreciation/gross fixed assets	n/a	23.8%	23.4%	23.5%	21.9%
Cash flow/total debt (1)	9.6%	8.8%	8.4%	9.7%	8.9%
Cash flow/capital expenditure	1.21	1.24	1.35	1.47	1.52
Cash flow-dividends/capital expenditures	0.75	0.43	0.33	1.11	0.94
% debt in capital structure (1)	63.6%	66.4%	66.5%	64.7%	67.6%
Approved common equity	35%	35%	35%	35%	33%
Common dividend payout (before extras.)	73.2%	127.7%	158.0%	58.5%	86.3%
Coverage Ratios					
EBIT interest coverage (1)	1.89	1.88	1.95	2.00	1.94
EBITDA interest coverage (1)	2.61	2.55	2.64	2.84	2.70
Fixed-charges coverage (1)	1.89	1.84	1.90	1.95	1.90
Debt/EBITDA	5.40	5.93	5.95	5.50	5.85
Earnings Quality					
EBIT margin, excluding cost of natural gas	40.9%	41.7%	42.3%	42.0%	44.1%
Net margin (excluding preferred dividends)	15.2%	15.3%	13.8%	13.2%	13.8%
Return on avg. common equity (bef. extras.)	8.85%	8.93%	7.89%	7.8%	8.4%
Allowed ROE	8.47%*	8.62%	8.37%	8.80%	9.03%
Operating Statistics					
Customers/employees	n/a	758	750	679	671
Customer growth	n/a	1.1%	1.2%	1.3%	1.6%
Operating costs/avg. customer (CAD)	n/a	306	303	318	304
Rate base (CAD millions)	n/a	2,510	2,484	2,516	2,406
Rate base growth	n/a	1.0%	-1.3%	4.6%	4.2%

(1) Includes operating leases

* 8.47% for 2009

Operating Statistics

Throughput Volumes	For year ended December 31 2008	2007	2006	2005	2004
Residential	78.5	74.9	68.7	69.4	66.5
Commercial	44.1	42.3	38.4	39.1	38.3
Small industrial	3.1	3.4	3.8	4.2	4.9
Large industrial	0.1	0.2	0.2	0.3	0.4
Total Natural Gas Sales Volumes	125.8	120.8	111.1	113.0	110.1
Transportation service	57.3	62.3	62.3	63.9	0.0
Throughput under fixed-price contracts	39.6	36.8	36.8	36.4	0.0
Total Throughputs (PJs)	222.7	219.9	210.2	213.3	110.1
Customers					
Residential	750,838	742,882	733,598	723,898	712,304
Commercial	81,012	79,717	79,113	78,497	77,624
Small industrial	284	297	325	396	416
Large industrial	33	40	40	45	45
Transportation	2,059	2,041	1,956	1,907	1,741
Total (thousands)	834,226	824,977	815,032	804,743	792,130

Terasen Gas Inc.

Report Date:
May 27, 2009

Ratings

Debt Rated	Rating	Rating Action	Trend
Commercial Paper	R-1 (low)	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	table
MTNs & Unsecured Debentures	A	Confirmed	Stable

Rating History

Debt Rated	Current	2008	2007	2006	2005	2004
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Purchase Money Mortgages	A	A	A	A	A	A
MTNs & Unsecured Debentures	A	A	A	A	A	A

Note:
All figures are in Canadian dollars unless otherwise noted.

Credit Opinion: Terasen Gas Inc.

Terasen Gas Inc.

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A2
Senior Unsecured -Dom Curr	A3
Parent: Terasen Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
Subordinate -Dom Curr	Baa3

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Key Indicators

Terasen Gas Inc.

	[1]LTM	2008	2007	2006	2005	2004
ROE (%) [2]	4.2%	4.3%	8.1%	7.6%	7.8%	9.1%
EBIT/Customer Base (US$ MM) [3]	[4]229.4	$242.7	$257.4	$222.2	$226.5	$212.6
EBIT/Interest (x)	1.8x	1.8x	2.0x	2.0x	1.9x	2.0x
RCF/Debt (%)	6.7%	4.2%	2.5%	7.7%	5.7%	7.3%
Debt/Book Capitalization (Excluding Goodwill) (%)	61.0%	68.4%	66.8%	65.2%	68.7%	68.1%
FCF/FFO (%)	3.5%	-13.5%	-65.1%	55.7%	-63.7%	20.4%

[1] Last twelve months ending March 31,2009. [2] Return on Average Equity. [3] US$ EBIT/ Residential and Commercial Customers (excluding Industrials). [4] US$ LTM EBIT/ FYE 2008 Residential and Commercial Customers (excluding Industrials).

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Low-risk, cost of service regulated gas transmission and distribution utility with no unregulated operations.

Relatively weak credit metrics partially offset by a supportive regulatory environment.

Strong regulatory ring-fencing mechanisms.

Corporate Profile

Terasen Gas Inc. (TGI) is the largest distributor of natural gas in British Columbia and the third largest gas distribution utility in Canada. TGI is regulated on a cost of service basis by the British Columbia Utilities Commission (BCUC). It is a wholly-owned subsidiary of Terasen Inc. (TER) which is a wholly-owned subsidiary of Fortis Inc. (FTS), a diversified electric and gas utility holding company. TER is a holding company which also holds

100% of Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas (Whistler) Inc. (TGW) as well as a 30% interest in CustomerWorks, L.P.

SUMMARY RATING RATIONALE

The A3 senior unsecured rating and stable outlook of TGI reflects the utility's low-risk business model and supportive regulatory environment which partially offset TGI's weak credit metrics. Moody's recognizes that the weakness of TGI's financial metrics relative to similarly rated U.S. peers is largely a function of the relatively lower deemed equity and allowed ROE permitted by the BCUC. Moody's believes that TGI's weak financial profile is offset to a significant degree by the supportiveness of the business and regulatory environments in Canada generally and in British Columbia specifically. TGI's weak financial profile causes the indicated rating under Moody's Gas LDC Rating Methodology to be one notch lower than the company's actual rating. Moody's is concerned that the BCUC's formula driven ROE mechanism and the current low interest rate environment could further pressure TGI's financial profile and its A3 rating. Moody's will closely follow the progress of TGI's May 15, 2009 cost of capital application and its pending application for 2010 rates to determine their impact on TGI's financial profile. Regulatory ring-fencing mechanisms effectively insulate TGI from its weaker parent companies, TER and FTS. Growth in TGI's franchise area tends to be predictable and capital spending is not expected to tax the company's resources. TGI enjoys good access to the term debt markets and maintains alternate liquidity resources that are generally sufficient except when large debt maturities occur during the peak gas storage season. Scheduled debt maturities are relatively modest until 2016.

DETAILED RATING CONSIDERATIONS

LOW-RISK REGULATED GAS DISTRIBUTION UTILITY OPERATING IN A SUPPORTIVE ENVIRONMENT

In general, Moody's considers gas distribution utilities to be at the low end of the risk spectrum within the universe of both gas and electric regulated utilities. Similarly, we consider regulated utilities have lower business risk than companies that are outside of the utility space and do not benefit from cost of service regulation. Accordingly, Moody's considers regulated gas LDCs like TGI to be among the lowest risk corporate entities.

The company's location in British Columbia, which until recently enjoyed a relatively strong provincial economy and continues to enjoy a supportive regulatory climate, contributes to Moody's view of TGI as a relatively low-risk regulated gas distribution company. Moody's considers Canada to have more supportive regulatory and business environments relative to other jurisdictions globally. Furthermore, the regulatory environment in the Province of British Columbia is considered one of the most supportive in Canada reflecting the fact that regulatory proceedings tend to be less adversarial and decisions tend to be timely and balanced. The supportiveness of the regulatory environment is evidenced by the fact that TGI benefits from the existence of a number of regulatory deferral mechanisms. It is Moody's view that TGI's weaker metrics are partially offset by the supportive regulatory environment in which TGI operates. TGI has limited exposure to commodity price and volume risks, pension funding costs, insurance costs and interest rate volatility on short-term debt by operation of various BCUC-approved deferral mechanisms. These include the Commodity Cost Reconciliation Account (CCRA), Midstream Cost Reconciliation Account (MCRA) and the Revenue Stabilization Adjustment Mechanism (RSAM). In addition, on an annual basis TGI reviews its capital spending plans, and the rate impacts thereof, with the BCUC. In Moody's view this process substantially reduces the risk that TGI might be unable to fully recover its capital investments.

Growth in TGI's franchise area tends to be relatively predictable and capital spending is expected to remain relatively stable and modest in the context of TGI's asset base and depreciation expense. Moody's anticipates that TGI will be able to continue to finance capital spending with a prudent combination of internally generated funds and additional term debt.

LOW INTEREST RATES AND FORMULA DRIVEN ROE COULD PRESSURE FINANCIAL PROFILE AND EXISTING RATING

TGI's financial metrics are materially weaker than those of its A3 rated global LDC peers such as Piedmont Natural Gas Company, Inc., Northwest Natural Gas Company, Public Service Co. of North Carolina, UGI Utilities and its sister company, TGVI. Moody's recognizes that TGI's weaker financial metrics are largely a function of the relatively low deemed equity and allowed ROE generated by the BCUC's automatic ROE adjustment formula. In general, Canadian deemed equity ratios and allowed ROEs are low relative to those of other jurisdictions and TGI's are among the lowest in Canada.

Moody's rating methodology model for North American LDCs indicates a Baa1 rating for TGI which is one notch below the company's A3 senior unsecured rating assigned by Moody's rating committee. TGI's published rating exceeds the methodology-implied rating because Moody's rating committee places greater emphasis on the supportiveness of TGI's regulatory and business environments than the rating methodology does. However, the methodology-implied rating falls within the one to two notch band that Moody's rating methodologies aim to achieve.

However, in the context of the current low interest rate environment and weaker economy, Moody's is becoming concerned that TGI's credit metrics could deteriorate to levels that, despite the relative supportiveness of TGI's regulatory environment, are not commensurate with the company's existing A3 senior unsecured rating and therefore could lead to a negative rating action. Moody's notes that on May 15, 2009, TGI filed a cost of capital application with the BCUC seeking an 11% ROE on a 40% deemed equity thickness, a meaningful increase from the 8.47% ROE on a 35.01% equity base currently utilized for rate-making purposes. Moody's acknowledges that in the context of the National Energy Board's precedent setting March 19, 2009 decision in the Trans Québec and Maritimes Pipelines' rate cases, there is some reason to believe that TGI's cost of capital application could result in changes which would be positive for TGI's financial profile. Accordingly, Moody's will be following the progress of TGI's cost of capital application and its pending application for 2010 rates to determine their impact on TGI's financial profile.

Moody's notes that the improvement in TGI's debt to capitalization as at March 31, 2009 is due almost entirely to a change in Canadian GAAP and that the lower debt to capitalization ratio is not indicative of any improvement in TGI's fundamental financial condition. Effective January 1, 2009, Canadian GAAP requires regulated utilities to recognize deferred income tax liabilities and assets together with offsetting regulatory assets or liabilities.

STRONG REGULATORY RING-FENCING SEPARATES TGI FROM PARENT, TERASEN INC.

TGI is subject to a set of regulatory ring-fencing conditions originally imposed by the BCUC in 2005 and affirmed by the BCUC on FTS' acquisition of TER in May 2007 (refer to Moody's October 14, 2005 Comment on Proposed Regulatory Ring-Fencing Conditions). Moody's maintains the view that the BCUC ring-fencing provisions continue to preserve the financial integrity of TGI and effectively insulate it from the greater financial and business risks of its parents, TER and FTS. This, combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allows Moody's to evaluate TGI's credit profile substantially on a stand-alone basis. Relative to its peers, Moody's considers TGI's ring-fencing to be very good. The ring-fencing provisions require that TGI i) maintain equity/capital at least as high as the equity capitalization ratio deemed by the BCUC for ratemaking purposes (currently 35%); ii) refrain from extending loans or guarantees to affiliates; and iii) refrain from investing in or providing support to non-regulated businesses. The ring-fencing provisions also prohibit affiliate transactions on a non-arm's length basis, and restrict TGI's ability to make dividend payments which would cause its equity capitalization to fall below the level deemed by the BCUC for ratemaking purposes.

Liquidity Profile

TGI's liquidity is expected to be sufficient to meet its anticipated funding requirements in Moody's hypothetical liquidity stress scenario which assumes that a company loses access to new capital, other than amounts available under its committed credit facilities, for a period of 4 quarters.

TGI is expected to generate approximately $165 million of adjusted funds from operations (FFO) in the next 4 quarters. After dividends in the range of $60 million and capital expenditures and working capital changes of approximately $135 million, Moody's expects TGI to be free cash flow (FCF) negative by approximately $30 million. TGI has scheduled debt maturities of approximately $62 million during the four quarters ending March 31, 2010 resulting in a funding requirement of approximately $90 million. After the $60 million maturity in June 2009, TGI has no significant maturities until 2015.

TGI's $500 million syndicated committed revolving facility matures August 2013 and is available to support its $500 million commercial paper (CP) program and for general corporate purposes. This facility is extendible annually for an additional one year period subject to the agreement of the lenders. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement. Further, the syndicated credit agreement does not contain language such as Material Adverse Change (MAC) clauses or ratings triggers that would inhibit access to the unutilized portion of the facility in situations of financial stress.

Given availability of approximately $389 million under TGI's credit facility at March 31, 2009, TGI has more than sufficient resources to meet its anticipated funding requirement of approximately $90 million during the 12-month period ending March 31, 2010.

Although utilization of TGI's credit facility was limited to $111.5 million at March 31, 2009, during the peak gas storage season the financing of gas inventory can significantly reduce the unutilized portion of TGI's credit facility. Moody's recognizes that this strategy is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit TGI's exposure to short-term interest rate volatility. However, Moody's believes that TGI's financial flexibility can become somewhat constrained, particularly when material debt maturities fall within the peak storage season. This was the case prior to TGI's May 2008 MTN offering and left TGI dependent upon access to the capital markets to refinance the scheduled debt maturity.

Rating Outlook

The stable outlook is predicated on TGI's relatively low business risk as a regulated gas distribution utility and Moody's expectation that the regulatory ring-fencing will continue to insulate TGI from the higher financial and business risk of its parent entities, TER and FTS. However, Moody's believes that a strengthening of TGI's financial profile, which is weak relative to is A3 rated global LDC peers, would be supportive of TGI's current rating.

What Could Change the Rating - Up

Moody's considers an upward revision in TGI's rating to be unlikely in the near term due to its weak financial profile. However, the rating could be positively impacted if TGI could demonstrate expectations for a sustainable improvement in its credit metrics. At the A2, senior unsecured level, Moody's would expect TGI's ROE to exceed 10%, EBIT to Interest to approach 3.5x, RCF to Debt to approach 15%, Debt to Book Capitalization (Excluding Goodwill) to be below 65% and FCF to FFO to be in the range of -20% to -15%.

What Could Change the Rating - Down

Notwithstanding TGI's relatively low risk business profile, its financial profile is considered weak at the A3, senior unsecured rating level. In the context of a weak economy and a low interest rate environment any further sustained weakening of TGI's financial metrics, for instance ROE below 8%, EBIT to Interest below 2x, RCF to Debt below 5% and/or Debt to Book Capitalization (Excluding Goodwill) above 65%, would likely lead to a downgrade of TGI's rating.

Rating Factors

Terasen Gas Inc.

Rating Factors and Sub-Factors [1]	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**	**Caa**
Factor 1: Sustainable Profitability (20%)							
a) Return on Equity (15%) [2]				6.7%			
b) EBIT to Customer Base (5%) [3]			$245				
Factor 2: Regulatory Support (10%)							
a) Regulatory Support and Relationship		X					
Factor 3: Ring-Fencing (10%)							
a) Ring-Fencing		X					
Factor 4: Financial Strength and Flexibility (60%)							
a) EBIT/Interest (15%)					1.9x		
b) Retained Cash Flow/Debt (15%)						4.8%	
c) Debt to Book Capitalization (Excluding Goodwill) (15%)					66.8%		
d) Free Cash Flow/Funds from Operations (15%)		-7.7%					
Rating:							
a) Methodology Model Implied Senior Unsecured Rating			**Baa1**				
b) Actual Senior Unsecured Equivalent Rating			**A3**				

[1] Three year average (2006-2008) [2] Return on Average Equity [3] US$ EBIT/ Residential and Commercial Customers (excluding Industrials)

Rating Report

Report Date:
July 22, 2010

Previous Report
May 27, 2009

DBRS

Insight beyond the rating.

Terasen Gas Inc.

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The Company

Terasen Gas Inc. (TGI or the Company) is the largest natural gas distributor in British Columbia, serving approximately 840,000 customers, representing 90% of the province's natural gas users. The Company is 100% owned by Terasen Inc. (rated BBB (high)), which is a wholly owned subsidiary of Fortis Inc. (rated BBB (high)). The ratings assigned to TGI are based predominantly on a stand-alone basis.

Rating

Debt	Rating	Rating Action	Trend
Commercial Paper	R-1 (low)	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	Stable
MTNs & Unsecured Debentures	A	Confirmed	Stable

Rating Update

DBRS has confirmed the Purchase Money Mortgages and the MTNs & Unsecured Debentures ratings of Terasen Gas Inc. (TGI or the Company) at "A" and its Commercial Paper rating at R-1 (low), all with Stable trends. The rating confirmations reflect TGI's low business risk natural gas distribution operations; a favourable regulatory environment, with strong ring-fencing provisions; a strong franchise area, with a large customer base; and a modestly improved financial profile.

In late 2009, TGI executed a negotiated settlement that established rates for 2010 and 2011. The settlement excluded the performance-based rate (PBR) mechanism, under which the Company had operated for the 2004 to 2009 period. The PBR had allowed TGI the opportunity to share earnings above the allowed return on equity (ROE) with customers on a 50/50 basis and had been beneficial to TGI as it had provided more than $11 million per year in earnings, on average, in 2008 and 2009. While the loss of this PBR income would have negatively affected TGI's financial results, this was largely offset by an improvement in regulatory allowed ROE (to 9.50% from the 8.43% that would otherwise have been in effect) and equity thickness (from 35.01% to 40%). The regulatory environment also continues to provide for a number of cost-recovery mechanisms that, when combined with the general rate-setting methodology, allow for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame.

The Company's credit metrics have historically remained consistent and are expected to continue to do so, with a modest lift from the recent regulatory changes. With the increases in approved ROE and equity thickness, partially offset by the loss of PBR, DBRS estimates an increase in the EBIT coverage metric of approximately 0.25 times and an increase of approximately 150 basis points in cash flow-to-debt over recent historicals. However, TGI's coverage metrics are expected to remain moderately lower than those of similarly rated gas distribution companies, even factoring in the improvements, a differential DBRS views as being offset by the Company's more stable credit metrics and business risk profile. (Continued on page 2.)

Rating Considerations

Strengths

(1) Low business risk and supportive regulatory framework
(2) Strong regulatory ring-fencing provisions
(3) Reasonable balance sheet and stable credit metrics
(4) Strong franchise area, with a large customer base

Challenges

(1) Long-term competitiveness of natural gas relative to alternative energy sources
(2) Volume exposure in the industrial and transportation segment
(3) ROE levels and loss of PBR incentive earnings

Financial Information

	For the 12-mos. ended Mar. 31/10	For the year ended December 31 2009	2008	2007	2006	2005
EBIT interest coverage (1)	2.1	1.9	1.9	1.9	2.0	1.9
% debt in capital structure (1)	59.9%	66.4%	66.4%	66.5%	64.7%	67.6%
Cash flow/total debt (times) (1)	11.7%	9.8%	8.8%	8.4%	9.7%	8.9%
Cash flow/capital expenditures (times)	1.3	1.2	1.2	1.3	1.5	1.5
Net income bef. extras (CAD millions)	102	87	78	70	68	70
Operating cash flow (CAD millions)	184	170	152	146	160	157

(1) Includes operating leases

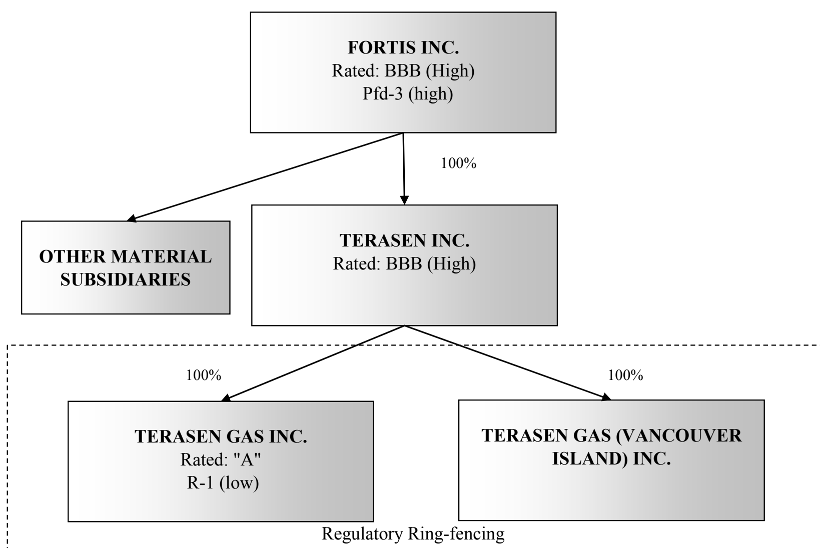
Rating Update (Continued from page 1.)

Minimal to modest free cash flow deficits are expected over the medium term, attributable to the replacement and refurbishment of existing infrastructure (which is expected to go into the rate base in a timely manner) and modest customer growth. Any deficits would be expected to be financed with a combination of the $500 million revolving bank facility ($414 million available at March 31, 2010) and long-term debt issuance. TGI's balance sheet is expected to remain stable over the medium term as the Company is expected to manage its dividends to maintain its capital structure within the recently revised regulatory-approved debt-to-equity ratio of 60%-to-40%.

DBRS expects the lower customer growth trend to continue, with fewer new housing starts and a shift in the housing mix to more multi-family dwellings. TGI is expected to focus on retaining customers through expanded energy conservation and efficiency programs.

The Company continues to maintain a price advantage relative to electricity, the primary competitor to natural gas. The current weaker gas pricing environment both improves TGI's competitiveness and reduces working capital and liquidity requirements. TGI's financial strength and credit profile over the longer term will depend to some extent on the continued competitiveness of natural gas relative to alternative energy sources (mainly electricity).

Simplified TGI Ownership and Rating Chart



Rating Considerations Details

Strengths

(1) TGI benefits from having all its operations in a low-risk, stable regulated environment within a supportive regulatory framework. TGI operates under a full cost-of-service recovery regime, with deferral accounts existing to stabilize earnings and to adjust for the recovery/refund of shortfalls/overages of natural gas costs from/to customers. TGI has no exposure to commodity costs (subject to a recovery lag) as natural gas costs are fully passed on to customers, with quarterly adjustments.

(2) Regulatory ring-fencing conditions imposed on TGI in the 2007 British Columbia Utilities Commission (BCUC) order approving acquisition of Terasen Inc. by Fortis Inc. are viewed as positive for TGI's credit profile, offering protection from significant changes in its capital structure.

(3) TGI has historically maintained a stable balance sheet and credit metrics, with some modest improvement attributable to recent regulatory changes. While the EBIT coverage and cash flow-to-debt ratios have improved and are expected to remain at more modestly favourable levels, they remain on the lower end for an "A" rating compared with its gas distribution peers. However, DBRS remains comfortable with TGI's rating given the inherent stability its credit metrics have shown over time.

(4) TGI serves a large customer base of approximately 840,000, located in a stable franchise area that includes the city of Vancouver. The customer mix is favourable, with residential and commercial customers accounting for 90% of distribution revenues. There is no volume risk (but recovery lag exists) associated with this customer segment.

Challenges
(1) TGI's earnings and financial profile over the longer term will largely depend on the competitive position of natural gas relative to alternative energy sources (mainly electricity) in British Columbia. Despite the significant increases in natural gas prices through 2008, natural gas continued to maintain a competitive advantage over electricity in terms of pricing. While gas prices have since retreated, it is expected that under reasonable gas price assumptions, TGI will remain competitive relative to electricity, with electricity prices expected to rise gradually in the medium term, according to British Columbia Hydro & Power Authority (BC Hydro).

(2) The Company is exposed to variances from forecasts when it comes to its industrial fixed-price contracts and transportation-services segments, which represent approximately 45% of throughput volumes (5% of revenues). However, this exposure is mitigated by the fact that their usage is less likely to be significantly affected by weather and is therefore more predictable. TGI conducts an annual survey of its industrial customer segment to minimize forecast variances in throughput volumes. Further mitigating this risk is the fixed demand charges derived from this segment.

(3) Although the BCUC terminated the automatic ROE adjustment formula and set the approved level at 9.50% (effective July 1, 2009), it had been below 9% for the prior three years, negatively affecting earnings and cash flows. With use of the adjustment formula having been terminated, there is uncertainty as to how ROE levels will be determined in the medium and longer term; the BCUC has directed TGI to investigate alternative mechanisms. Additionally, under the prior PBR, TGI shared earnings above or below the allowed ROE on a 50/50 basis with customers. The loss of this is expected to largely offset the credit metric upside of the ROE increase as TGI's incentive earnings averaged more than $11 million per year in 2008 and 2009.

Regulation

Regulatory Overview
TGI is regulated by the BCUC on a test-year forecast basis under a rate-of-return/cost-of-service regime. TGI applies to the BCUC for approval of rates to recover its forecast cost-of-service. TGI's cost of service includes the cost of purchased gas and the cost of gas transportation and distribution through the pipeline system, including operating, maintenance and administrative expenses (OM&A); depreciation of facilities; interest; income and other taxes; and ROE.

TGI purchases gas for resale, without markup, to residential and commercial customers; transportation customers and some large commercial and industrial customers arrange for their own gas supply and contract with TGI for the transportation of that gas. TGI's rates are based on estimates of several items, such as natural gas sales volumes, cost of natural gas and interest rates. In order to manage the risks associated with some of these estimates, a number of regulatory deferral accounts are in place.

- **Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account:** The differences between actual and forecast gas costs are recorded in these deferral accounts to be recovered or refunded in future rates. This exposes TGI to a recovery lag (the balances are anticipated to be fully recovered or refunded within the next fiscal year), but price adjustments are made on a quarterly basis to better reflect prevailing gas commodity prices. This mitigates the impact of recovery lag.

- **Revenue Stabilization Adjustment Account (RSAM):** The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in the forecast versus actual customer use throughout the year. The RSAM account is anticipated to be recovered in rates over three years (for comparison, in Ontario, gas distribution companies are exposed to volume risk, which can be significant due to changes in the weather). Variances in usage by large-volume industrial transportation and sales customers, which account for 45% of total throughput, are not covered by this deferral account. However, their usage is more predictable and less likely to be significantly affected by weather.
- TGI also has short- and long-term interest rate deferral accounts to absorb interest rate fluctuations.

Under the PBR, which was in effect from 2004 to 2009, operating and maintenance costs and base-capital expenditures were subject to an incentive formula that reflected increasing costs as a result of customer growth and inflation less a productivity factor. The PBR provided for a 50/50 sharing mechanism of earnings above or below the allowed ROE. However, in 2009, a negotiated settlement was reached that established TGI's rates for 2010 and 2011; PBR ended in 2009 and is not part of the negotiated settlement, which allows for the incorporation into rates of changes to the BCUC-determined levels of ROE and common equity.

Allowed ROE had been set annually according to a formula based on a forecast of 30-year Canada Bonds plus a 3.90% risk premium when the forecast yield is 5.25%. The risk premium was adjusted annually by 75% of the difference between 5.25% and the forecast yield. The common equity component of the capital structure was set at 35.01%. However, in 2009, TGI filed a BCUC application requesting an increase in the common equity component and a higher return on equity. In its decision, the BCUC determined that the ROE adjustment mechanism would no longer apply and that an ROE of 9.50% would be in effect from July 1, 2009, until amended; the BCUC directed TGI to complete a study of alternative mechanisms and report back by the end of 2010.

TGI's common equity component was also increased from 35.01% to 40%, effective January 1, 2010; TGI received a $125 million equity injection early in January 2010 to bring its capital structure into alignment with this revision. Forecast capital expenditures are also approved by the BCUC.

Regulatory Ring-Fencing

A summary of the regulatory ring-fencing conditions in the April 30, 2007, BCUC order imposed on TGI approving the Fortis Inc. acquisition of Terasen Inc. is as follows:

- TGI must maintain the equity in the capital structure at least at the deemed equity level approved by the BCUC (now 40%).
- TGI must obtain approval from the BCUC before paying dividends to its parent if the paying of dividends can be reasonably expected to increase leverage above the approved level.
- The Company will not be allowed to lend to, guarantee or financially support any affiliates of Terasen Inc. or its non-regulated businesses.
- TGI will not be allowed to enter a tax-sharing agreement with any of its affiliates unless the agreement has been approved by the BCUC.
- TGI must maintain the continued independence of directors.

Terasen Gas Inc.

Report Date:
July 22, 2010

Earnings and Outlook

Consolidated Earnings

(CAD millions)	For the 12-mos. ended Mar. 31/10	For the year ended December 31 2009	2008	2007	2006	2005
Net revenues	550	526	513	507	517	505
EBITDA	319	297	292	293	301	302
EBIT	233	214	214	215	217	222
Gross interest expense	107	109	111	108	106	112
Pre-tax income	126	106	103	108	112	111
Income taxes	25	19	25	38	44	42
Net income (before extras)	102	87	78	70	68	70
Net income	102	87	92	78	68	65
Return on avg. common equity (bef. extras.)	10.4%	9.9%	8.9%	7.9%	7.8%	8.4%
EBIT margin (net of gas costs)	42.3%	40.7%	41.7%	42.3%	42.0%	44.1%
Rate Base*	2,542	2,547	2,510	2,484	2,516	2,406
Approved common equity	40.00%	35.01%	35.01%	35.01%	35.01%	33.00%
Allowed ROE**	9.50%	8.47%	8.62%	8.37%	8.80%	9.03%

* $2,542 million for 2010. ** 8.47% for first six months of 2009, 9.50% for second six months

Summary

TGI has historically demonstrated very stable levels of EBITDA and EBIT, reflective of modest net additions to its customer base, increases in its rate base and a stable approved equity component, all largely offset by declining allowed ROE levels. Earnings volatility is further reduced due to the customer breakdown, with residential and commercial customers providing the majority of its margin and industrial customers normally under contract. Much of the recent modest improvement in earnings is attributable to the recent BCUC decision to increase both the common equity component and the approved ROE. Growth in multi-family housing continues to have an impact on net additions as natural gas is less prevalent in this type of dwelling.

The gas distribution segment (residential and commercial customers) has historically accounted for more than 50% of total throughput volumes and 90% of total revenues. Throughputs for this segment exhibit stability, and any volume risk is mitigated as shortfalls/overages in volume revenues are deferred and recovered/refunded through future rates.

The transportation segment and industrial customers under fixed-price contracts have historically accounted for approximately 50% of total throughput volumes and less than 10% of total revenues. Although transportation and industrial customer segments are exposed to volume risk, it is mitigated by the fact that their usage is less likely to be significantly affected by weather and is therefore more predictable. Further mitigating this risk is the fixed demand charges derived from these segments. Interest expense has been relatively stable over the past five years due to fairly consistent levels of total debt.

Outlook

DBRS expects earnings to continue at their modestly higher levels due to the impact of the higher equity component and approved ROE, modestly offset by the negative impact of the loss of incentive earnings upon expiry of the PBR mechanism. Over the medium term, as a mature gas distribution utility, TGI is expected to have relatively stable earnings, with some variability due to allowed ROE, population growth, new housing starts and customer conversions.

Over the longer term, earnings will largely depend on the competitiveness of natural gas relative to electricity in British Columbia. While TGI has maintained a competitive advantage in terms of pricing compared with electricity, its competitive position would weaken should gas prices increase significantly for a prolonged period of time, potentially having a negative impact on TGI’s financial and credit profile. The competitiveness of natural gas will also be affected by the provincial consumption tax on carbon-based fuels.

Terasen Gas Inc.

Report Date:
July 22, 2010

Financial Profile

(CAD millions)	For the 12-mos. ended Mar. 31/10	For year ended Dec. 31 2009	2008	2007	2006	2005
Net income before extraordinary items	102	87	78	70	68	70
Depreciaton & amortization	86	83	78	79	84	79
Other non-cash adjustments	(4)	0	(5)	(3)	8	8
Cash Flow From Operations	184	170	152	146	160	157
Capital expenditures	(140)	(139)	(122)	(108)	(109)	(103)
Common dividends	(75)	(67)	(100)	(111)	(40)	(60)
Free Cash Flow Before W/C Changes	(30)	(36)	(70)	(73)	12	(7)
Working capital changes	(10)	16	33	(28)	83	(45)
Net Free Cash Flow	(40)	(20)	(37)	(101)	95	(51)
Acquisitions/divestitures	0	0	14	0	0	(42)
Other adjustment/comprehensive	(13)	7	36	11	(7)	(2)
Cash flow before financing	(53)	(13)	13	(90)	88	(95)
Net change in debt financing	(86)	6	(5)	89	(98)	109
Net change in pref. share financing	0	0	0	0	0	0
Net change in equity financing	125	0	0	0	0	0
Net Change in Cash	(13)	(7)	8	(1)	(9)	14
Total adjusted debt (CAD million) (1)	1,573	1,737	1,730	1,744	1,655	1,763
Cash flow/total debt (times) (1)	11.7%	9.8%	8.8%	8.4%	9.7%	8.9%
% debt in the capital structure (1)	60%	66%	66%	67%	65%	68%
EBIT interest coverage (times)	2.1	1.9	1.9	1.9	2.0	1.9
Dividend payout ratio (%)	74%	77%	128%	158%	58%	86%

(1) Includes operating leases

Summary

TGI has maintained stable cash flow from operations, which historically has been largely adequate to fund both capital expenditure and dividend payments. The recent uptick is attributable to the recent regulatory changes to ROE and equity thickness. The level of dividends is expected to continue to maintain TGI's capital structure in line with BCUC-approved levels. TGI has received a $125 million equity injection to bring its capital structure in line with the BCUC's decision to increase the common equity component to 40%. Proceeds were largely used to reduce debt.

As part of the ring-fencing condition, TGI is prohibited from paying dividends unless it has in place at least as much equity as required by the BCUC for rate-making purposes (now 40%). Leverage has thus improved to 60%, with a commensurate modest improvement in coverage metrics expected. The stability of TGI's coverage metrics continues to be a key factor in its ratings.

Outlook

Minimal to modest free cash flow deficits are expected over the medium term, attributable to the replacement and refurbishment of existing infrastructure and modest customer growth. Any deficits are expected to be financed with a combination of TGI's $500 million revolving bank facility ($414 million available at March 31, 2010) and long-term debt issuance. DBRS expects the capital expenditure to be approximately $150 million (before customer contributions) annually over the medium term, with maintenance capital expenditure expected to account for approximately 70% to 80% of the total.

TGI's financial profile should remain relatively stable over the medium term as the Company is expected to manage its dividends to maintain its capital structure within the recently approved 60%-to-40% debt-to-equity ratio. With the recent regulatory changes, DBRS estimates the following improvements: cash flow-to-total debt to move from its historic 8% to 10% range to approximately 10% to 12% and EBIT-to-interest to remain greater than 2.0 times. Longer term, under reasonable gas and electricity price assumptions, it is expected that TGI will remain competitive relative to alternative energy sources.

Long-Term Debt Maturities and Liquidity

As at Mar. 31, 2010 (CAD millions)	2010	2011	2012	2013	2014	Thereafter	Total
Long-Term Debt	2	2	2	2	2	1,447	1,456

TGI has a five-year, $500 million unsecured committed revolving credit facility with a syndicate of banks that matures in August 2013; $414 million was unutilized at March 31, 2010. The credit facility is primarily used to support TGI's $500 million commercial paper (CP) program and working capital requirements, which vary to a large extent with seasonal gas inventory levels. Gas inventory levels and working capital requirements typically peak in the fall and winter seasons, with reductions in the spring and summer. The debt-repayment schedule is negligible in the near term.

TGI's bond indenture contains an EBIT-to-interest coverage test in order to issue additional indebtedness. EBIT for 12 consecutive months out of the previous 23 months must be at least 2.0 times its annual pro forma interest requirements for debt that has a maturity term longer than 18 months.

Terasen Gas Inc.

Report Date:
July 22, 2010

Terasen Gas Inc.

Balance Sheet
(CAD millions)

Assets	Mar. 31/10	2009	2008	**Liabilities & Equity**	Mar. 31/10	2009	2008
		As at December 31				As at December 31	
Cash	4	6	13	Short-term debt	40	204	239
Accounts receivable	268	277	346	L.t.d. due in one year	2	2	62
Inventories	108	149	192	A/P	360	337	366
Prepaid expenses	2	23	3	Tax payables	41	42	66
Rate stabilization accts	146	69	54	Rate stabilization acct.	2	12	24
Current Assets	528	524	608	**Current Liabilities**	446	597	755
Net fixed assets	2,429	2,489	2,432	Long-term debt	1,441	1,440	1,340
Rate stabilization accts	0	0	0	Deferred credits	163	173	138
Deferred charges	0	0	0	Deferred taxes	275	276	1
Long-term rec. + investments	420	355	69	Shareholders' equity	1,051	881	875
Total	3,377	3,368	3,109	**Total**	3,377	3,368	3,109

Ratio Analysis	For the 12-mos.	For the year ended December 31				
Liquidity Ratios	ended Mar. 31/10	2009	2008	2007	2006	2005
Current ratio	1.18	0.88	0.80	0.66	0.65	0.74
Accumulated depreciation/gross fixed assets	na	24.1%	23.8%	23.4%	23.5%	21.9%
Cash flow/total debt (1)	11.7%	9.8%	8.8%	8.4%	9.7%	8.9%
Cash flow/capital expenditure	1.32	1.22	1.24	1.35	1.47	1.52
Cash flow-dividends/capital expenditures	0.78	0.74	0.43	0.33	1.11	0.94
% debt in capital structure (1)	59.9%	66.4%	66.4%	66.5%	64.7%	67.6%
Approved common equity	40.00%	35.01%	35.01%	35.01%	35.01%	33.00%
Common dividend payout (before extras.)	73.8%	77.4%	127.7%	158.0%	58.5%	86.3%
Coverage Ratios						
EBIT interest coverage (1)	2.1	1.9	1.9	1.9	2.0	1.9
EBITDA interest coverage (1)	2.9	2.6	2.6	2.6	2.8	2.7
Fixed-charges coverage (1)	2.1	1.9	1.8	1.9	2.0	1.9
Debt/EBITDA	4.9	5.9	5.9	6.0	5.5	5.8
Earnings Quality						
EBIT margin, excluding cost of natural gas	42.3%	40.7%	41.7%	42.3%	42.0%	44.1%
Net margin (excluding preferred dividends)	18.5%	16.5%	15.3%	13.8%	13.2%	13.8%
Return on avg. common equity (bef. extras.)	10.41%	9.87%	8.93%	7.89%	7.8%	8.4%
Allowed ROE *	9.50%	8.47%	8.62%	8.37%	8.80%	9.03%
Operating Statistics						
Customer growth	n/a	0.6%	1.1%	1.2%	1.3%	1.6%
Operating costs/avg. customer (CAD)	321	316	306	303	318	304
Rate base (CAD millions)	2,542	2,547	2,510	2,484	2,516	2,406
Rate base growth	-0.2%	1.5%	1.0%	-1.3%	4.6%	4.2%

(1) Includes operating leases

* 8.47% for first six months of 2009, 9.50% for second six months

Operating Statistics

	For year ended December 31				
Throughput Volumes	2009	2008	2007	2006	2005
Residential	72.7	78.5	74.9	68.7	69.4
Commercial	42.4	44.1	42.3	38.4	39.1
Small industrial	3.0	3.1	3.4	3.8	4.2
Large industrial	0.2	0.1	0.2	0.2	0.3
Total Natural Gas Sales Volumes	118.3	125.8	120.8	111.1	113.0
Transportation service	54.0	57.3	62.3	62.3	63.9
Throughput under fixed-price contracts	36.0	39.6	36.8	36.8	36.4
Total Throughputs (PJs)	208.3	222.7	219.9	210.2	213.3
Customers					
Residential	755,660	750,838	742,882	733,598	723,898
Commercial	81,274	81,012	79,717	79,113	78,497
Small industrial	251	284	297	325	396
Large industrial	31	33	40	40	45
Transportation	2,078	2,059	2,041	1,956	1,907
Total (thousands)	839,294	834,226	824,977	815,032	804,743

Terasen Gas Inc.

Report Date:
July 22, 2010

Ratings

Debt Rated	Rating	Rating Action	Trend
Commercial Paper	R-1 (low)	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	Stable
MTNs & Unsecured Debentures	A	Confirmed	Stable

Rating History

Debt Rated	Current	2009	2008	2007	2006	2005
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Purchase Money Mortgages	A	A	A	A	A	A
MTNs & Unsecured Debentures	A	A	A	A	A	A

Related Research

- Recent Regulatory Developments for Canadian Pipeline and Utility Companies, February 10, 2010.

Note:
All figures are in Canadian dollars unless otherwise noted.

MOODY'S
INVESTORS SERVICE

Credit Opinion: Terasen Gas Inc.

Global Credit Research - 28 May 2010

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
Parent: Terasen Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
Subordinate -Dom Curr	Baa3
Terasen Gas (Vancouver Island) Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3

Contacts

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Key Indicators

[1]**Terasen Gas Inc.**

	[2]LTM	2009	2008	2007	2006	2005
(CFO Pre-WC + Interest) / Interest Expense	2.7x	2.6x	2.5x	2.4x	2.5x	2.4x
(CFO Pre-WC) / Debt	12.2%	10.3%	9.8%	8.8%	10.1%	9.0%
(CFO Pre-WC - Dividends) / Debt	7.6%	6.5%	4.2%	2.5%	7.7%	5.7%
Debt / Book Capitalization	55.9%	61.7%	68.4%	66.8%	65.2%	68.7%

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments
[2] Last twelve months ended March 31, 2010

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Low-risk, cost of service regulated gas transmission and distribution utility with no unregulated operations.

Relatively weak financial metrics partially offset by a supportive regulatory environment.

Strong regulatory ring-fencing mechanisms.

Corporate Profile

Terasen Gas Inc. (TGI) is the largest distributor of natural gas in British Columbia and the third largest gas distribution utility in Canada. TGI is regulated on a cost of service basis by the British Columbia Utilities Commission (BCUC).

TGI is a wholly-owned subsidiary of Terasen Inc. (TER) which, in turn, is a wholly-owned subsidiary of Fortis Inc. (FTS), a diversified electric and gas utility holding company. TER is a holding company which also holds 100% of Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas (Whistler) Inc. (TGW) as well as a 30% interest in CustomerWorks, L.P.

SUMMARY RATING RATIONALE

TGI's A3 senior unsecured rating and stable outlook reflect its low-risk business model and supportive regulatory environment which partially offset its weak financial metrics. Moody's recognizes that the weakness of TGI's financial metrics relative to similarly rated U.S. peers is largely a function of the relatively lower deemed equity and allowed ROE permitted by the BCUC. We believe that TGI's weak financial profile is offset to a significant degree by the supportiveness of the business and regulatory environments in Canada generally and in British Columbia specifically.

TGI's financial profile is expected to strengthen modestly in 2010 due to the BCUC's December 2009 cost of capital decision which increased TGI's allowed ROE to 9.5% and its deemed equity to 40%. Regulatory ring-fencing mechanisms effectively insulate TGI from its weaker parent companies, TER and FTS. Growth in TGI's franchise area tends to be predictable and capital spending is not expected to tax the company's resources. TGI enjoys good access to the term debt markets and maintains liquidity resources that are sufficient.

TGI's A3 rating is consistent with the A3 rating implied by our Regulated Electric and Gas Utility Rating Methodology.

DETAILED RATING CONSIDERATIONS

LOW-RISK REGULATED GAS DISTRIBUTION UTILITY OPERATING IN A SUPPORTIVE ENVIRONMENT

In general, we consider gas local distribution companies (LDC) to be at the low end of the risk spectrum within the universe of regulated utilities. Similarly, we believe that regulated utilities, which are permitted the opportunity to recover their costs and earn an allowed return, have lower business risk than unregulated companies that do not benefit from cost of service regulation. Accordingly, we consider regulated gas LDCs like TGI to be among the lowest risk corporate entities.

The company's location in British Columbia, which until recently enjoyed a relatively strong provincial economy and continues to enjoy a supportive regulatory climate, contributes to our view of TGI as a relatively low-risk regulated gas distribution company. We consider Canada to have more supportive regulatory and business environments than other jurisdictions globally. Furthermore, the regulatory environment in the Province of British Columbia is considered one of the most supportive in Canada reflecting the fact that regulatory proceedings tend to be less adversarial and decisions tend to be timely and balanced. The supportiveness of the British Columbia regulatory environment is also evidenced by the fact that TGI benefits from the existence of a number of BCUC-approved deferral, or true up, mechanisms. These mechanisms limit TGI's exposure to forecast error with respect to commodity price and volume, pension funding costs, insurance costs and short-term interest rates. In addition, on an annual basis TGI reviews its capital spending plans, and the rate impacts thereof, with the BCUC. In our view, this process substantially reduces the risk that TGI might be unable to fully recover its capital investments. In our view, these factors more than offset the fact that deemed equity thicknesses and allowed ROEs in Canada tend to be lower than those in the U.S.

Growth in TGI's franchise area tends to be relatively predictable and capital spending is generally stable and modest in the context of TGI's asset base and depreciation expense. That said, we expect capital spending to be higher in 2010 and 2011 than it has been in recent years. This reflects certain non-recurring or infrequently occuring projects such as the development of a new customer care system and the upgrading of a major river crossing. Notwithstanding higher capital spending in 2010 and 2011, we anticipate that TGI will continue to finance capital spending with a prudent combination of internally generated funds and additional term debt.

FINANCIAL METRICS EXPECTED TO STRENGTHEN MODESTLY IN 2010

TGI's financial metrics are materially weaker than those of its A3 rated global gas utility peers such as Piedmont Natural Gas Company, Inc., Northwest Natural Gas Company, UGI Utilities and its sister company, TGVI. We recognize that TGI's weaker financial metrics are largely a function of the deemed equity and allowed ROE approved by the BCUC. In general, Canadian deemed equity ratios and allowed ROEs are low relative to those of other jurisdictions and historically TGI's were among the lowest in Canada.

However, the BCUC's December 2009 cost of capital decision is expected to have a small positive impact on TGI's financial metrics. In that decision, TGI's allowed ROE was increased to 9.5% from 8.47% retroactive to July 1, 2009 and its deemed equity percentage was increased to 40% from 35.01% effective January 1, 2010. In order to bring TGI's actual capital structure in line with the new 40% deemed equity level, TGI raised $125 million of common equity from its ultimate parent, FTS, in January 2010. We anticipate that these changes will cause CFO pre-WC + Interest / Interest (Cash Flow Interest Coverage) to be in the upper 2x range going forward versus the mid 2x range in recent years. Similarly, we anticipate CFO pre-WC / Debt will exceed 10% in the future versus its sub-10% level in the past few years.

The improvement in TGI's debt to capitalization as at March 31, 2010 also reflects the change in Canadian GAAP that took effect January 1, 2009 and requires regulated utilities to recognize deferred income tax liabilities. This had the effect of increasing capitalization and therefore reducing debt to capitalization since we include deferred taxes in capitalization.

Despite the increase in TGI's allowed ROE to 9.5% and deemed equity to 40%, these levels remain lower than those of U.S. gas LDCs which typically have allowed ROEs of 10% or more and deemed equity in the 50% range.

STRONG REGULATORY RING-FENCING SEPARATES TGI FROM PARENT, TERASEN INC.

We believe that TGI's ring-fencing is very good relative to that of its peers outside of British Columbia. TGI is subject to a set of regulatory ring-fencing conditions imposed by the BCUC. The ring-fencing conditions provide that, unless otherwise approved by the BCUC, TGI shall: maintain a ratio of common equity to total capital at least as high as the deemed equity capitalization utilized by the BCUC for ratemaking purposes (currently 40%); not pay dividends if they would cause TGI's common equity to total capital to fall below the BCUC's deemed equity percentage; not invest in or financially support non-regulated business; and not engage in affiliate transactions on anything other than an arm's length basis. We believe that the BCUC ring-fencing provisions effectively insulate TGI from the greater financial and business risks of its parents, TER and FTS. The regulatory ring-fencing provisions, combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allow Moody's to evaluate TGI's credit profile on a stand-alone basis.

Liquidity Profile

TGI's liquidity is expected to be sufficient to meet its anticipated funding requirements. Availability under TGI's credit agreement at March 31, 2010 was $414 million which exceeds our $120 million estimate of the company's funding requirement for the subsequent four quarters.

TGI's $500 million syndicated committed revolving facility matures August 2013 and is available to support its $500 million commercial paper (CP) program and for general corporate purposes. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement. Further, the syndicated credit agreement does not contain language such as Material Adverse Change (MAC) clauses or ratings triggers that would inhibit access to the unutilized portion of the facility in situations of financial stress.

TGI is expected to generate approximately $190 million of adjusted funds from operations (FFO) in the next 4 quarters. After dividends in the range of $85 million and capital expenditures and working capital changes of approximately $225 million, Moody's expects TGI to be free cash flow (FCF) negative by approximately $120 million. TGI has no material scheduled debt maturities during the four quarters ending June 30, 2011 resulting in a funding requirement of approximately $120 million.

Although utilization of TGI's credit facility was limited to roughly $86 million at March 31, 2010, during the peak gas storage season the financing of gas inventory can significantly reduce the unutilized portion of TGI's credit facility. For instance, at the end of the third quarter of 2008, availability under TGI's $500 million credit facility was only about $175 million. We recognize that TGI's reliance on short-term debt to finance gas inventories is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit TGI's exposure to short-term interest rate volatility. However, we believe that TGI's financial flexibility can become somewhat constrained, particularly when material debt maturities fall within the peak storage season. However, this is not a concern in the near term as TGI's next significant debt maturity occurs in September 2015.

Rating Outlook

The stable outlook is predicated on TGI's low business risk as a regulated gas distribution utility, our expectation that TGI's regulatory environment will continue to be supportive and our belief that TGI's financial profile will improve modestly in 2010.

What Could Change the Rating - Up

We consider an upward revision in TGI's rating to be unlikely in the near term due to its relatively weak financial profile. However, the rating could be positively impacted if TGI could demonstrate a sustainable improvement in its credit metrics. All else being equal, at the A2 senior unsecured level, Moody's would expect TGI's Cash Flow Interest Coverage to exceed 4x and CFO pre-WC / Debt to be above 19%.

What Could Change the Rating - Down

Notwithstanding TGI's relatively low risk business profile, its financial profile is considered weak at the A3, senior unsecured rating level. Accordingly, a sustained weakening of TGI's Cash Flow Interest Coverage below 2.3x and CFO pre-WC / Debt below 8% combined with a less supportive and predictable regulatory framework would likely result in a downgrade of TGI's rating. This could occur if gas were to lose its competitive advantage over electricity in British Columbia due Provincial policies favouring non-carbon emitting energy sources or other factors.

Rating Factors

Terasen Gas Inc.

Regulated Electric and Gas Utilities Rating Methodology	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)		X				
Factor 2: Ability to Recover Costs and Earn Returns (25%)			X			
Factor 3: Diversification (10%)						
a) Market Position (10%)			X			
b) Generation and Fuel Diversity (0%)			n/a			
Factor 4: Financial Strength, Liquidity & Financial Metrics (40%)						
a) Liquidity (10%)			X			
b) CFO pre-WC + Interest / Interest (7.5%)					2.5x	
c) CFO pre-WC / Debt (7.5%)					9.6%	
d) CFO pre-WC - Dividends / Debt (7.5%)					4.4%	
e) Debt / Capitalization or Debt / RAV (7.5%)						65.6%
Rating:						
a) Methodology Implied Senior Unsecured Rating			**A3**			
b) Actual Senior Unsecured Rating			**A3**			

Rating Report

Report Date:
September 19, 2011

Previous Report
July 22, 2010

FortisBC Energy Inc.

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The Company
FortisBC Energy Inc. (FEI or the Company) is the largest natural gas distributor in British Columbia (B.C. or the Province, rated AA (high)), serving approximately 846,000 customers and representing approximately 90% of the province's natural gas users. The Company is 100% owned by FortisBC Holdings Inc. (FHI, rated BBB (high)), which is a wholly-owned subsidiary of Fortis Inc. (FTS, rated A (low)).

Commercial Paper Limit
$500 million

Recent Actions
September 16, 2011
Confirmed

March 1, 2011
Name Change

Rating

Debt	Rating	Rating Action	Trend
MTNs & Unsecured Debentures	A	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Rationale

On September 16, 2011, DBRS confirmed the MTNs & Unsecured Debentures and Purchase Money Mortgages ratings of FortisBC Energy Inc. (FEI or the Company, formerly known as Terasen Gas Inc.) at "A", and its Commercial Paper rating at R-1 (low). The trends are Stable. The ratings reflect FEI's low business risk operations within a stable regulatory environment and franchise area, strong ring-fencing provisions, as well as its relatively sound financial profile and credit metrics compared with peers. The ratings also reflect the Company's relatively low allowed ROE, loss of performance-based rate (PBR) incentive earnings, ongoing exposure to volume risk from its industrial and transportation segments and the continued challenge of natural gas' long-term competitiveness vis-à-vis alternative energy sources.

FEI, FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW) are expected to file an application in the Fall of 2011 to amalgamate the three utility subsidiaries under FortisBC Holdings Inc. (FHI, rated BBB (high)). The amalgamation will require the British Columbia Utilities Commission's (BCUC) approval and the Government of British Columbia's consent to proceed. At this time, DBRS anticipates that the potential amalgamation and associated rate harmonization will likely be credit neutral to FEI provided that there are no material changes that will negatively affect its deemed capital structure, allowed ROE or fundamental low-risk business model. DBRS notes that FEI's current contribution to FHI's overall earnings is approximately 75% and anticipates that the bulk of the amalgamated entity's earnings will continue to be derived from FEI. Should the potential amalgamation proceed, DBRS may re-examine any impacts to FEI and the consolidated utility's credit profile as a result of changes to the capital structure or ROE. (Continued on page 2.)

Rating Considerations

Strengths
(1) Low business risk operations within a stable regulatory environment
(2) Strong regulatory ring-fencing provisions
(3) Stable financial profile and credit metrics
(4) Strong franchise area, with a predictable customer base

Challenges
(1) ROE level and loss of performance-based rate (PBR) incentive earnings
(2) Volume exposure in the industrial and transportation segments
(3) Long-term competitiveness of natural gas relative to alternative energy sources

Financial Information

	LTM Jun. 30th	*For the year ended December 31st*				
	2011	**2010**	**2009**	**2008**	**2007**	**2006**
EBIT Interest Coverage[(1)]	1.9x	2.1x	1.9x	1.9x	1.9x	2.0x
% Debt in Capital Structure[(1)]	60.1%	62.6%	66.4%	66.5%	66.4%	64.8%
Cash Flow/Total Debt[(1)]	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
Cash Flow/CapEx	1.1x	1.1x	1.2x	1.4x	1.3x	1.5x
Net Income before Extra. (C$ millions)	74	93	87	92	70	68
Operating Cash Flow (C$ millions)	176	177	170	166	146	160

[(1)] Includes operating leases

FortisBC Energy Inc.

Report Date:
September 19, 2011

Rating Rationale (Continued from page 1.)

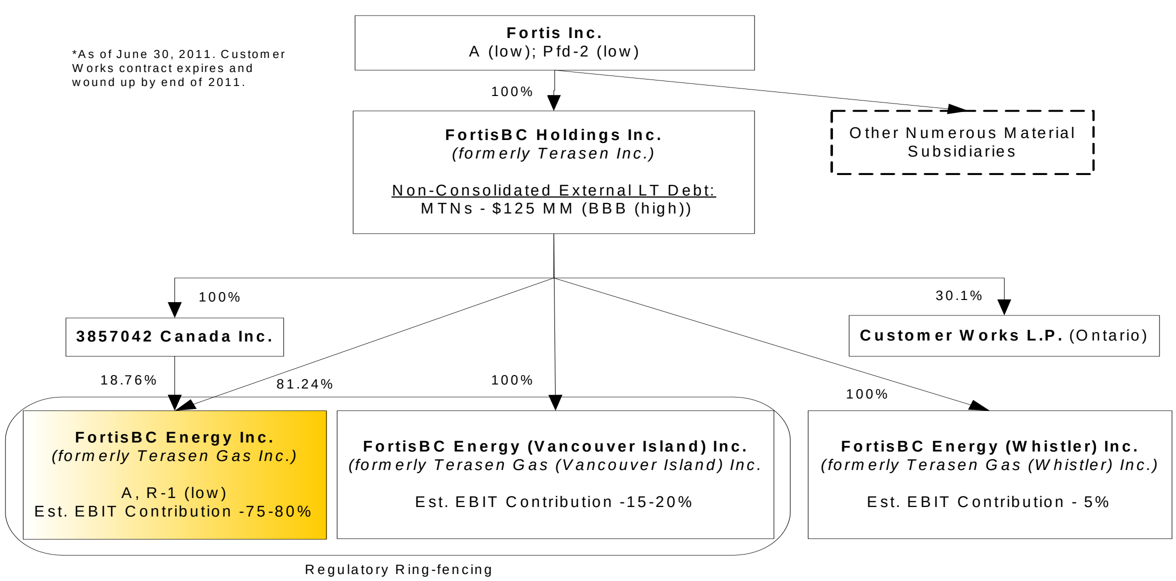
The regulatory environment in which FEI operates continues to provide for a number of cost-recovery mechanisms that, when combined with the general rate-setting methodology, allow for a full recovery of all prudently incurred operating expenses and capital expenditures within a reasonable time frame. In July 2011, the BCUC approved FEI's December 2010 application to provide fuelling station infrastructure and services but denied the Company's request for a general tariff for the provision of natural gas for vehicles unless certain contractual conditions are met. Earlier in May 2011, FEI filed its 2012-2013 Revenue Requirements and Delivery Rate Application (RRA) in which the Company forecasted a rate increase of approximately 2.8% to 3.0% based on an average rate base of roughly $2,740 million to $2,900 million. The outcome is anticipated in the first quarter of 2012.

FEI's operating performance and credit metrics have historically been stable and are expected to continue to remain consistent. Additionally, due to increases in both the approved ROE and equity thickness as a result of regulatory changes in 2009, DBRS anticipates a continued modest lift in the Company's EBIT coverage and cash flow-to-debt metrics, despite the loss of PBR-related earnings. Despite these increases, FEI's key metrics are expected to remain moderately lower than those of similarly rated gas distribution companies, however, DBRS believes that FEI's relatively weaker financial profile is offset by the predictable, low-risk business profile of the Company's business.

The Company is expected to continue to generate minimal-to-modest free cash flow deficits over the medium term due to the need to replace and refurbish existing infrastructure (which is expected to go into the rate base in a timely manner) and respond to modest customer growth. DBRS expects that FEI will continue to finance any deficits with a combination of bank debt, long-term debt issuances and dividend management.

The Company, in conjunction with its holding company, FHI, and its ultimate parent, Fortis Inc. (FTS, rated A (low)), intends to transition to U.S. GAAP, as opposed to IFRS, in January 2012. The BCUC has approved FEI's request to adopt U.S. GAAP to be used for regulatory reporting purposes from January 1, 2012 to December 31, 2014 but has directed the Company to re-apply by September 1, 2014 for approval of its regulatory accounting standard effective January 1, 2015. DBRS anticipates that any impact to the Company's cash flow and cash-flow metrics upon successful conversion of accounting standards will be de minimis.

Simplified Organization Chart*



Rating Considerations Details

Strengths

(1) FEI's low-risk regulated operations are located in a stable regulatory environment which allows the Company to generate predictable earnings and cash flow to sustain and grow its business. Moreover, FEI operates under a full cost-of-service recovery framework and utilizes deferral accounts which further stabilizes earnings and enables the Company to adjust for the recovery/refund of any shortfalls/overages of natural gas costs from/to customers. FEI is not exposed to commodity costs (subject to a degree of recovery lag) as natural gas costs are fully passed on to customers, with quarterly adjustments.

(2) The regulatory ring-fencing imposed by the BCUC on FEI as a condition of the acquisition of FHI by FTS requires, among other conditions: (1) maintenance of the BCUC-approved capital structure; (2) no common dividend payment without BCUC approval if the payment would violate the first condition; (3) no financial support or guarantees for its non-regulated businesses or affiliates; and (4) no transactions with affiliates that would violate BCUC guidelines, policies or directives. The intent of the BCUC decision is to ensure that public interest is protected and that FEI, along with FEVI, will continue to operate as separate, stand-alone entities without undue parental influence.

(3) FEI has historically maintained a stable balance sheet and credit metrics, with some modest improvement attributable to the regulatory changes in 2009. While the EBIT coverage and cash flow-to-debt ratios have improved and are expected to remain at more modestly favourable levels, they remain on the lower end for an A rating compared with its gas distribution peers. However, DBRS remains comfortable with FEI's rating given the inherent low risk nature of its business, and the stability its credit metrics have shown over time.

(4) FEI serves a customer base of approximately 846,000, located in a stable franchise area that includes the City of Vancouver. The customer mix is comprised mainly of residential and commercial customers, which account for roughly 90% of the Company's distribution revenue. Although, there is no volume risk (although there is a degree of recovery lag) associated with these customer segments, DBRS expects the customer growth trend to continue to decline, with fewer new housing starts and a shift in the housing mix to more multi-family dwellings. FEI is expected to focus on retaining customers through expanded energy conservation and efficiency programs in order to offset the growth trend.

Challenges

(1) FEI's earnings and financial profile over the longer term will largely depend on the competitive position of natural gas relative to alternative energy sources (electricity as the primary competitor) in British Columbia. Despite the significant increases in natural gas prices through 2008, natural gas continued to maintain a competitive advantage over electricity in terms of pricing. While gas prices have since retreated, it is expected that under reasonable gas price assumptions, FEI will remain competitive relative to electricity, with electricity prices expected to rise gradually in the medium term, according to British Columbia Hydro & Power Authority (BC Hydro). This current pricing environment improves both FEI's competitiveness and reduces its working capital and liquidity requirements.

(2) The Company is exposed to forecast variances related to its industrial fixed-price contracts and transportation-services segments, which represent approximately 45% of throughput volumes and 5% of revenues but are not eligible for inclusion in the revenue stabilization deferral account. However, this volume risk is mitigated by the fact that usage by these segments is less likely to be significantly affected by weather and is therefore more predictable. FEI also annually surveys its industrial customer segment to minimize forecast variances in throughput volumes. Further mitigating this risk are the fixed demand charges derived from this segment.

(3) In 2009, the BCUC terminated the automatic ROE adjustment formula and set the approved level at 9.50%, however, the ROE had been below 9% for the prior three years, negatively affecting earnings and cash flows. Additionally, under the prior PBR mechanism, FEI shared earnings above or below the allowed ROE on a 50/50 basis with customers. The loss of PBR earnings has largely offset the credit positive impact of the ROE increase.

Regulation

Regulatory Overview

The Company is located in the Province of British Columbia (B.C. or the Province, rated AA (high)) and is regulated by the BCUC on a test-year forecast basis under a rate-of-return/cost-of-service methodology. Under this system, the Company must apply to the BCUC for approval to recover its forecasted cost-of-service from customers through rates. Typically, FEI's cost of service includes the cost of purchased gas, transportation and distribution, operating, maintenance and administrative expenses (OM&A), depreciation of facilities, interests, income, and other taxes and ROE. Accordingly, FEI's rates are based on estimates of items such as natural gas sales volumes, the cost of natural gas and interest rates.

In order to manage the forecast risks associated with these estimates, the Company employs a number of regulatory deferral accounts to mitigate potential impacts:

- **Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA):** Any differences between actual and forecast gas costs are recorded in these deferral accounts to be recovered or refunded in future rates. Consequently, FEI is minimally exposed to recovery lag since balances are expected to be fully recovered or refunded within the next fiscal year, however, prices are adjusted on a quarterly basis to better reflect prevailing gas commodity prices thereby mitigating the impact of recovery lag.
- **Revenue Stabilization Adjustment Account (RSAM):** The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in forecast versus actual customer use throughout the year and subsequently recovered in rates over three years. The RSAM stabilizes revenues from residential and commercial customers but variances by large-volume industrial transportation and sales customers, which account for 45% of FEI's total throughput, are not included in this deferral account. However, FEI's exposure to volume risk is mitigated by the predictability in usage of these customer segments that are also less likely to be significantly affected by weather.
- FEI also utilizes short- and long-term interest rate deferral accounts to assist in absorbing the impact of interest rate fluctuations.

FEI is presently operating under a Negotiated Settlement Agreement (NSA) that allows changes to the BCUC-determined ROE (set at 9.50% for 2011) and common equity levels (set at 40.00% for 2011) to be incorporated into rates. Established in late 2009 when the BCUC determined that the ROE adjustment mechanism under which FEI operated no longer applied, the NSA set FEI's rates for 2010 and 2011 but does not include the PBR mechanism that was in effect from 2004 to 2009. Previously under the PBR, the Company's O&M costs as well as base-capital expenditures were subject to an incentive formula that reflected increasing costs due to customer growth and inflation, less a productivity factor.

The PBR had provided for a 50/50 sharing mechanism of earnings above or below the allowed ROE that was set annually according to a formula based on a forecast of 30-year Canada Bonds plus a 3.90% risk premium when the forecast yield is 5.25%. The risk premium was adjusted annually by 75% of the difference between 5.25% and the forecast yield. The common equity component of the capital structure was set at 35.01%; the BCUC has since increase FEI's equity level to 40.00% and the Company received a $125 million equity injection in January 2010 to align its capital structure with this revision. While the loss of the PBR income would have negatively affected FEI's financial results, this was largely offset by an improvement in regulatory allowed ROE (to 9.50% from the 8.43% that would otherwise have been in effect) and equity thickness (from 35.01% to 40%).

Regulatory Ring-Fencing

The regulatory ring-fencing imposed by the BCUC as a condition of the acquisition of FEI by FTS in April 2007 (a continuation of the ring fencing imposed upon acquisition of the former Terasen Inc. by KMI in December 2005) is intended to ensure that public interest is protected and that FEI and FEVI will continue to operate as separate, stand-alone entities without undue parental influence.

Earnings and Outlook

Consolidated Income Statement

(C$ millions)	*LTM Jun. 30th* 2011	*For the year ended December 31st* 2010	2009	2008	2007	2006
Net Revenue	566	572	526	513	507	517
EBITDA	296	317	297	292	293	301
EBIT	207	226	214	214	215	217
Gross Interest Expense	106	104	109	111	108	106
Pre-tax Income	103	123	106	103	108	112
Income Tax	29	30	19	12	38	44
Core Net Income (before Extra.)	74	93	87	92	70	68
Net Income	74	93	87	92	78	68
Return on Avg. Common Eq. (before Extra.	7.2%	9.8%	9.9%	10.4%	7.9%	7.8%
EBIT Margin (Net of Gas Costs)	36.5%	39.4%	40.7%	41.7%	42.3%	42.0%
Rate Base	2,634	2,540	2,547	2,510	2,484	2,516
Approved common equity	40.00%	40.00%	35.01%	35.01%	35.01%	35.00%
Allowed ROE*	9.50%	9.50%	8.99%	8.62%	8.37%	8.80%

* 8.47% for first six months of 2009, 9.50% for second six months

Summary

Much of the recent modest improvement in FEI's earnings is attributable to the 2009 BCUC decision to increase both the Company's common equity component and approved ROE. Notwithstanding these increases, FEI's earnings continue to remain relatively predictable due to the Company's core segment of residential and commercial customers that comprise the majority of its margin while its industrial customers are typically under contract and are less susceptible to the weather. Moreover, FEI continues to maintain very stable EBITDA and EBIT levels that are reflective of modest net additions to its customer base, increases in its rate base and an established approved equity component, all largely offset by relatively low allowed ROE levels.

Historically, FEI's gas distribution segment has accounted for more than 50% of total throughput volumes and roughly 90% of total revenues. Throughputs for this segment exhibit stability, and any volume risk is mitigated as shortfalls/overages in volume revenues are deferred and recovered/refunded through future rates. However, the growth in multi-family housing continues to negatively impact net customer additions as the use of natural gas is less prevalent within these dwellings.

FEI's transportation segment and industrial customers under fixed-price contracts have historically accounted for approximately 50% of FEI's total throughput volumes and less than 10% of total revenues. Although these segments expose the Company to a degree of volume risk, the exposure is mitigated by the fact that their usage is less likely to be significantly affected by weather and is therefore more predictable. Further mitigating this risk is the fixed demand charges derived from these segments. Interest expense has been relatively stable over the past five years due to fairly consistent levels of total debt.

Outlook

The Company's earnings are anticipated to continue at their modestly higher levels due to the impact of the higher equity component and approved ROE, offset by the negative impact of the loss of incentive earnings upon expiry of the PBR mechanism. DBRS expects that over the medium term, as typical of a mature gas distribution utility, FEI will continue to generate relatively stable earnings, with some variability related to allowed ROE, population growth, new housing starts and customer conversions.

Over the longer term, FEI's earnings will largely depend on the competitiveness of natural gas relative to electricity in British Columbia. While FEI has maintained a competitive advantage in terms of pricing compared with electricity, its competitive position may weaken should gas prices increase significantly for a prolonged period of time, potentially negatively impacting FEI's financial and credit profile. The competitiveness of natural gas may also be affected by the provincial consumption tax on carbon-based fuels.

Financial Profile

Cash Flow Statement

(C$ millions)	LTM Jun. 30th 2011	For the year ended December 31st 2010	2009	2008	2007	2006
Net Income (before Extra.)	92	93	87	92	70	68
Depreciation & Amortization	89	91	83	78	79	84
Other Non-cash Adjustments	(4)	(7)	0	(4)	(3)	8
Operating Cash Flow	176	177	170	166	146	160
CapEx	(161)	(157)	(139)	(123)	(108)	(109)
Common Dividends	(82)	(84)	(67)	(100)	(111)	(40)
Free Cash Flow Before W/C Changes	(67)	(64)	(36)	(57)	(73)	12
Working Captial Changes	56	(15)	16	33	(28)	83
Net Free Cash Flow	(11)	(79)	(20)	(24)	(101)	95
Acquisitions/Divestitures	0	0	0	14	0	0
Other adjustment/comprehensive	0	0	0	14	0	0
Cash Flow Before Financing	176	177	170	166	146	160
Net Change in Debt Financing	(0)	(24)	6	(5)	89	(98)
Net change in Pref. Share Financing	0	0	0	0	0	0
Net Equity in Financing	0	125	0	0	0	0
Net Change in Cash	1	9	(7)	8	(1)	(9)
Total Adjusted Debt (C$ million)(1)	1,576.0	1,713.3	1,738.9	1,734.4	1,738.6	1,657.6
Cash Flow/Total Debt(1)	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
% Debt in Capital Structure(1)	60.1%	62.6%	66.4%	66.5%	66.4%	64.8%
EBIT Interest Coverage(1)	1.9	2.1	1.9	1.9	1.9	2.0
Dividend Payout Ratio	111.0%	90.1%	76.8%	109.3%	158.0%	58.5%

(1) Includes operating leases

Summary

As with FEI's earnings, the recent modest increase in the Company's stable cash flow from operations is attributable to the regulatory increases to the ROE and equity thickness in 2009. Dividends will continue to be maintained in line with FEI's BCUC-approved capital structure as, pursuant to the BCUC-imposed ring-fencing conditions, FEI is prohibited from paying dividends unless it has in place at least as much equity as required by the BCUC for rate-making purposes.

Key cash-flow metrics remain moderately lower than those of similarly rated gas distribution peers, however, DBRS believes that FEI's relatively weaker financial profile is offset by the predictable, low-risk business profile of the Company's business and notes that the stability of FEI's coverage metrics continues to be a key factor in its ratings.

Outlook

Historically, FEI's financial profile has been stable and is expected to remain relatively consistent over the medium term, with a continued modest lift in the Company's cash flow-to-debt metrics as a result of the regulatory changes in 2009 and despite the loss of PBR-related earnings. The Company is expected to continue to generate minimal-to-modest free cash flow deficits over the medium term due to the need to replace and refurbish existing infrastructure (which is expected to go into the rate base in a timely manner) and respond to modest customer growth. Capital expenditures are expected to be approximately $180 million annually over the short- to medium-term and DBRS expects that any deficits are to be financed with a combination of the Company's $500 million revolving bank facility ($411.8 million of which was available at June 30, 2011) and long-term debt issuances.

Long term, DBRS believes that, under current reasonable gas and electricity price assumptions, FEI will remain competitive relative to alternative energy sources and anticipates that any impact to the Company's cash flow and cash-flow metrics upon successful conversion of accounting standards will be de minimis. Moreover, DBRS anticipates that the planned amalgamation and associated rate harmonization of FEI, FEVI and FEW will not impact the credit profile of FEI provided that the there are no material changes to the consolidated utility that will negatively affect its deemed capital structure, allowed ROE or fundamental low-risk business model.

Long-Term Debt and Liquidity

DBRS views FEI's liquidity as sufficient for its funding requirements. The Company's $500 million, five-year unsecured committed revolving credit facility with a syndicate of banks matures in August 2013 and $411.8 million was unutilized as at June 30, 2011. The credit facility is primarily used to support FEI's $500 million commercial paper (CP) program and working capital requirements, which vary to a large extent with seasonal gas inventory levels. Typically, gas inventory levels and working capital requirements peak in the fall and winter seasons and decline in the spring and summer.

FEI's debt-repayment schedule is negligible in the near term:

As at June 30, 2011

(C$ millions)	2011	2012	2013	2014	2015	Thereafter	Total
Long-Term Debt	2.6	2.6	2.6	2.6	77.5	1,370.0	1,457.9

DBRS notes that FEI's bond indenture contains an EBIT-to-interest coverage test that must be observed in order for the Company to issue additional indebtedness. To allow FEI to issue debt with a maturity term longer than 18 months, EBIT for the 12 consecutive months out of the previous 23 months must be at least 2.0 times its annual pro forma interest.

FortisBC Energy Inc.

Report Date:
September 19, 2011

FortisBC Energy Inc.

(Consolidated)

Balance Sheet

(C$ millions)	As at Jun. 30th	As at the year ended Dec. 31st		
Assets	**2011**	**2010**	**2009**	**2008**
Cash	9	15	6	13
Accounts Receivable	231	298	277	346
Inventories	80	136	149	192
Prepaid Expenses & Other	14	11	23	3
Rate Stabilization Accounts	61	96	69	54
Current Assets	395	557	524	608
Net Fixed Assets	2,476	2,466	2,423	2,357
Rate Stabilization Accounts	0	0	0	0
Deferred Charges	0	0	0	40
Long-Term Investments	492	461	423	104
Total	3,364	3,484	3,370	3,109

	As at Jun. 30th	As at the year ended Dec. 31st		
Liabilities & Equity	**2011**	**2010**	**2009**	**2008**
Short-term Debt	40	178	204	239
Long-term Debt Due within 1 Year	3	3	2	62
Accounts Payable	280	358	337	366
Tax Payable	65	37	42	66
Rate Stabilization Accounts	33	4	12	24
Other LT Liabilities & Deferred Credits	5	12	0	0
Current Liabilities	427	591	597	755
Long-Term Debt	1,444	1,442	1,440	1,340
Deferred Credits	167	149	181	138
Deferred Taxes	282	280	271	1
Common Equity	1,044	1,023	881	875
Total	3,364	3,484	3,370	3,109

Ratio Analysis	*LTM Mar. 31st*	*For the year ended December 31st*				
	2011	**2010**	**2009**	**2008**	**2007**	**2006**
Liquidity Ratios						
Current Ratio	0.93x	0.94x	0.88x	0.80x	0.65x	0.65x
Accum. Depr./Gross Fixed Assets	N/A	25.4%	24.2%	23.4%	23.4%	23.5%
Cash Flow/Total Debt(1)	11.2%	10.3%	9.8%	9.6%	8.4%	9.7%
Cash Flow/CapEx	1.09x	1.13x	1.22x	1.35x	1.35x	1.47x
Cash Flow-Dividend/CapEx	0.58x	0.59x	0.74x	0.54x	0.33x	1.11x
Debt in Capital Structure(1)	60.1%	62.6%	66.4%	66.5%	66.4%	64.8%
Approved common equity	40.00%	40.00%	35.01%	35.01%	35.01%	35.00%
Common Div. Payout (before Extra.)	111.0%	90.1%	76.8%	109.3%	158.0%	58.5%
Coverage Ratios						
EBIT/Interest Expense(1)	1.9x	2.1x	1.9x	1.9x	1.9x	2.0x
EBITDA/Interest Expense(1)	2.7x	2.9x	2.6x	2.5x	2.6x	2.8x
Fixed-Charge Coverage(1)	1.9x	2.1x	1.9x	1.8x	1.9x	1.9x
Debt/EBITDA	5.3x	5.4x	5.9x	5.9x	5.9x	5.5x
Profitability Ratios						
EBIT Margin, excl. Cost of Gas	36.5%	39.4%	40.7%	41.7%	42.3%	42.0%
Net Margin excl. Preferred Dividends	13.1%	16.3%	16.5%	17.9%	13.8%	13.2%
Return on Avg. Equity (before Prefs)	7.2%	9.8%	9.9%	10.4%	7.9%	7.8%
Allowed ROE(2)	9.50%	9.50%	8.99%	8.62%	8.37%	8.80%
Operating Statistics						
Customer Growth	N/A	0.8%	0.6%	1.1%	1.2%	1.3%
Op. Costs/Avg. Customer (C$ millions)	731	353	316	306	303	318
Rate Base (C$ millions)	2,634	2,540	2,547	2,510	2,484	2,516
Rate Base Growth	N/A	-0.3%	1.5%	1.0%	-1.3%	4.6%

(1) Includes operating leases

(2) 8.47% for first six months of 2009, 9.50% for second six months

FortisBC Energy Inc.

Report Date:
September 19, 2011

Operating Statistics	*For the year ended December 31st*				
	2010	**2009**	**2008**	**2007**	**2006**
Throughput Volumes					
Residential	65.2	72.7	78.5	74.9	68.7
Commercial	38.8	42.4	44.1	42.3	38.4
Small industrial	2.6	3.0	3.1	3.4	3.8
Large industrial	0.1	0.2	0.1	0.2	0.2
Total Natural Gas Sales Volumes	106.7	118.3	125.8	120.8	111.1
Transportation Service	54.9	54.0	57.3	62.3	62.3
Throughput Under Fixed-price Contracts	33.0	36.0	39.6	36.8	36.8
Total Throughputs (PJs)	194.6	208.3	222.7	219.9	210.2
Customers					
Residential	762,496	755,660	750,838	742,882	733,598
Commercial	81,366	81,274	81,012	79,717	79,113
Small industrial	236	251	284	297	325
Large industrial	25	31	33	40	40
Transportation	2,111	2,075	2,059	2,041	1,956
Total (thousands)*	846,234	839,291	834,226	824,977	815,032

* Increase in throughput volume for F2007 reflects the amalgamation of Terasen Gas (Squamish) Inc. with TGI

FortisBC Energy Inc.

Report Date:
September 19, 2011

Ratings

Debt	Rating	Rating Action	Trend
MTNs & Unsecured Debentures	A	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating History

Debt Rated	Current	2010	2009	2008	2007	2006
MTNs & Unsecured Debentures	A	A	A	A	A	A
Purchase Money Mortgages	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Related Research

- FortisBC Holdings Inc., Rating Report, September 19, 2011.

Notes:
All figures are in Canadian dollars unless otherwise noted.

MOODY'S
INVESTORS SERVICE

Credit Opinion: FortisBC Energy Inc.

Global Credit Research - 21 Jul 2011

Vancouver, British Columbia, Canada

Ratings

Category	**Moody's Rating**
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
Parent: FortisBC Holdings Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
FortisBC Energy (Vancouver Island) Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3

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Key Indicators

[1]**FortisBC Energy Inc.**

	[2]**LTM**	**2010**	**2009**	**2008**	**2007**	**2006**
(CFO Pre-W/C + Interest) / Interest Expense	**2.7x**	**2.7x**	**2.6x**	**2.5x**	**2.4x**	**2.5x**
(CFO Pre-W/C) / Debt	**11.3%**	**10.6%**	**10.2%**	**9.8%**	**8.8%**	**10.1%**
(CFO Pre-W/C - Dividends) / Debt	**5.4%**	**5.9%**	**6.5%**	**4.2%**	**2.5%**	**7.7%**
Debt / Book Capitalization	**57.3%**	**59.1%**	**61.8%**	**68.4%**	**66.8%**	**65.2%**

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items. [2] Last twelve months ended March 31, 2011

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Low-risk, cost-of-service regulated gas transmission and distribution utility

Weak financial metrics balanced by a supportive regulatory environment

Strong regulatory ring-fencing mechanisms insulate company from its weaker parent

Sufficient liquidity resources

Corporate Profile

FortisBC Energy Inc. (FEI) is the largest distributor of natural gas in British Columbia and one of the largest gas local distribution companies (LDC) in Canada. FEI is regulated on a cost-of-service basis by the British Columbia Utilities Commission (BCUC).

FEI is a wholly-owned subsidiary of FortisBC Holdings Inc. (FHI) which, in turn, is a wholly-owned subsidiary of Fortis Inc. (FTS, not rated), a diversified electric and gas utility holding company. FHI is a holding company which also holds 100% of FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW) as well as a 30% interest in CustomerWorks, L.P.

SUMMARY RATING RATIONALE

FEI's A3 senior unsecured rating and stable outlook reflect its low-risk LDC business model and supportive regulatory environment which are balanced by its weak financial metrics. We recognize that the weakness of FEI's financial metrics relative to similarly rated U.S. peers is largely a function of the relatively lower deemed equity and allowed ROE permitted by the BCUC. We believe that FEI's weak financial profile is balanced by its relatively low business risk as a gas LDC and the by the supportiveness of the business and regulatory environments in Canada generally and in British Columbia specifically. We expect FEI's financial profile to strengthen modestly in 2012 and 2013. Regulatory ring-fencing mechanisms effectively insulate FEI from its weaker parent companies, FHI and FTS. Growth in FEI's franchise area tends to be predictable and capital spending is not expected to tax the company's resources. FEI maintains sufficient liquidity resources.

DETAILED RATING CONSIDERATIONS

LOW-RISK REGULATED GAS DISTRIBUTION UTILITY OPERATING IN A SUPPORTIVE ENVIRONMENT

In general, we consider gas LDCs to be at the low end of the risk spectrum within the universe of regulated utilities. Similarly, we believe that regulated utilities, which are permitted the opportunity to recover their costs and earn an allowed return, have lower business risk than unregulated companies that do not benefit from cost of service regulation. Accordingly, we consider regulated gas LDCs like FEI to be among the lowest risk corporate entities.

We consider Canada to have more supportive regulatory and business environments than other jurisdictions globally. Furthermore, the regulatory environment in the Province of British Columbia (BC) is considered one of the most supportive in Canada reflecting the fact that regulatory proceedings in BC tend to be less adversarial than those in other jurisdictions and decisions tend to be timely and balanced. The supportiveness of the BC regulatory environment is also evidenced by the fact that FEI benefits from the existence of a number of BCUC-approved deferral, or true up, mechanisms. These mechanisms limit FEI's exposure to forecast error with respect to commodity price and volume, pension funding costs, insurance costs and short-term interest rates. In addition, FEI is required to obtain a certificate of public convenience and necessity (CPCN) from the BCUC prior to undertaking any capital project in excess of $5 million. In our view, this process reduces the risk that FEI would be denied the opportunity to recover the cost of its capital investments. We believe these qualitative factors balance FEI's weak financial profile.

Growth in FEI's franchise area tends to be relatively predictable and capital spending is generally stable and modest in the context of FEI's asset base and depreciation expense. That said, we expect capital spending to be higher in 2011 than it has been in recent years. This reflects certain non-recurring or infrequently occurring projects such as the development of a new customer care system and the upgrading of a major river crossing. Notwithstanding higher capital spending in 2011, we anticipate that FEI will continue to finance its capital spending with a prudent combination of internally generated funds, additional term debt and equity injections from FTS as required.

FINANCIAL METRICS EXPECTED TO STRENGTHEN MODESTLY IN 2012 and 2013

FEI's financial metrics are materially weaker than those of its A3 rated global gas utility peers such as Piedmont Natural Gas Company, Inc., Northwest Natural Gas Company, UGI Utilities and its sister company, FEVI. We recognize that FEI's weaker financial metrics are largely a function of the deemed equity and allowed ROE approved by the BCUC. In general, Canadian deemed equity ratios and allowed ROEs are low relative to those of other jurisdictions.

We expect FEI's cash flow to increase in 2012 and 2103 due to higher levels of non-cash depreciation and amortization expense that will be collected in revenues. The largest driver of the higher depreciation will be FEI's customer care enhancement project which is slated to be placed into service in 2012. We anticipate that these changes will cause CFO pre-WC + Interest / Interest (Cash Flow Interest Coverage) to approach 3x in 2012 and 2013 versus the mid 2x range in recent years. Similarly, we anticipate CFO pre-WC / Debt will exceed 10% in the future versus its approximately 10% level in the past few years.

POTENTIAL AMALGAMATION OF FEI, FEVI AND FEW LIKELY CREDIT NEUTRAL

FEI has indicated that during 2011 it intends to apply to the BCUC to amalgamate FEI, FEVI and FEW and harmonize rates across the amalgamated utility. In an amalgamation scenario, the senior unsecured debt of FEI and FEVI would rank pari passu and be supported by the combined cash flow of the amalgamated utility. While the timing and outcome of the planned amalgamation application are unknown at this time, we expect that amalgamation and rate harmonization would be credit neutral to FEI provided that there are no reductions in deemed equity levels or allowed ROE or increases in the fundamental business risks borne by the amalgamated utility.

STRONG REGULATORY RING-FENCING INSULATES FEI FROM PARENT, FHI

We believe that FEI's ring-fencing is very good relative to that of its peers outside of BC. FEI is subject to a set of regulatory ring-fencing conditions imposed by the BCUC. The ring-fencing conditions provide that, unless otherwise approved by the BCUC, FEI shall: maintain a ratio of common equity to total capital at least as high as the deemed equity capitalization utilized by the BCUC for ratemaking purposes (currently 40%); not pay dividends if they would cause FEI's common equity to total capital to fall below the BCUC's deemed equity percentage; not invest in or financially support any non-regulated business; and not engage in affiliate transactions on anything other than an arm's length basis. We believe that the BCUC ring-fencing provisions effectively insulate FEI from the greater financial and business risks of its parents, FHI and FTS. The regulatory ring-fencing provisions, combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allow us to evaluate FEI's credit profile on a stand-alone basis.

Liquidity Profile

We expect FEI's liquidity will be sufficient to meet its funding requirements over the next four quarters.

We expect FEI to generate approximately $215 million of CFO pre-WC during the 12 months ending June 30, 2012. After dividends in the range of $85 million and capital expenditures and working capital changes of approximately $255 million, we expect FEI to be free cash flow (FCF) negative by approximately $125 million. FEI has no material scheduled debt maturities during the twelve months ending June 30, 2012 resulting in a funding requirement of approximately $125 million.

We estimate availability under FEI's credit agreement to be roughly $380 million which exceeds our $125 million estimate of the company's funding requirement.

FEI's $500 million syndicated committed revolving facility matures August 2013 and is available to support its $500 million commercial paper (CP) program and for general corporate purposes. The company is currently well below the debt to total capitalization ratio covenant (maximum

75%) in the credit agreement. Further, the syndicated credit agreement does not contain language such as Material Adverse Change (MAC) clauses or ratings triggers that would inhibit access to the unutilized portion of the facility in situations of financial stress.

Although utilization of FEI's credit facility was limited to roughly $134 million at March 31, 2011, during the peak gas storage season the financing of gas inventory can significantly reduce the unutilized portion of FEI's credit facility. For instance, at the end of the third quarter of 2008, availability under FEI's $500 million credit facility was only about $175 million. We recognize that FEI's reliance on short-term debt to finance gas inventories is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit FEI's exposure to short-term interest rate volatility. However, we believe that FEI's financial flexibility can become somewhat constrained, particularly, when material debt maturities fall within the peak storage season. Although FEI has no significant debt maturities until September 2015, the BCUC's July 2011 decision to eliminate the majority of FEI's commodity hedging activities is expected to increase the volatility of FEI's cash flow and increase FEI's liquidity requirements. This decision is directionally negative for credit but, at this time, not material enough to impact our rating or outlook.

Rating Outlook

The stable outlook is predicated on FEI's low business risk as a regulated gas LDC, our expectation that FEI's regulatory environment will continue to be supportive and our belief that FEI's financial profile will continue to improve modestly through 2013. The outlook also reflects our belief that if FEI, FEVI and FEW ultimately amalgamate, the amalgamation and rate harmonization would be credit neutral for FEI's credit profile.

What Could Change the Rating - Up

We consider an upward revision in FEI's rating to be unlikely in the near term due to its weak financial profile. However, the rating could be positively impacted if FEI could demonstrate a sustainable improvement in its credit metrics. All else being equal, at the A2 senior unsecured level, Moody's would expect FEI's Cash Flow Interest Coverage to exceed 4x and CFO pre-WC / Debt to be above 19%.

What Could Change the Rating - Down

Notwithstanding FEI's low risk business profile, its financial profile is considered weak at the A3, senior unsecured rating level. Accordingly, a sustained weakening of FEI's Cash Flow Interest Coverage below 2.3x and CFO pre-WC / Debt below 8% combined with a less supportive and predictable regulatory framework would likely result in a downgrade of FEI's rating. This could occur if gas were to lose its competitive advantage over electricity in British Columbia due Provincial policies favouring non-carbon emitting energy sources or other factors.

Rating Factors

FortisBC Energy Inc.

Regulated Electric and Gas Utilities Industry [1][2]	**Current**		[3]**Moody's 12-18 month Forward View As of 07/20/2011**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		Aa		Aa
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		A
Factor 3: Diversification (10%)				
a) Market Position (10%)		A		A
b) Generation and Fuel Diversity (0%)				
Factor 4: Fin. Strength, Liquidity And Key Fin. Metrics (40%)				
a) Liquidity (10%)		A		A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	2.6x	Ba1	2.6x-2.8x	Ba1/Baa3
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	10.2%	Ba2	9%-11%	Ba2/Ba1
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	5.5%	Ba2	5%-7%	Ba2/Ba1
e) Debt/Capitalization (3 Year Avg) (7.5%)	62.9%	Ba3	57%-60%	Ba2/Ba1
Rating:				
a) Indicated Baseline Credit Assessment from Methodology Grid		A3		A3
b) Actual Baseline Credit Assessment Assigned		A3		A3

Source: Moody's Financial Metrics.

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items. [2] Financial ratios reflect three year averages for 2008, 2009 and 2010. [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.

Rating Report

Report Date:
August 8, 2012

Previous Report
February 29, 2012

Insight beyond the rating.

FortisBC Energy Inc.

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The Company

FortisBC Energy Inc. (FEI or the Company) is the largest natural gas distributor in British Columbia, serving approximately 835,000 customers (at the end of Q2 2012) and representing approximately 90% of the province's natural gas users. The Company is 100% owned by FortisBC Holdings Inc. (FHI, rated BBB (high)), which is a wholly-owned subsidiary of Fortis Inc.

Commercial Paper Limit

$500 million

Recent Actions

February 29, 2012
Confirmed

Rating

Debt	Rating	Trend
MTNs & Unsecured Debentures	A	Stable
Purchase Money Mortgages	A	Stable
Commercial Paper	R-1 (low)	Stable

Rating Update

The credit profile of FortisBC Energy Inc. (FEI or the Company) has remained Stable, based on Q2 2012 results and the latest regulatory development. The Medium-Term Notes (MTNs) & Unsecured Debentures (Debentures) have the same rating as the Purchase Money Mortgages (PMMs) based on the following: (1) the outstanding amount of the PMMs is not significant (17% of the total); and (2) DBRS does not expect FEI to issue additional PMMs in the future. The rating reflects FEI's low-risk business with predominantly regulated operations in an economically strong area, a solid financial profile and a reasonable regulatory environment.

FEI's low-risk business is underpinned by its regulated gas transmission and distribution operations (virtually all of FEI's earnings) and sizable customer base (835,000 or 90% of the province's natural gas users at the end of Q2 2012). Competition in the Company's franchise area remains primarily electricity, with FEI currently having a competitive operating cost advantage due to the current low natural gas price environment. The regulatory framework in British Columbia is viewed as reasonable in terms of cost recovery, returns on equity (ROE of 9.5%) and capital structure (40%). However, the Company's ROE and deemed equity could be affected in 2013 due to a regulatory review (see Regulation). Any regulatory change that may have a significant negative impact on FEI's earnings and cash flow could weaken the Company's credit profile.

The change to US GAAP from Canadian GAAP (effective January 2012) does not have a material impact on the Company's credit profile. The Company's financial profile remained relatively stable in Q2 2012, with solid credit metrics. The decline in EBIT-interest coverage reflects higher interest expenses from "lease-in lease-out arrangements" under US GAAP. This ratio remained stable at above 2.00x under historical Canadian GAAP. FEI is expected to generate negative free cash flow in 2012 as a result of capital spending ($224 million in 2012), which is mainly due to sustaining capital projects. DBRS expects FEI to continue to finance the deficits by managing its dividend payouts and equity issuances to the parent, as well as debt issuances, and maintaining its debt-to-capital ratio in line with the current rating. In the absence of an adverse regulatory decision on its ROE and capital structure beyond what DBRS has expected, FEI's credit metrics are expected to remain relatively stable, supported by higher earnings and cash flow.

Rating Considerations

Strengths

(1) Low business risk and reasonable regulation
(2) Economically strong service territory
(3) Stable and solid financial profile
(4) A large customer base

Challenges

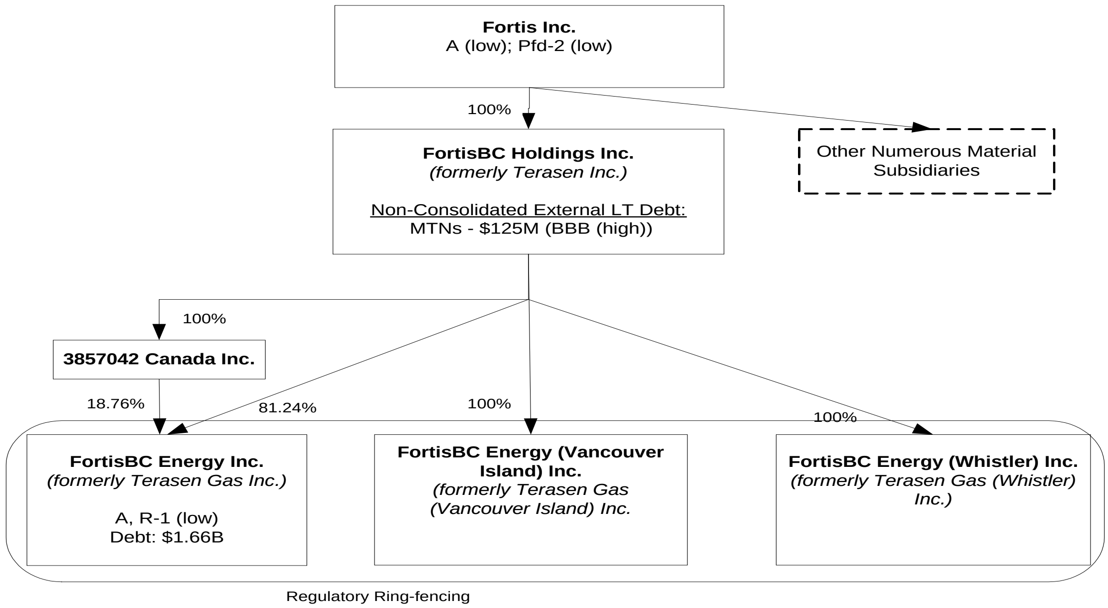
(1) Volume risk
(2) Indirect access to the equity market
(3) Potential change in ROE and deemed equity
(4) Competition from electricity

Financial Information

FortisBC Energy Inc. (FEI)	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP	CGAAP
	12 mos.	**For the year ended December 31**				
(CA$ millions)	**Jun. 30. 12**	**2011**	**2011**	**2010**	**2009**	**2008**
EBIT gross interest coverage (1)	1.58	1.57	2.21	2.20	2.00	1.97
Total debt in capital structure (2)	59.6%	62.6%	62.0%	62.6%	66.4%	66.4%
Cash flow/Total debt	12.8%	11.5%	11.8%	10.9%	10.3%	10.1%
Cash flow/Capex	1.28	1.19	1.13	1.13	1.22	1.35
Net income before extra. items	115	110	102	93	87	92
Cash flow from operations	215	201	191	177	170	166

(1) Adjusted for operating leases. (2) Adjusted for Goodwill and "lease- in lease-out" under US GAAP.

Simplified Organization Chart as of June 30, 2012



Potential Amalgamation

FortisBC Energy Inc, FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. filed an application in in April 2012 for common rates and amalgamation across the combined service area. The amalgamation would require the approval of the British Columbia Utilities Commission (BCUC) and consent of the Government of British Columbia.

At this time, DBRS believes the potential amalgamation and associated rate harmonization will likely be credit neutral to FEI, provided that there are no material changes that will negatively affect its rate base and/or its current business model or ROE and capital structure.

Transition to US GAAP

- Effective January 1, 2012, FEI retroactively adopted US GAAP with the restatement of the comparative reporting period. The major impact on key credit ratios in this report reflects the following changes:
  (1) Total assets increased by $951 million due primarily to increases in goodwill, regulatory assets and fixed assets due to the application of push-down accounting.
  (2) Total liabilities increased by $202 million due mainly to increases in long-term liabilities as a result of lease-in lease-out arrangements.
  (3) The equity base increased by approximately $750 million. The increase was a result of push-down accounting in connection with the Fortis acquisition in 2007.
- The change in accounting reporting did not have a material impact on the credit profile of the Company.

Rating Considerations Details

Strengths

(1) **Low business risk.** FEI's operations are predominantly regulated, as most of its earnings are generated from the natural gas transmission and distribution businesses. The competition is limited to other forms of energy (electricity). The regulatory framework in British Columbia is reasonable with respect to cost recovery and returns on investment. FEI is not exposed to commodity costs as natural gas costs are passed on to the customers, with quarterly adjustments.

(2) **Economically strong franchise.** FEI operates in an economically strong service area that includes the City of Vancouver. The customer mix is weighted toward residential and commercial customers (roughly 90% of distribution revenues, 54% of throughput), whose consumption is less sensitive to economic conditions.

(3) **Solid credit metrics.** FEI has maintained its capital structure in line with the regulatory structure (required by the regulator). The current debt-to-capital level of 60% and EBIT interest coverage over of 2.00 times (x) (adjusted for goodwill and "lease-in lease-out" arrangement under US GAAP) are commensurate with its current rating range. DBRS notes that FEI's cash flow-to-debt ratio has improved consistently since 2007 and was in line with the "A" rating category for the 12 months ended June 30, 2012.

(4) **A large customer base.** FEI had a large customer base of approximately 835,000 at the end of Q2 2012. This represented approximately 90% of natural gas users in the province.

Challenges

(1) V**olume risk.** The Company is exposed to volume risk on industrial and transportation customers, who accounted for approximately 46% of the Company's total throughput in 2011 (over 5% of revenue). These customers' usage is sensitive to economic conditions (such as the pulp and paper industries).

(2) **Indirect access to the public equity market.** FEI has no direct access to the public equity market. As a result, it finances cash flow deficits by managing its dividend payouts to the parent and through equity issuances to the parent, as well as other debt issuances. When deemed equity changed in 2010, increasing from 35% to 40%, the Company issued $125 million in equity to the parent to maintain its capital structure in line with the regulator's requirement. The company's current rating incorporates DBRS's expectation that the parent will continue to provide financing support in the future if required.

(3) **Generic Cost of Capital Proceeding (GCOC Proceeding).** In April 2012, the BCUC issued a final scoping document identifying the items that will be reviewed as part of GCOC Proceeding, which includes, among other things: (a) the cost of capital for a benchmark low-risk utility effective January 2013; and (b) if it is determined by the GCOC Proceeding that a ROE automatic adjustment mechanism is warranted, it would be implemented January 2014. The decision is expected in Q1 2013. The GCOC Proceeding could have a negative impact on FEI's earnings.

(4) **Competitive environment.** Natural gas distribution operators in British Columbia face more intense competition from electricity than other provinces in Canada (except Québec) due to low power costs in the province. However, FEI currently benefits from a low gas price environment, which is expected to remain low for the foreseeable future.

FortisBC Energy Inc.

Report Date:
August 8, 2012

Regulation

Overview

DBRS views the regulatory framework in British Columbia as reasonable, as it allows FEI to earn a reasonable return on its capital investment and to recover prudently incurred operating costs. In addition, the Company does not have exposure to gas price risk since costs are generally passed through to the customers, subject to a reasonable regulatory lag. FEI is regulated by the BCUC.

- The BCUC uses a future test year to establish rates for a utility. FEI forecasts the volume of gas to be sold, gas supply costs and all operating costs that are incurred in the test year.
- The BCUC will set rates to permit FEI to collect all of its approved forecast costs.
- FEI has a number of deferral accounts that are used to ameliorate unanticipated changes in certain forecast items, including the following two mechanisms:

(1) Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA):

- Any differences between actual and forecast gas costs are captured and recorded in these deferral accounts to be recovered or refunded in future rates.
- Forecast gas prices are adjusted on a quarterly basis for the commodity rates, mitigating the impact of the recovery lag.

(2) Revenue Stabilization Adjustment Mechanism (RSAM):

- The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in forecast versus actual customer usage throughout the year to recover them in rates over the following three years. This reduces FEI's earnings volatility.
- Volume variances from large-volume industrial transportation and sales customers, which account for approximately 46% of FEI's total throughput (2011), are not included in this deferral account. However, these customers' usage is more predictable and less likely to be significantly affected by weather, even though it is sensitive to economic conditions.

Rate Design

- Prior to 2010, FEI operated under a performance-based rate plan (PBR).
- In 2010 and 2011, FEI operated under traditional cost-of-service rate making.
- In April 2012, the BCUC issued a decision on the FortisBC Utilities (collectively consisting of FEI, FEVI and FEW) 2012/2013 Revenue Requirement Application (RRA).
- The final delivery rate increase effective January 1, 2012, was 4.2% (a decrease of approximately 1.4% as compared to FEI's existing interim delivery rates for 2012).
- The difference between interim rates and final rates will be refunded to customers starting June 1, 2012.
- From 2010 through 2012, the Company's ROE and deemed equity were at 9.50% and 40%, respectively.

Regulatory Ring-Fencing

- The regulatory ring-fencing imposed on FEI by the BCUC at the time Fortis Inc. acquired FEI in 2007 (a continuation of the ring-fencing imposed upon acquisition of the former Terasen Inc. by Kinder Morgan Inc. in 2005) is intended to ensure that public interest is protected and that FEI will continue to operate as a separate, stand-alone entity without undue parental influence. One of these conditions is that FEI must maintain its debt-to-capital ratio in line with the regulatory capital structure.

FortisBC Energy Inc.

Report Date:
August 8, 2012

Earnings and Outlook

Consolidated Income Statement: FEI (CA$ millions)	USGAAP 12 mos. Jun. 30. 12	USGAAP 2011	CGAAP 2011	CGAAP 2010	CGAAP 2009	CGAAP 2008
		For the year ended December 31				
EBITDA	354	333	323	317	297	292
EBIT	243	241	233	226	214	214
Gross interest expense	158	158	108	104	109	111
Pre-tax income	129	127	129	123	106	103
Income tax	13	16	27	30	19	12
Net income before extra. items	115	110	102	93	87	92
Reported net income	115	110	102	93	87	92
Return on equity	7.9%	7.8%	9.8%	9.8%	9.9%	10.4%
Regulated mid-year rate base	2,725	2,634	2,634	2,540	2,547	2,510
Approved deemed equity	40%	40.0%	40.0%	40.0%	35.0%	35.0%
Allowed ROE	9.50%	9.50%	9.50%	9.50%	8.99%	8.62%

Summary

- Earnings in 2011 and the 12 months ended June 30, 2012 (LTM 2012) continued to benefit from the 2009 ROE and capital structure decision, which established higher ROE and deemed equity for post 2009 years, and a modestly higher rate base.
- Volume usage volatility as a result of changes in weather conditions is mitigated by the RSAM, which allows FEI to defer variances due to changes in usage rates, to be recovered/refunded over the subsequent three years.

Outlook

- The Company's 2012 earnings are expected to increase modestly as the rate base continues to grow, reflecting ongoing capital expenditures.
- Although the decision on the current GCOC Proceeding could have a negative impact on FEI's future earnings, DBRS does not expect the impact to be significant.

FortisBC Energy Inc.

Report Date:
August 8, 2012

Financial Profile

Consolidated Cash Flow Statement: FEI	USGAAP 12 mos.	USGAAP For the year ended December 31	CGAAP	CGAAP	CGAAP	CGAAP
(CA$ millions)	Jun. 30. 12	2011	2011	2010	2009	2008
Net income before extra. items	115	110	102	93	87	92
Depreciation & amortization	111	92	89	91	83	78
Deferred income taxes/Other	(11)	(1)	(1)	(7)	0	(4)
Cash flow from operations	215	201	191	177	170	166
Dividends paid	(85)	(85)	(85)	(84)	(67)	(100)
Capex	(167)	(169)	(169)	(157)	(139)	(123)
Free cash flow before WC	(37)	(53)	(63)	(64)	(36)	(57)
Changes in working capital (WC)	83	85	95	(15)	16	33
Net free cash flow	45	31	32	(79)	(20)	(24)
Assets sales/Divestitures	0	0	0	0	0	14
Net changes in equity	65	0	0	125	0	0
Net changes in debt	55	(16)	(12)	(24)	6	(5)
Other/Adjustments by DBRS	(29)	(14)	(17)	(13)	7	22
Change in cash	137	2	2	9	(7)	7
Total debt	1,670	1,737	1,610	1,623	1,647	1,640
Total debt in capital structure	46.9%	49.1%	60.5%	61.3%	65.2%	65.2%
Total debt in capital structure (1)	59.6%	62.6%	62.0%	62.6%	66.4%	66.4%
Cash flow/Total debt	12.8%	11.5%	11.8%	10.9%	10.3%	10.1%
EBIT gross interest coverage (2)	1.58	1.57	2.21	2.20	2.00	1.97
Total debt/EBITDA	4.72	5.22	4.99	5.13	5.55	5.62
Capex/Depreciation	1.51	1.84	1.89	1.72	1.68	1.57
Dividend payout ratio	73.8%	77.1%	83.4%	90.1%	76.8%	109.3%

(1) Adjusted for Goodwill and "lease- in lease-out" under US GAAP (2) Adjusted for operating leases.

Summary

- Cash flow from operations has increased steadily, reflecting the Company’s growing earnings.
- Capital investments to support load growth and system reliability have also increased considerably over this period. This, combined with high dividend payouts (an average of 85% over the last four years), has resulted in cash flow deficits (before working capital).
- The Company continued to manage its dividend payouts and equity issuances so that its capital structure is in line with the conditions imposed by the BCUC, which stipulates that FEI must maintain its capital structure in line with the regulatory structure.
- When deemed equity changed in 2010, increasing to 40% from 35%, the Company issued $125 million in equity to its parent to maintain its capital structure in-line with the regulatory requirement.
- FEI’s credit metrics remained stable in 2011 and LTM 2012 and were commensurate with the current rating.
- The transition to US GAAP reduced the debt-to-capital ratio to below 50% due mainly to push-down accounting for regulatory assets and goodwill, which resulted in increases in the equity base (approximately $750 million) and long-term liabilities of $202 million. These changes did not affect the Company’s credit profile.
- DBRS notes that EBIT-interest coverage is below 2.00x under US GAAP but would remain at over 2.00x under historical Canadian GAAP.

Outlook

- Cash flow deficits are expected to continue as capital expenditures are expected to remain high at approximately $224 million in 2012 (DBRS estimate) largely due to the sustaining capital program. DBRS expects that FEI continues to finance its capex by managing dividends and equity issuances to the parent as well as other debt issuances and maintaining its capital structure in line with its current rating range.

Long-Term Debt and Liquidity

Liquidity

Credit Facilities (June 30, 2012)	Committed	Drawn/LC	Available	Expiry
($ millions)				
Syndicated unsecured credit facility	500	51	449	Aug-14
Total	500	51	449	

- The credit facility is primarily used to support FEI's $500 million commercial paper (CP) program.
- Due to the seasonal nature of the business, liquidity requirements peak in the fall and winter.
- DBRS views FEI's liquidity as sufficient for its funding requirements during the peak period, given its stable cash flow and modest long-term debt due in the near term.

Long-Term Debt Maturity Schedule

- The Company's near-term refinancing risk remains modest, as the debt maturity schedule is light until 2016 when over $200 million (or 13%) of total debt will be due (see the debt maturity table in our February 29, 2012, report).
- DBRS believes that refinancing of the debt maturity is manageable, given the Company's strong credit profile.

Debt Instruments

Debt Instruments	2011	2010
(C$ millions)		
Credit facilities	65	178
Secured Purchase Money Mortgages	275	275
Unsecured Debentures and MTNs	1,270	1,173
Capital leases	15	13
Total	1,624	1,639
Less: Current portion and LT issue costs	(14)	(16)
Total	1,610	1,623

- MTNs and Unsecured Debentures have the same rating as PMMs based on the following: (1) the outstanding amount of the PMMs is not significant (only 17% of the total); and (2) DBRS does not expect FEI to issue new PMMs in the future.
- The bank facility is unsecured but is rated equally with the Company's secured and unsecured debt.
- In December 2011, FEI issued $100 million of unsecured MTNs, maturing in 2041. The net proceeds were used to repay short-term borrowings and for general corporate purposes.

FortisBC Energy Inc.

Report Date:
August 8, 2012

Balance Sheet	**USGAAP**	**USGAAP**	**CGAAP**		**USGAAP**	**USGAAP**	**CGAAP**
(CA$ millions)	**Jun. 30**	**Dec. 31**	**Dec. 31**		**Jun. 30**	**Dec. 31**	**Dec. 31**
Assets	**2012**	**2011**	**2011**	**Liabilities & Equity**	**2012**	**2011**	**2011**
Cash & equivalents	146	17	17	S.T. borrowings	0	65	65
Accounts receivable	144	238	238	Current portion L.T.D.	7	7	3
Inventories	75	101	101	Accounts payable	217	304	304
Rate stabilization account	19	69	69	Others	69	38	39
Others	21	13	13	Rate stabilization account	45	19	19
Total Current Assets	**405**	**439**	**439**	**Total Current Liabilities**	**338**	**433**	**430**
Net fixed assets	2,582	2,573	2,513	LT debt/Capital leases	1,663	1,665	1,543
Goodwill	769	769	0	Deferred income taxes	304	298	304
Intangibles	122	117	117	Other L.T. liabilities	230	238	155
Other assets	578	557	435	Rate stabilization account	31	22	22
				Shareholders' equity	1,890	1,799	1,050
Total Assets	**4,456**	**4,454**	**3,503**	**Total Liab. & SE**	**4,456**	**4,454**	**3,503**

	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Balance Sheet &	**12 mos.**	**For the year ended December 31**				
Liquidity & Capital Ratios	**Jun. 30. 12**	**2011**	**2011**	**2010**	**2009**	**2008**
Current ratio	1.20	1.01	1.02	0.94	0.88	0.80
Total debt in capital structure	46.9%	49.1%	60.5%	61.3%	65.2%	65.2%
Total debt in capital structure (1)	59.6%	62.6%	62.0%	62.6%	66.4%	66.4%
Cash flow/Total debt	12.8%	11.5%	11.8%	10.9%	10.3%	10.1%
Cash flow/Total debt (2)	12.1%	10.9%	11.2%	10.3%	9.8%	9.6%
Cash flow/Capex	1.28	1.19	1.13	1.13	1.22	1.35
(Cash flow - dividends)/Capex	0.78	0.68	0.62	0.59	0.74	0.54
Approved deemed equity	40.0%	40.0%	40.0%	40.0%	35.0%	35.0%
Dividend payout ratio	73.8%	77.1%	83.4%	90.1%	76.8%	109.3%
Coverage Ratios (times)						
EBIT gross interest coverage	1.53	1.52	2.17	2.17	1.96	1.92
EBITDA gross interest coverage	2.23	2.10	3.00	3.04	2.72	2.62
Fixed-charge coverage	1.80	1.78	2.17	2.17	1.96	1.92
Debt/EBITDA	4.72	5.22	4.99	5.13	5.55	5.62
EBIT gross interest coverage (2)	1.58	1.57	2.21	2.20	2.00	1.97
Profitability Ratios						
EBITDA margin	27.8%	24.6%	23.8%	23.2%	20.7%	17.5%
EBIT margin	19.1%	17.8%	17.2%	16.6%	14.9%	12.8%
Profit margin	9.1%	8.2%	7.5%	6.8%	6.0%	5.5%
Return on equity	7.9%	7.8%	9.8%	9.8%	9.9%	10.4%
Return on capital	7.2%	7.0%	6.5%	6.2%	6.2%	6.4%
Allowed ROE	9.5%	9.5%	9.5%	9.5%	9.0%	8.6%

(1) Adjusted for Goodwill and "lease- in lease-out" under USGAAP (2) Adjusted for operating leases.

FortisBC Energy Inc.

Report Date:
August 8, 2012

Ratings

Debt	Rating	Trend
MTNs & Unsecured Debentures	A	Stable
Purchase Money Mortgages	A	Stable
Commercial Paper	R-1 (low)	Stable

Rating History

Debt Rated	Current	2011	2010	2009	2008	2007
MTNs & Unsecured Debentures	A	A	A	A	A	A
Purchase Money Mortgages	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Related Research

- FortisBC Holdings Inc., February 29, 2012.

Note:
All figures are in Canadian dollars unless otherwise noted.

MOODY'S
INVESTORS SERVICE

Credit Opinion: FortisBC Energy Inc.

Global Credit Research - 04 Oct 2012

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
Parent: FortisBC Holdings Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
FortisBC Energy (Vancouver Island) Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3

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Key Indicators

[1]**FortisBC Energy Inc.**

	[2]LTM	2011	2010	2009	2008	2007
(CFO Pre-W/C + Interest) / Interest Expense	2.9x	2.8x	2.7x	2.6x	2.5x	2.4x
(CFO Pre-W/C) / Debt	11.6%	11.2%	10.6%	10.2%	9.8%	8.8%
(CFO Pre-W/C - Dividends) / Debt	7.1%	6.5%	5.9%	6.5%	4.2%	2.5%
Debt / Book Capitalization	47.3%	59.3%	59.1%	61.8%	68.4%	66.8%

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items. [2] Last twelve months ended June 30, 2012 reflect changes to US-GAAP whereas prior years are reported under Canadian GAAP. Goodwill is included on FEI's balance sheet with the most notable impact on Debt/Book Capitalization ratios

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Low-risk, cost-of-service regulated gas transmission and distribution utility

Relatively weak financial metrics balanced by a supportive regulatory environment

Potential amalgamation of FortisBC Energy Inc. with its sister LDCs

Strong regulatory ring-fencing mechanisms insulate company from its parent holding company

Good liquidity

Corporate Profile

FortisBC Energy Inc. (FEI) is the largest distributor of natural gas in British Columbia and one of the largest gas local distribution companies (LDC) in Canada. FEI is regulated on a cost-of-service basis by the British Columbia Utilities Commission (BCUC).

FEI is a wholly-owned subsidiary of FortisBC Holdings Inc. (FHI) which, in turn, is a wholly-owned subsidiary of Fortis Inc. (FTS, not rated), a diversified electric and gas utility holding company. FHI is a holding company which also holds 100% of FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW).

SUMMARY RATING RATIONALE

FEI's A3 senior unsecured rating and stable outlook reflect its low-risk LDC business model and the generally supportive regulatory environment offset by its relatively weak financial metrics. We recognize that the weakness of FEI's financial metrics relative to similarly rated U.S. peers is largely a function of the lower deemed equity and ROE permitted by the BCUC. We believe that FEI's weak financial profile is balanced by its relatively low business risk as a gas LDC and by the supportiveness of regulatory environments in Canada generally and in British Columbia specifically. Regulatory ring-fencing mechanisms effectively insulate FEI from its parent company, FHI, and FTS. Growth in FEI's franchise area tends to be relatively predictable and capital spending is not expected to tax the company's resources. FEI maintains sufficient liquidity resources.

DETAILED RATING CONSIDERATIONS

LOW-RISK REGULATED GAS DISTRIBUTION UTILITY OPERATING IN A SUPPORTIVE ENVIRONMENT

In general, we consider gas LDCs to be at the low end of the risk spectrum within the universe of regulated utilities. Similarly, we believe that regulated utilities, which are permitted the opportunity to recover their costs and earn an allowed return, have lower business risk than unregulated companies that do not benefit from cost of service regulation. Accordingly, we consider regulated gas LDCs like FEI to be among the lowest risk corporate entities.

The supportiveness of the BC regulatory environment is evidenced by the fact that FEI benefits from the existence of a number of BCUC-approved deferral, or true up, mechanisms. These mechanisms limit FEI's exposure to forecast error with respect to commodity price and volume, pension funding costs, insurance costs and short-term interest rates. In addition, FEI is required to obtain a certificate of public convenience and necessity (CPCN) from the BCUC prior to undertaking any capital project in excess of $5 million. In our view, this process reduces the risk that FEI would be denied the opportunity to recover the cost of its capital investments. We believe these qualitative factors balance FEI's weak financial profile.

Growth in FEI's franchise area tends to be relatively predictable and capital spending is generally stable and modest in the context of FEI's asset base and depreciation expense.

FINANCIAL METRICS EXPECTED TO STRENGTHEN MODESTLY IN 2012 and 2013

FEI's financial metrics are materially weaker than those of its A3 rated global gas utility peers such as Piedmont Natural Gas Company, Inc., Northwest Natural Gas Company, UGI Utilities and its sister company, FEVI. We recognize that FEI's weaker financial metrics are largely a function of the deemed equity and allowed ROE approved by the BCUC. In general, Canadian deemed equity ratios and allowed ROEs are low relative to those of other jurisdictions.

We expect FEI's cash flow to increase in 2012 and 2013 due to higher levels of non-cash depreciation and amortization expense that will be collected in revenues. The largest driver of the higher depreciation will be FEI's customer care enhancement project placed into service this year. We anticipate that these changes will cause CFO pre-WC + Interest / Interest (Cash Flow Interest Coverage) to approach 3x in 2012 and 2013. The change in the Debt/Book Capitalization ratio is merely a function of US-GAAP accounting rules as goodwill associated with the Fortis Inc. acquisition in 2007 is now recognized as an asset on FEI's balance sheet with an offset to paid-in capital.

POTENTIAL AMALGAMATION OF FEI, FEVI AND FEW LIKELY CREDIT NEUTRAL

FEI applied earlier this year to the BCUC to amalgamate FEI, FEVI and FEW and harmonize rates across the amalgamated utility with a decision expected in early 2013. In an amalgamation scenario, the senior unsecured debt of FEI and FEVI would rank pari passu and be supported by the combined cash flow of the amalgamated utility. We expect that amalgamation and rate harmonization would be credit neutral to FEI provided that there are no reductions in deemed equity levels or allowed ROEs or increases in the fundamental business risks borne by the amalgamated utility.

STRONG REGULATORY RING-FENCING INSULATES FEI FROM PARENT, FHI

We believe that FEI's ring-fencing is very strong relative to that of its peers outside of BC. FEI is subject to a set of regulatory ring-fencing conditions imposed by the BCUC. The ring-fencing conditions provide that, unless otherwise approved by the BCUC, FEI shall: maintain a ratio of common equity to total capital at least as high as the deemed equity capitalization utilized by the BCUC for ratemaking purposes (currently 40%); not pay dividends if they would cause FEI's common equity to total capital to fall below the BCUC's deemed equity percentage; not invest in or financially support non-regulated business; and not engage in affiliate transactions on anything other than an arm's length basis. We believe that the BCUC ring-fencing provisions effectively insulate FEI from the financial and business risks of its parent, FHI, and FTS. The regulatory ring-fencing provisions, combined with FTS' philosophy of requiring its utility operating subsidiaries to be operationally and financially independent of FTS and other subsidiaries, allows us to evaluate FEI's credit profile on a stand-alone basis.

Liquidity Profile

We consider FEI's liquidity resources to be good at the end of Q2 2012.

FEI is expected to generate approximately $240 million of CFO pre-WC during the 12 months ending June 30, 2013. After dividends in the range of $85 million and capital expenditures and working capital changes of approximately $200 million, we expect FEI to be free cash flow (FCF) negative by approximately $45 million. FEI has no material scheduled debt maturities during the next twelve months..

At the end of Q2 FEI had $449 million available under its $500 million syndicated credit facility, well in excess of our estimated funding requirement.

The $500 million facility is available to support FEI's $500 million commercial paper (CP) program and for general corporate purposes. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement.

We recognize that FEI's reliance on short-term debt to finance gas inventories is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit FEI's exposure to short-term interest rate volatility. However, we believe that FEI's financial flexibility can become somewhat constrained, particularly when material debt maturities fall within the peak storage season. Although FEI has no significant debt maturities until September 2015, the BCUC's July 2011 decision to eliminate the majority of FEI's commodity hedging activities is expected to increase the volatility of FEI's cash flow and increase FEI's liquidity requirements. This decision is directionally negative for credit but, at this time, not material enough to impact our rating or outlook.

Rating Outlook

The stable rating outlook reflects our expectation of stable operating results and our belief that FEI's regulatory environment will continue to be supportive. The outlook also reflects our belief that if FEI, FEVI and FEW ultimately amalgamate, the amalgamation and rate harmonization would be credit neutral for FEI's credit profile.

What Could Change the Rating - Up

The rating could be positively impacted if FEI demonstrates a sustainable improvement in its credit metrics. All else being equal, at the A2 senior unsecured level, Moody's would expect FEI's Cash Flow Interest Coverage to exceed 4x and CFO pre-WC / Debt to be above 19% on a sustainable basis.

What Could Change the Rating - Down

Notwithstanding FEI's low risk business profile, its financial profile is considered relatively weak at the A3 senior unsecured rating level. Accordingly, a sustained weakening of FEI's Cash Flow Interest Coverage below 2.3x and CFO pre-WC / Debt below 8% combined with a less supportive and predictable regulatory framework would likely result in a downgrade of FEI's rating.

Rating Factors

FortisBC Energy Inc.

Regulated Electric and Gas Utilities Industry [1][2]	**Current**			[3]**Moody's 12-18 month Forward View As of September 2012**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**		**Measure**	**Score**
a) Regulatory Framework		A			A
Factor 2: Ability To Recover Costs And Earn Returns (25%)					
a) Ability To Recover Costs And Earn Returns		A			A
Factor 3: Diversification (10%)					
a) Market Position (10%)		A			A
b) Generation and Fuel Diversity (0%)					
Factor 4: Fin. Strength, Liquidity And Key Fin. Metrics (40%)					
a) Liquidity (10%)		A			A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	2.8x	Baa		2.8x-3.0x	Baa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	12%	Ba		11% - 13%	Ba
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	7%	Ba		7% - 9%	Ba
e) Debt/Capitalization (3 Year Avg) (7.5%)	53%	Baa		48% - 50%	Ba
Rating:					
a) Indicated Baseline Credit Assessment from Methodology Grid		A3			A3
b) Actual Baseline Credit Assessment Assigned					A3

Source: Moody's Financial Metrics.

[1] All ratios calculated in accordance with Moody's Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments. In addition, Moody's adjusts for one-time items. [2] Last twelve months ended June 30, 2012 [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. (“MJKK”) are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, “MIS” in the foregoing statements shall be deemed to be replaced with “MJKK”. MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.

Rating Report

Report Date:
March 18, 2013
Previous Report
August 8, 2012

Insight beyond the rating.

FortisBC Energy Inc.

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The Company
FortisBC Energy Inc. (FEI or the Company) is the largest natural gas distributor in British Columbia, serving approximately 841,000 customers (at the end of 2012) and representing approximately 90% of British Columbia's natural gas users. The Company is 100% owned by FortisBC Holdings Inc. (FHI; rated BBB (high)), which is a wholly-owned subsidiary of Fortis Inc. (rate A (low)).

Commercial Paper Limit
$500 million

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
MTNs & Unsecured Debentures	A	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

DBRS has confirmed the ratings of FortisBC Energy Inc. (FEI or the Company) as listed above. The Medium-Term Notes (MTNs) and Unsecured Debentures (Debentures) have the same rating as the Purchase Money Mortgages (PMMs) based on the following: (1) the outstanding amount of the PMMs is not significant (16% of the total); and (2) DBRS does not expect FEI to issue additional PMMs in the future. The ratings reflect FEI's low-risk business, predominantly regulated operations in an economically strong area, strong financial profile and reasonable regulatory environment.

FEI's low-risk business is underpinned by its regulated gas transmission and distribution operations (virtually all of FEI's earnings) and large customer base (approximately 841,000 or 90% of British Columbia's natural gas users at the end of 2012). Competition in the Company's franchise area remains primarily electricity, with FEI currently having a competitive operating cost advantage due to the current low natural gas price environment. The regulatory framework in British Columbia is viewed as reasonable in terms of cost recovery, returns on equity (ROE of 9.5%) and capital structure (40% equity). However, the Company's ROE and deemed equity could be affected in 2013 and beyond due to a regulatory review (see Regulation). Any regulatory change that may have a significant negative impact on FEI's earnings and cash flow could weaken the Company's credit profile.

The change to U.S. GAAP from Canadian GAAP, effective January 2012, did not have any rating implications (see Transition to U.S. GAAP). In addition, free cash flow, key credit metrics and debt leverage remained relatively stable in 2012. The Company expects to spend approximately $194 million on capital expenditures (capex) in 2013. DBRS expects FEI to continue to maintain its debt-to-capital ratio in line with the current rating category. In the absence of an adverse regulatory decision on FEI's ROE and capital structure, DBRS expects FEI's credit metrics to remain relatively stable, supported by higher earnings and cash flow.

Rating Considerations

Strengths
(1) Low business risk and reasonable regulation
(2) Economically strong service territory
(3) Stable and strong financial profile
(4) Large customer base

Challenges
(1) Volume risk
(2) Indirect access to the equity market
(3) Uncertain ROE and capital structure
(4) Competition from electricity

Financial Information

	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP
FortisBC Energy Inc.	**For the year ended December 31st**				
(CA$ millions)	**2012**	**2011**	**2010**	**2009**	**2008**
EBIT gross interest coverage (1)	2.03	2.08	2.20	2.00	1.97
% debt in capital structure (1) (2)	58.9%	62.6%	62.6%	66.4%	66.4%
Cash flow/Total debt	13.9%	11.1%	10.9%	10.3%	10.1%
Net income before extra. Items	112	110	93	87	92
Cash flow from operations	237	193	177	170	166

(1) Adjusted for operating leases. (2) Certain US GAAP adjustments in 2012 and 2011 (see Transition to US GAAP on page 3) have been adjusted for comparative purposes.

Rating Considerations Details

Strengths

(1) **Low business risk and reasonable regulation.** FEI's generates virtually all of its earnings from its natural gas transmission and distribution operations, where competition is limited to other forms of energy (electricity). The regulatory framework in British Columbia is reasonable with respect to cost recovery and returns on investment. FEI is not exposed to commodity costs as natural gas costs are passed on to the customers, with quarterly adjustments.

(2) **Economically strong service territory.** FEI operates in an economically strong service area that includes the City of Vancouver. The customer mix is weighted toward residential and commercial customers (roughly 89% of distribution revenues and 61% of throughput for the year-end 2012), whose consumption is less sensitive to economic conditions.

(3) **Stable and strong financial profile.** FEI has maintained its capital structure in line with the approved regulatory capital structure. The debt-to-capital of 58.9% (adjusted for goodwill and "lease-in lease-out" arrangement under US GAAP) and EBIT interest coverage of 2.03 times (x) in 2012 are commensurate with its current rating category. DBRS notes that FEI's cash flow-to-debt ratio has improved consistently since 2008 and was in line with the "A" rating category in 2012.

(4) **Large customer base.** FEI had a large customer base of approximately 841,000 at the end of 2012. This represented approximately 90% of natural gas users in British Columbia.

Challenges

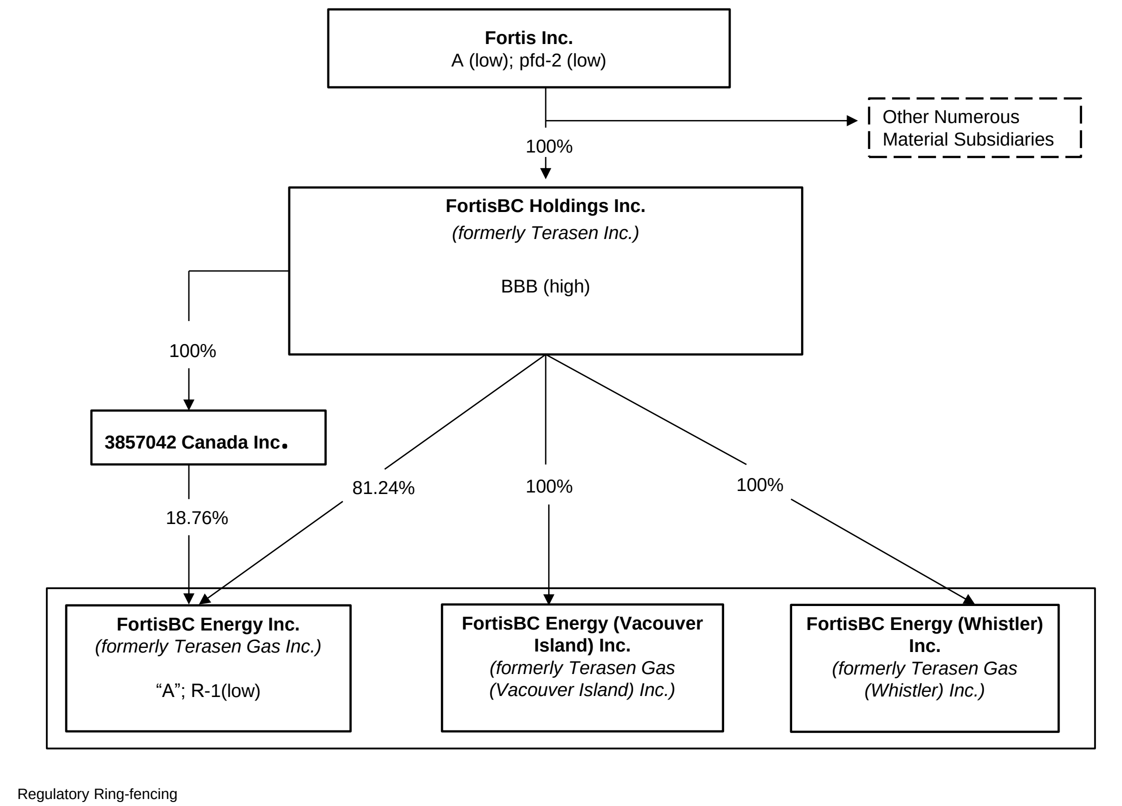
(1) V**olume risk.** The Company is exposed to volume risk on industrial, transportation and other customers, who accounted for approximately 39% of the Company's total throughput in 2012 (around 11% of revenue). The usage of these customers, such as those in the pulp and paper industries, is sensitive to economic conditions.

(2) **Indirect access to the public equity market.** FEI has no direct access to the public equity market. As a result, it finances cash flow deficits by managing its dividend payouts to the parent and through equity issuances to the parent, as well as other debt issuances. The company's current rating incorporates DBRS's expectation that the parent will continue to provide equity financing support in the future.

(3) **Uncertain ROE and capital structure.** In April 2012, the BCUC issued a final scoping document identifying the items that will be reviewed as part of Generic Cost of Capital (GCOC) Proceeding, which includes, among other things: (1) the cost of capital for a benchmark low-risk utility effective January 2013; and (2) whether a ROE automatic adjustment mechanism is warranted, which would be implemented January 2014. The decision is expected mid-year 2013. The GCOC decision could have a negative impact on FEI's earnings in 2013 and beyond.

(4) **Competition from electricity.** Natural gas distribution operators in British Columbia face more intense competition from electricity than other provinces in Canada (except Québec) due to the low power costs in British Columbia.

Simplified Organization Chart as of December 31, 2012



Amalgamation Update

In April 2012 FEI, together with FEVI and FEW, applied to the BCUC for the necessary approvals to amalgamate the three utilities and implement postage stamp rates across the service territories served by the amalgamated entity, effective January 1, 2014. The evidentiary portion of the proceeding was closed in October 2012 and a decision was received in February 2013. In its decision, the BCUC denied the request to implement postage stamp rates and as a result, the companies will not be proceeding with an amalgamation.

Transition to US GAAP

- Effective January 1, 2012, FEI adopted US GAAP and has restated the comparative reporting period. The major impact on key credit ratios in this report reflects the following changes as at December 31, 2011:
  (1) Total assets increased by approximately $951 million due primarily to increases in regulatory assets, plant and equipment and goodwill in accordance with US GAAP.
  (2) Total liabilities increased by approximately $202 million due primarily to increases in long-term debt and capital lease obligations and pension liabilities in accordance with US GAAP.
  (3) The equity base increased by approximately $750 million. The increase was due primarily to the application of push-down accounting, which was effective May 17, 2007 as a result of the Fortis acquisition.
- DBRS has adjusted for goodwill and "lease-in lease-out" arrangements for the debt-to-capital ratio under US GAAP for comparative purposes.
- The transition from Canadian GAAP to US GAAP did not have an impact on the current ratings.

FortisBC Energy Inc.

Report Date:
March 18, 2013

Earnings and Outlook

	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP
Consolidated Income Statement	**For the year ended December 31st**				
(CA$ millions)	**2012**	**2011**	**2010**	**2009**	**2008**
EBITDA (1)	369	333	317	297	292
EBIT (1)	241	241	226	214	214
Gross interest expense (1)	119	118	104	109	111
Pre-tax income	123	126	123	106	103
Income tax	11	16	30	19	12
Net income before extra. items	112	110	93	87	92
Reported net income	112	110	93	87	92
Return on avg. common equity (2)	10.4%	10.7%	9.8%	9.9%	10.4%
Rate Base	2,717	2,636	2,540	2,547	2,510
Approved common equity	40.0%	40.0%	40.0%	35.0%	35.0%
Allowed ROE	9.50%	9.50%	9.50%	8.99%	8.62%

(1) Less inter-company interest payments.

(2) Certain US GAAP adjustments in 2012 and 2011 (see Transition to US GAAP on page 3) have been adjusted for comparative purposes.

2012 Summary

- Earnings were higher in 2012 primarily due to the increased rate base, higher margin from industrial customers, higher contribution from the current year tax loss utilization plan and lower-than-forecast operation and maintenance expenditures.
  - However, these were partially offset by lower margins associated with lower-than-forecast customer additions in 2012 and lower capitalized allowance for funds used during construction compared to the same period in 2011.
- Volume usage volatility as a result of changes in weather conditions is mitigated by the revenue stabilization adjustment mechanism (RSAM), which allows FEI to defer variances due to changes in usage rates, to be recovered/refunded over the subsequent three years.

2013 Outlook

- The Company's 2013 earnings are expected to increase modestly as the rate base continues to grow, reflecting ongoing capex.
- Although the decision on the current GCOC Proceeding could have a negative impact on FEI's future earnings, DBRS does not expect the impact to be significant.

Financial Profile

Consolidated Cash Flow Statement	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP
	For the year ended December 31st				
(CA$ millions)	**2012**	**2011**	**2010**	**2009**	**2008**
Net income before extra. items	112	110	93	87	92
Depreciation & amortization	128	92	91	83	78
Deferred income taxes/Other	(3)	(9)	(7)	0	(4)
Cash flow from operations	237	193	177	170	166
Dividends paid	(85)	(85)	(84)	(67)	(100)
Capex	(160)	(169)	(157)	(139)	(123)
Free cash flow before WC	(8)	(61)	(64)	(36)	(57)
Changes in working capital (WC)	14	84	(15)	16	33
Changes in regulatory assets & liabilities	(31)	(10)	0	0	0
Net free cash flow	(25)	13	(79)	(20)	(24)
Acquisitions	0	0	0	0	0
Assets sales/Divestitures	0	0	0	0	14
Net changes in equity	65	0	125	0	0
Net changes in debt	(36)	(15)	(24)	6	(5)
Other/Adjustments by DBRS	1	4	(13)	7	22
Change in cash	5	2	9	(7)	7
Total debt	1,701	1,737	1,623	1,647	1,640
Total debt in capital structure	47.4%	49.1%	61.3%	65.2%	65.2%
Total debt in capital structure (1) (2)	58.9%	62.6%	62.6%	66.4%	66.4%
Cash flow/Total debt	13.9%	11.1%	10.9%	10.3%	10.1%
EBIT gross interest coverage (1)	2.03	2.08	2.20	2.00	1.97
Total debt/EBITDA	4.61	5.22	5.13	5.55	5.62
Capex/Depreciation	1.25	1.84	1.72	1.68	1.57
Dividend payout ratio	75.9%	77.3%	90.1%	76.8%	109.3%

(1) Adjusted for operating leases.
(2) Certain US GAAP adjustments in 2012 and 2011 (see Transition to US GAAP on page 3) have been adjusted for comparative purposes.

2012 Summary

- Cash flow from operations has increased steadily, reflecting the Company's growing earnings.
- Capital investments to support load growth and system reliability have also increased considerably over the past few years. This, combined with high dividend payouts (an average payout ratio of 86% of earnings over the last five years), has resulted in free cash flow deficits.
  - The Company continued to manage its dividend payouts and equity issuances so that its capital structure is in line with the conditions imposed by the BCUC, which stipulates that FEI must maintain its capital structure in line with the regulatory structure.
- In April 2012, the Company issued $65 million in equity to its parent due to a higher rate base in 2012 compared to 2011, as a result of capital projects going into service in early 2012.
- FEI's credit metrics remained stable in 2012 and were commensurate with the current rating.

2013 Outlook

- Free cash flow deficits are expected to continue as capex is expected to be approximately $194 million in 2013, before contributions in aid of construction, largely due to the sustaining capital program.
- DBRS expects FEI to continue to finance its capex through dividend management and equity and debt issuances in a manner that maintains its capital structure in line with its current rating range.

FortisBC Energy Inc.

Report Date:
March 18, 2013

Long-Term Debt and Liquidity

Liquidity

Credit Facilities (December 31, 2012)	Committed	Short-Term Notes	Letters of Credit	Available	Expiry
(CA$ millions)					
Syndicated unsecured credit facility	500	33	51	416	Aug-14
Total	500	33	51	416	

- The credit facility is primarily used to support FEI's $500 million commercial paper program.
- Due to the seasonal nature of the business, liquidity requirements peak in the fall and winter.
- DBRS views FEI's liquidity as sufficient for its funding requirements during the peak period, given its stable cash flow and modest long-term debt due in the near term.

Long-Term Debt, Capita Lease & Finance Obligations Maturity Schedule

(CA$ millions)	2013	2014	2015	2016	2017	Thereafter
Debt instruments	7.0	7.0	82.0	207.0	7.0	1,358.0
% of total	0%	0%	5%	12%	0%	81%

- The Company's near-term refinancing risk remains modest, as the debt maturity schedule is light until 2016 when approximately $207 million (or 12%) of total debt will be due.
- DBRS believes that refinancing of the debt maturity is manageable, given the Company's strong credit profile.

Debt Instruments

Debt Instruments	2012	2011
(CA$ millions)		
Secured Purchase Money Mortgages	275	275
Unsecured Debentures and MTNs	1,270	1,270
Capital lease and finance obligation	123	127
Total	1,668	1,672
Credit facilities	33	65
Less: Current portion	(7)	(7)
Total	1,694	1,730

- MTNs and Unsecured Debentures have the same rating as PMMs based on the following: (1) the outstanding amount of the PMMs is not significant (only around 16% of the total debt); and (2) DBRS does not expect FEI to issue new PMMs in the future.
- The bank facility is unsecured but is rated equally with the Company's secured and unsecured debt.

Regulation

Overview

DBRS views the regulatory framework in British Columbia as reasonable, as it allows FEI to earn a reasonable return on its capital investment and to recover prudently incurred operating costs. In addition, the Company does not have exposure to gas price risk since costs are generally passed through to the customers, subject to a reasonable regulatory lag. FEI is regulated by the BCUC.

- The BCUC uses a future test year to establish rates for a utility. FEI forecasts the volume of gas to be sold, gas supply costs and all operating costs that are incurred in the test year.
- The BCUC will set rates to permit FEI to collect all of its approved forecast costs.
- FEI has a number of deferral accounts that are used to ameliorate unanticipated changes in certain forecast items, including the following two mechanisms:

(1) Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account:

- Any differences between actual and forecast gas costs are captured and recorded in these deferral accounts to be recovered or refunded in future rates.
- Forecast gas prices are adjusted on a quarterly basis for the commodity rates, mitigating the impact of the recovery lag.

(2) Revenue Stabilization Adjustment Mechanism:

- The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in forecast versus actual customer usage throughout the year to recover them in rates over the following three years. This reduces FEI's earnings volatility.
- Volume variances from large-volume industrial, transportation and other customers, which account for approximately 39% of FEI's total throughput (2012), are not included in this deferral account. However, these customers' usage is more predictable and less likely to be significantly affected by weather, even though it is sensitive to economic conditions.

Rates

- Prior to 2010, FEI operated under a performance-based rate plan.
- In 2010 through 2012, FEI operated under traditional cost-of-service rate making.
- In April 2012, the BCUC issued a decision on the FortisBC Utilities (collectively consisting of FEI, FEVI and FEW) 2012/2013 Revenue Requirement Application.
  - The final delivery rate increase effective January 1, 2012, was 4.2% (a decrease of approximately 1.4% as compared to FEI's existing interim delivery rates for 2012).
  - The difference between interim rates and final rates was refunded to customers starting June 1, 2012.
- From 2010 through 2012, the Company's ROE and deemed equity were at 9.50% and 40%, respectively.

Generic Cost of Capital Proceeding

- In April 2012, the BCUC issued a final scoping document identifying the items that will be reviewed as part of GCOC Proceeding.
  - These include, among other things: (1) the cost of capital for a benchmark low-risk utility effective January 2013; and (2) whether a ROE automatic adjustment mechanism is warranted, which would be implemented January 2014.
  - The decision is expected mid-year 2013 and could have a negative impact on FEI's earnings in 2013 and beyond.

Regulatory Ring-Fencing

- The regulatory ring-fencing imposed on FEI by the BCUC at the time Fortis Inc. acquired FEI in 2007 (a continuation of the ring-fencing imposed upon acquisition of the former Terasen Inc. by Kinder Morgan Inc. in 2005) is intended to ensure that public interest is protected and that FEI will continue to operate as a separate, stand-alone entity without undue parental influence. One of these conditions is that FEI must maintain its debt-to-capital ratio in line with the regulatory capital structure.

FortisBC Energy Inc.

Balance Sheet	USGAAP	USGAAP	CGAAP		USGAAP	USGAAP	CGAAP
(CA$ millions)	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Assets	2012	2011	2010	**Liabilities & Equity**	2012	2011	2010
Cash & equivalents	22	17	15	S.T. borrowings	33	65	178
Accounts receivable	205	238	298	Current portion of debt	7	7	3
Inventories	95	101	136	Accounts payable	226	304	358
Current regulatory assets	28	73	0	Current regulatory liabilities	35	23	0
Others	16	13	108	Others	32	38	53
Total Current Assets	**366**	**442**	**557**	**Total Current Liabilities**	**333**	**437**	**591**
Net fixed assets	2,604	2,573	2,466	Long-term debt	1,661	1,665	1,442
Deferred income taxes	0	0	0	Deferred income taxes	309	298	280
Goodwill & intangibles	890	886	95	Regulatory liabilities	55	54	0
Regulatory assets	561	514	0	Other L.T. liabilities	194	185	149
Investments & others	22	23	366	Shareholders equity	1,891	1,799	1,023
Total Assets	**4,443**	**4,438**	**3,484**	**Total Liab. & SE**	**4,443**	**4,438**	**3,484**

	USGAAP	USGAAP	CGAAP	CGAAP	CGAAP
Balance Sheet &	**For the year ended December 31st**				
Liquidity & Capital Ratios	**2012**	**2011**	**2010**	**2009**	**2008**
Current ratio	1.10	1.01	0.94	0.88	0.80
Total debt in capital structure	47.4%	49.1%	61.3%	65.2%	65.2%
Total debt in capital structure (1) (2)	58.9%	62.6%	62.6%	66.4%	66.4%
Cash flow/Total debt	13.9%	11.1%	10.9%	10.3%	10.1%
Cash flow/Total debt (1)	13.8%	10.5%	10.3%	9.8%	9.6%
Cash flow/Capex	1.48	1.14	1.14	1.13	1.22
(Cash flow - Dividends)/Capex	0.95	0.64	0.59	0.74	0.54
Approved common equity	40.0%	40.0%	40.0%	35.0%	35.0%
Dividend payout ratio	75.9%	77.3%	90.1%	76.8%	109.3%
Coverage Ratios (times)					
EBIT gross interest coverage	2.03	2.04	2.17	1.96	1.92
EBITDA gross interest coverage	3.10	2.82	3.04	2.72	2.62
Fixed-charges coverage	2.03	2.04	2.17	1.96	1.92
Debt/EBITDA	4.61	5.22	5.13	5.55	5.62
EBIT gross interest coverage (1)	2.03	2.08	2.20	2.00	1.97
Profitability Ratios					
EBITDA margin	60.0%	56.5%	55.3%	56.4%	57.0%
EBIT margin	39.2%	40.9%	39.4%	40.7%	41.7%
Profit margin	18.2%	18.7%	16.3%	16.5%	17.9%
Return on avg. common equity (2)	10.4%	10.7%	9.8%	9.9%	10.4%
Return on capital (2)	7.3%	7.1%	6.2%	6.2%	6.4%
Allowed ROE	9.5%	9.5%	9.5%	9.0%	8.6%

(1) Adjusted for operating leases.

(2) Certain US GAAP adjustments in 2012 and 2011 (see Transition to US GAAP on page 3) have been adjusted for comparative purposes.

FortisBC Energy Inc.

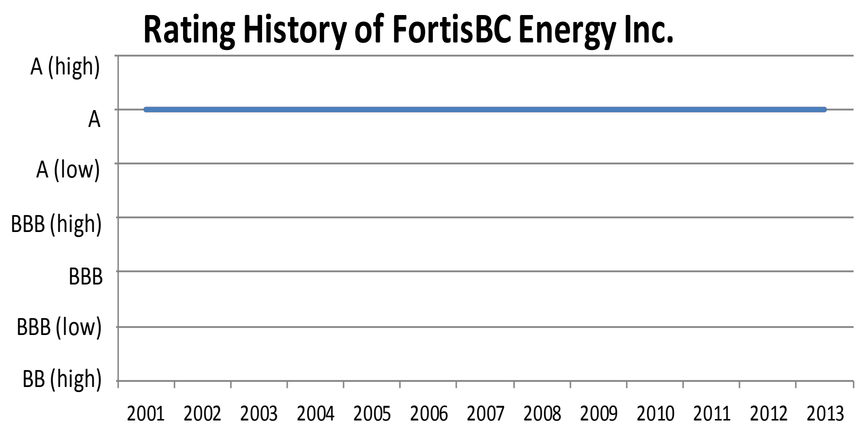
Report Date:
March 18, 2013

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
MTNs & Unsecured Debentures	A	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating History

Debt Rated	Current	2012	2011	2010	2009	2008
Issuer Rating	A	A	NR	NR	NR	NR
MTNs & Unsecured Debentures	A	A	A	A	A	A
Purchase Money Mortgages	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)



Note:
All figures are in Canadian dollars unless otherwise noted.

MOODY'S
INVESTORS SERVICE

Credit Opinion: FortisBC Energy Inc.

Global Credit Research - 26 Jun 2013

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Negative
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
Parent: FortisBC Holdings Inc.	
Outlook	Negative
Senior Unsecured -Dom Curr	Baa2
FortisBC Energy (Vancouver Island) Inc.	
Outlook	Negative
Senior Unsecured -Dom Curr	A3

Contacts

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Key Indicators

[1]**FortisBC Energy Inc.**

	2012	[2]2011	2010	2009
(CFO Pre-W/C + Interest) / Interest Expense	2.4x	2.2x	2.7x	2.6x
(CFO Pre-W/C) / Debt	14.1%	11.2%	10.6%	10.2%
(CFO Pre-W/C - Dividends) / Debt	9.2%	6.5%	5.9%	6.5%
Debt / Book Capitalization	45.3%	47.4%	59.1%	61.8%

Source: Moody's Financial Metrics TM

[1] All ratios are calculated using Moody's Standard Adjustments. [2] 2011 Key Indicators reflect the company's retrospective changes due to adoption of US GAAP, effective January 1, 2012

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Low business risk utility in a supportive regulatory environment

Weak financial metrics are expected to decline further

Adequate liquidity and manageable capex

Corporate Profile

FortisBC Energy Inc. (FEI) is the largest distributor of natural gas in British Columbia and one of the largest gas local distribution companies (LDC) in Canada. FEI is regulated on a cost-of-service basis by the British Columbia Utilities Commission (BCUC).

FEI is a wholly-owned subsidiary of FortisBC Holdings Inc. (FHI; Baa2 negative) which, in turn, is a wholly-owned subsidiary of Fortis Inc. (FTS, not rated), a diversified electric and gas utility holding company, headquarted in St. John's, NL. FHI also owns 100% of FortisBC Energy (Vancouver Island) Inc. (FEVI; A3 negative) and FortisBC Energy (Whistler) Inc. (FEW, not rated).

SUMMARY RATING RATIONALE

FEI's A3 senior unsecured rating reflects its low-risk LDC business model and the generally supportive regulatory environment in British Columbia. As an LDC, FEI is able to produce stable and predictable cash flow from operations, which are supported by the regulated revenues approved by the BCUC and its cost of service ratemaking model. FEI's rating reflects a relatively high use of leverage, and the historically weak financial metrics for an A3 utility, especially when compared to US peers that typically earn higher returns on a more equity rich capital structure. The BCUC's recent generic cost of capital decision (GCOC), which reduced both FEI's allowed ROE level and equity component for rates, is likely to weaken the company's financial metrics further and is the impetus for the company's negative ratings outlook.

DETAILED RATING CONSIDERATIONS

LOW RISK OPERATIONS IN A SUPPORTIVE REGULATORY ENVIRONMENT

FEI's investment grade rating is primarily supported by the revenue and cost recovery certainty provided by a regulated business model and monopoly service territory. The BCUC offers a cost of service based regulatory compact, which allows FEI to generate a predictable amount of cash flow, supporting its relatively modest capital program for a stable residential customer base.

We view the BC regulatory framework to be similar in its framework to a strong US jurisdiction, due to similar procedural and legal processes and supportive cost recovery features, including a forward looking test year, deferral accounting for certain costs and timely decisions from the commission. The deferral, or true-up, mechanisms limit FEI's exposure to forecast error are in respect to commodity price and volume, pension funding costs, insurance costs and short-term interest rates. In addition, FEI is required to obtain a certificate of public convenience and necessity (CPCN) from the BCUC prior to undertaking any capital project in excess of $5 million. In our view, this process reduces the risk that FEI would be denied the opportunity to recover the cost of its capital investments. This is also similar to US processes, which include CPCNs and integrated resource plans.

The primary areas where Canadian regulation is viewed as less credit supportive than other jurisdictions, includes the lower allowed ROE levels and lower equity component of the rate structure. In general, the US maintains 10% (or slightly below) allowed ROEs for integrated, transmission and distribution (T&D) and LDC companies, with capital structures that approximate a 50/50 balance of debt and equity. Furthermore, most states in the US have trended toward implementing various riders or trackers that allow utilities to automatically recover certain costs (e.g., environmental capex, lost margin due to efficiencies or customer conservation, infrastructure replacement, etc.) on a timely basis (most are annual true-ups) and in between general rate case proceedings. The FortisBC utilities do not benefit from many of these interim recovery features, though future test years can often obviate the need for some of these mechanisms and FEI does have annual true-ups for efficiency (rate stabilization accounts) that occur outside of the rate setting process, a credit positive.

WEAK FINANCIALS VERSUS US PEERS

FEI's cash flow to debt metrics have been steadily increasing since 2009, with CFO pre-WC to debt growing from 10% in 2009 to 14% in 2012. Despite this improvement, the 2010-2012 average CFO pre-WC interest coverage of 2.5x and CFO pre-WC to debt of 12% compares unfavorably to A3 rated LDC companies in the US, which have averaged over 6.0x CFO pre-WC interest coverage and nearly 25% CFO pre-WC to debt, respectively, over the same time horizon. Even the Baa1 US LDC companies have been able to produce over 5.0x and nearly 23% CFO pre-WC to debt from 2010-2012.

BCUC's GENERIC COST OF CAPITAL OUTCOME WILL NEGATIVELY IMPACT FINANCIAL METRICS

In May 2013, the BCUC issued a final order in Stage 1 of its GCOC, which included a reduction of FEI's (the benchmark utility) common equity ratio to 38.5% from 40.0%, and a reduction in allowed ROE of 8.75% from 9.50%. The decision also re-established an automatic adjustment formula (AAM) which considers changes to utility bond spreads and the 30 year Government of Canada bond yields to determine the benchmark ROE on an annual basis, for years 2014 and 2015. Though the AAM could provide automatic lift to allowed ROE's in times of rising interest rates, a credit positive, our expectation is that the impact of the GCOC is likely to reduce future cash flow generation of FEI.

Given the GCOC's downward revision to ROE and equity layer, we expect that FEI's CFO pre-WC to debt will reverse the trajectory seen in recent years and fall below 13% over the intermediate-term. Although this expected financial profile is more in line with more highly levered Canadian peers, the degree of BCUC regulatory support may not be of sufficient strength to support FEI's A3 unsecured rating, while exhibiting cash flow to debt metrics that are borderline investment grade, according to our Regulated Electric and Gas Utilities Rating Methodology.

In June 2013, FEI filed an application seeking approval of a five-year performance based ratemaking plan, which would offer formula-driven spending cap on O&M and capital expenditures, and other components will be reset each year, along with actual rates. The plan, if approved, would be a credit positive; however, the degree of the impact will depend upon what is actually implemented by the BCUC.

DENIED AMALGAMATION OF FEI, FEVI AND FEW HAS NO CREDIT IMPACT FOR FEI

In 2012, FEI, FEVI and FEW filed a joint application with the BCUC to amalgamate and harmonize rates across the. In February 2013, the BCUC issued a decision which denied the application, citing a desire to maintain the status quo, which had previously determined utility rates based on causality (i.e., appropriate rates applied to a given utility based upon its respective and specific needs). The commission noted that the amalgamation would result in significant and unfair cross subsidization of FEVI and FEW customers by the customers of FEI and FortisBC Energy Inc. Fort Nelson Service Area (not rated).

The amalgamation denial is negative to FEVI, whose customers would have benefitted from the subsidization effects. FEVI now faces significant rate increases on the heels of a large capex program and the end of governmental subsidies. The amalgamation denial is credit neutral to FEI, as it will simply maintain its independent rate structure and eliminates the potential for higher rates as a result of the cross subsidization effects.

Liquidity Profile

For LTM 1Q13, FEI produced about $200 million of adjusted CFO compared to $165 million of capital expenditures and $65 million of dividends. We expect a similar amount of free cash flow deficit (approximately $30 million) over the course of 2013, as the company continues with a stable capital plan and upstream dividends with an eye toward maintaining its BCUC allowed capital structure.

FEI's external liquidity is supported by a $500 million facility maturing in August 2014, which supports its $500 million commercial paper program. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement. As of March 31, 2013, there was $449 available under the facility.

We recognize that FEI's reliance on short-term debt to finance gas inventories is supported by the BCUC and that the BCUC has approved the use of an interest rate deferral account to limit FEI's exposure to short-term interest rate volatility, specifically on gas inventories. However, we believe that FEI's financial flexibility can become somewhat constrained, particularly when material debt maturities fall within the peak storage season and especially since the BCUC's July 2011 decision to eliminate the majority of FEI's commodity hedging activities. Although we expect a sustained period of low natural gas prices, this philosophical change is viewed negatively from a credit perspective and could increase the volatility of FEI's cash flow and increase its liquidity requirements.

FEI has only small amounts of debt amortization (approximately $7 million) over the near-term and $75 million maturing in September 2015.

Rating Outlook

The negative rating outlook primarily reflects our expectation for FEI's financial profile to decline over the intermediate-term as reduced ROE and equity levels are likely to result in lower cash flow production and negatively impact CFO to debt metrics.

What Could Change the Rating - Up

It is not likely that FEI's rating will experience upward movement over the near-term. However, if BCUC support were to improve and financial metrics of CFO pre-WC interest coverage were to exceed 4.0x and CFO pre-WC to debt were to be above 19% on a sustainable basis, that would have a positive credit impact.

What Could Change the Rating - Down

A determination that the BCUC has become a less supportive and predictable regulatory framework would likely result in a downgrade of FEI's rating, but today, we still view the regulator as supportive to long-term credit quality. The recent reduction in allowed ROE and the equity component in the capitalization is viewed as the regulator exercising its authority over the utility monopoly's profitability, and not as a sign of a more contentiousness environment. Ratings could also fall if sustained CFO pre-WC to debt metrics fall below 12%.

Rating Factors

FortisBC Energy Inc.

Regulated Electric and Gas Utilities [1][2]	**Current 12/31/2012**		[3]**Moody's 12-18 month Forward View As of Date Published**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		A		A
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		A
Factor 3: Diversification (10%)				
a) Market Position (10%)		A		A
b) Generation and Fuel Diversity (0%)				
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		A		A
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	2.4x	Ba	2.5 - 2.8x	Ba
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	12%	Ba	12.5 -13.5%	Ba
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	7%	Ba	7.5 - 9%	Ba
e) Debt/Capitalization (3 Year Avg) (7.5%)	50%	Baa	46 - 50%	Baa
Rating:				
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned		A3		A3

Source: Moody's Financial Metrics TM

[1] All ratios are calculated using Moody's Standard Adjustments. [2] Based on financial data as of 12/31/2012. [3] This represents Moody's forward view; not the view of the issuer.

MOODY'S
INVESTORS SERVICE

Rating Report
Report Date:
March 18, 2014
Previous Report
March 18, 2013

Insight beyond the rating.

FortisBC Energy Inc.

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The Company
FortisBC Energy Inc. (FEI or the Company) is the largest natural gas distributor in British Columbia, serving approximately 850,000 customers (at the end of 2013) and representing approximately 85% of British Columbia's natural gas users (95% after the amalgamation). The Company is 100% owned by FortisBC Holdings Inc. (FHI; rated BBB (high)), which is a wholly-owned subsidiary of Fortis Inc.

Commercial Paper Limit
$500 million

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
MTNs & Unsecured Debentures	A	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

DBRS has confirmed the ratings of FortisBC Energy Inc. (FEI or the Company) as listed above. The Medium-Term Notes (MTNs) and Unsecured Debentures (Debentures) have the same rating as the Purchase Money Mortgages (PMMs), based on the following: (1) the outstanding amount of the PMMs is not significant (16% of total debt) and (2) DBRS does not expect FEI to issue additional PMMs in the future. The ratings reflect FEI's good financial profile, low-risk business underpinned by its regulated distribution operation in an economically strong area, and a reasonable regulatory environment.

On February 26, 2014, the British Columbia Utilities Commission (BCUC) issued a decision on FortisBC Energy Utilities' (the FEU) Application for Amalgamation and Rate Design (the Decision). The FEU comprises FEI, FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW). DBRS viewed the Decision as credit neutral to FEI (for more information, see DBRS press release dated February 26, 2014).

FEI's business risk is reflective of an "A" rating category, supported by the following factors: (1) FEI, as a regulated natural gas distributor, has no exposure to gas price risk and (2) FEI serves a large customer base in an economically strong franchise area. In May 2013, the BCUC issued a decision on the first stage of the Generic Cost of Capital (GCOC) Proceeding. In the decision, the benchmark utility's (which is determined to be FEI) return on equity (ROE) would be set at 8.75% and deemed equity at 38.5%, both effective January 1, 2013 and unchanged in 2014 (ROE and deemed equity in 2012 were 9.50% and 40%, respectively). This unfavourable decision negatively affects FEI's earnings. In June 2013, FEI filed a Multi-Year Performance Based Ratemaking (PBR) Plan for 2014 through 2018. The BCUC approved a refundable interim increase for 2014 of 1.4%, with a final decision expected in Q3 2014. FEI's large customer base should allow FEI to maintain a good level of efficiency during the PBR period, in which an annual delivery rate increase is set under a formula approach for operating and capital costs.

FEI's credit metrics remained in the "A" rating range. FEI's 2014 capex is estimated to increase to nearly $300 million (including cost of removal) before customer contributions. This increase is largely associated with the Tilbury LNG Facility Expansion Project (See the Tilbury Project Section). DBRS expects FEI to prudently fund its 2014 capex program and maintain its credit metrics in line with DBRS's "A" rating range.

Rating Considerations

Strengths
(1) Relatively low business risk
(2) Economically strong service territory
(3) Good financial profile
(4) Large customer base

Challenges
(1) Volume risk
(2) Uncertainty about the PBR Plan
(3) Indirect access to the equity market
(4) Competition from electricity

Financial Information

	USGAAP	USGAAP	USGAAP	CGAAP	CGAAP
FortisBC Energy Inc.	**For the year ended December 31st**				
(CA$ millions)	**2013**	**2012**	**2011**	**2010**	**2009**
EBIT gross interest coverage (1)	1.99	2.03	2.08	2.20	2.00
% debt in capital structure (1) (2)	60.3%	58.9%	62.6%	62.6%	66.4%
Cash flow/Total debt	14.3%	13.9%	11.1%	10.9%	10.3%
Net income before extra. Items	104	112	110	93	87
Cash flow from operations	251	237	193	177	170

(1) Adjusted for operating leases.
(2) Certain US GAAP adjustments in 2013, 2012 and 2011 have been adjusted for comparative purposes (see P6).

Rating Considerations Details

Strengths

(1) **Relatively low business risk.** FEI's business risk is viewed as relatively low, supported by the following factors: (a) FEI generates virtually all of its earnings from its regulated natural gas distribution and transportation operations, where competition is limited to other forms of energy (electricity); (b) FEI is not exposed to commodity price risk as natural gas costs are passed on to the customers, with adjustments made through quarterly review and application to the BCUC; and (c) volatility in usage by residential and commercial customers caused by the impact of the weather is mitigated through a deferral account (see Regulation Section). DBRS notes that the May 2013 BCUC decision on the first stage of the GCOC Proceeding was unfavourable. The decision determined that the ROE would be set at 8.75% and the deemed equity component at 38.5% for a benchmark utility, which was determined to be FEI, both effective January 1, 2013.

(2) **Economically strong service territory.** FEI operates in an economically strong service area that includes the City of Vancouver. The customer mix is weighted toward residential and commercial customers, whose consumption is less sensitive to economic conditions.

(3) **Good financial profile.** FEI has maintained its capital structure in line with the approved regulatory capital structure. All of the Company's credit metrics at the end of 2013 were indicative of the "A" rating category. These metrics are expected to remain stable going into 2014, as the Company is expected to continue to finance its future capex and maintain its balance-sheet leverage in line with the regulatory approved capital structure.

(4) **Large customer base.** FEI had a large customer base of approximately 850,000 at the end of 2013. This represented approximately 85% of natural gas users in British Columbia (BC) (95% after the amalgamation of FEI, FEVI and FEW).

Challenges

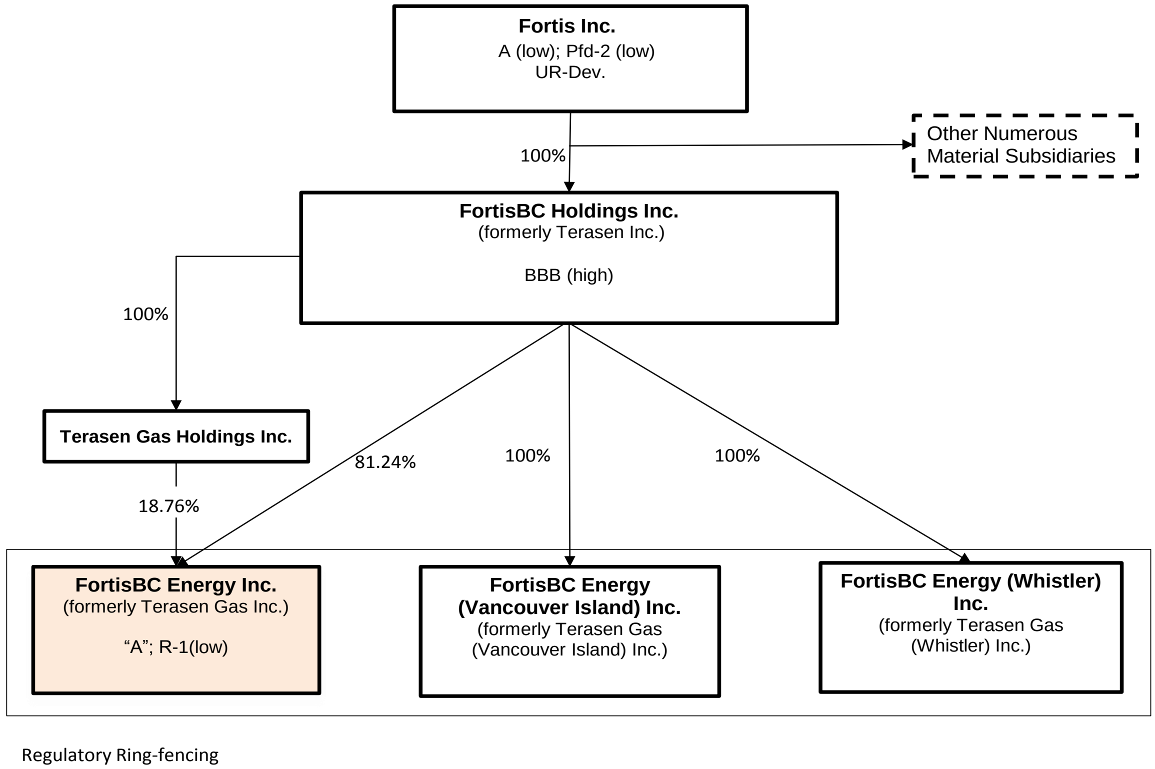
(1) V**olume risk.** The Company is exposed to volume risk on industrial, transportation and other customers, who accounted for approximately 38% of the Company's total throughput in 2013. The usage of these customers, such as those in the pulp and paper industries, is sensitive to economic conditions.

(2) **Uncertain outcome of the PBR plan.** There are uncertainties regarding the regulatory decision on the PBR plan for the 2014-2018 period. In June 2013, the Company filed an application for a multi-year performance based ratemaking plan. The BCUC is in the process of reviewing the application, with a decision expected in Q3 2014. There are no assurances that the rate orders to be issued will allow FEI to recover all costs actually incurred to provide utility services and to earn the expected ROE. Should the decision on the PBR plan be unfavourable with respect to the recovery of operating & maintenance cost and capital investment, it could have a negative impact on FEI's cash flow and credit metrics.

(3) **Indirect access to the public equity market.** FEI has no direct access to the public equity market. As a result, it finances cash flow deficits by managing its dividend payouts and equity issuances to the parent, as well as other debt issuances. The Company's current rating incorporates DBRS's expectation that the parent will continue to provide equity financing support in a timely manner if required.

(4) **Competition from electricity.** Natural gas distribution operators in British Columbia face more intense competition from electricity than other provinces in Canada (except Québec), due to the low power costs in British Columbia. DBRS notes that the electricity retail rates in BC are expected to increase considerably over the next two years, thereby potentially reducing the competition.

Simplified Organization Chart as of December 31, 2013



Amalgamation Update

- On February 26, 2014, the British Columbia Utilities Commission (BCUC) issued a decision on FortisBC Energy Utilities' (the FEU) Application for Amalgamation and Rate Design (the Decision). The FEU comprises FortisBC Energy Inc. (FEI), FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW).
- DBRS viewed the Decision as credit neutral to FEI, reflecting the following factors:
  (1) The business risk profile of the amalgamated entity would not significantly change from FEI's current business risk level. This reflects the fact that the amalgamated entity will have a modestly larger customer base than FEI and that risk attributable to the small size of FEVI and FEW, combined with their higher rates, will be eliminated following the amalgamation.
  (2) The BCUC recommends that the return on equity (ROE) and capital structure remain the same for the amalgamated entity as for FEI; however, the final determination as to the appropriate ROE and capital structure is deferred to the Generic Cost of Capital (GCOC) Proceeding.
- See DBRS press release dated February 26, 2014, for further details.

The Tilbury LNG Facility Expansion Project

In November 2013, an Order in Council (Special Direction) was signed by the Province to allow FEI to expand its LNG facilities at Tilbury Island (BC) (the Expansion Project). The Special Direction set out a number of requirements for the BCUC as follows:

(1) The Expansion Project is exempt from a Certificate of Public Convenience and Necessity (CPCN) process; and
(2) The upper limit for the cost related to the expansion project is $400 million; and
(3) FEI is allowed to recover the cost of the Expansion Project from customers.

The Expansion Project is expected to provide incremental cash flow once it is put in service, expected to be in 2016.

Earnings and Outlook

FortisBC Energy Inc.	USGAAP	USGAAP	USGAAP	CGAAP	CGAAP
Consolidated Income Statement	For the year ended December 31st				
(CA$ millions)	2013	2012	2011	2010	2009
EBITDA (1)	382	369	333	317	297
EBIT (1)	234	241	241	226	214
Gross interest expense (1)	118	119	118	104	109
Pre-tax income	118	123	126	123	106
Income tax	14	11	16	30	19
Net income before extra. items	104	112	110	93	87
Reported net income	104	112	110	93	87
Return on avg. common equity (2)	9.4%	10.4%	10.7%	9.8%	9.9%
Rate Base	2,777	2,725	2,636	2,540	2,547
Approved common equity	38.5%	40.0%	40.0%	40.0%	35.0%
Allowed ROE	8.75%	9.50%	9.50%	9.50%	8.99%

(1) Less inter-company interest payments.

(2) Certain US GAAP adjustments in 2013, 2012 and 2011 have been adjusted for comparative purposes (see P6).

2013 Summary

- **Overall:** Net earnings were lower in 2013, negatively affecting the interest coverage metrics (see next page), though the impact was modest. Lower earnings reflected the following factors:
  (1) Lower allowed ROE (8.75% in 2013 versus 9.50% in 2012), lower equity portion of the capital structure (38.5% in 2013 versus 40% in 2012), lower than forecast margin for transportation customers and higher income taxes.
  (2) The decrease is partially offset by lower than forecast finance charges, lower operation and maintenance expenses, higher rate base and higher allowance for funds during construction.
- Volume usage volatility as a result of changes in weather conditions is mitigated by the revenue stabilization adjustment mechanism (RSAM), which allows FEI to defer variances due to changes in usage rates, to be recovered/refunded over the subsequent three years. The Company has applied for these amounts to be recovered in rates over two years, starting January 2014. RSAM only applies to residential and commercial customers.

2014 Outlook

- 2014 earnings are expected to increase modestly as the rate base continues to grow, while the ROE and deemed equity component remain the same as they were in 2013.
- Effective January 2014, the BCUC approved for a 1.4% increase in interim rates to be refundable. The final decision on the 2014-2018 PBR Plan is expected in Q3 2014.

FortisBC Energy Inc.

Report Date:
March 18, 2014

Financial Profile

FortisBC Energy Inc.	USGAAP	USGAAP	USGAAP	CGAAP	CGAAP
Consolidated Cash Flow Statement	**For the year ended December 31st**				
(CA$ millions)	**2013**	**2012**	**2011**	**2010**	**2009**
Net income before extra. items	104	112	110	93	87
Depreciation & amortization	148	128	92	91	83
Deferred income taxes/Other	(1)	(3)	(9)	(7)	0
Cash flow from operations	251	237	193	177	170
Dividends paid	(131)	(85)	(85)	(84)	(67)
Capex	(159)	(159)	(169)	(157)	(139)
Free cash flow before WC	(39)	(7)	(61)	(64)	(36)
Changes in working capital (WC)	8	14	84	(15)	16
Changes in regulatory assets & liabilities	(29)	(17)	(10)	0	0
Net free cash flow	(60)	(10)	13	(79)	(20)
Acquisitions	0	0	0	0	0
Assets sales/Divestitures	0	0	0	0	0
Net changes in equity	0	65	0	125	0
Net changes in debt	50	(36)	(15)	(24)	6
Other/Adjustments by DBRS	(12)	(14)	4	(13)	7
Change in cash	(22)	5	2	9	(7)
Total debt	1,751	1,701	1,737	1,623	1,647
Total debt in capital structure	48.4%	47.4%	49.1%	61.3%	65.2%
Total debt in capital structure (1) (2)	60.3%	58.9%	62.6%	62.6%	66.4%
Cash flow/Total debt	14.3%	13.9%	11.1%	10.9%	10.3%
EBIT gross interest coverage (1)	1.99	2.03	2.08	2.20	2.00
Total debt/EBITDA	4.58	4.61	5.22	5.13	5.55
Dividend payout ratio	126.0%	75.9%	77.3%	90.1%	76.8%

(1) Adjusted for operating leases.

(2) Certain US GAAP adjustments in 2013, 2012 and 2011 have been adjusted for comparative purposes (see P6).

2013 Summary

- FEI's financial profile remained relatively stable in 2013, with slightly higher debt leverage, modestly lower interest coverage ratio, but stronger cash flow ratios. All credit metrics remained within DBRS's "A" rating category.
- Despite lower earnings (as discussed in the Earnings Section), cash flow increased modestly in 2013 over 2012, largely reflecting high depreciation as the rate base grew.
- While capex remained stable in 2013, dividends increased to maintain FEI's capital structure to be in line with the regulatory capital structure.

2014 Outlook

- 2014 capex before contributions in aid of construction and including cost of removal is estimated to be approximately $296 million, which is much higher than the amount spent in the previous two years. As a result, the free cash flow deficits are expected to continue.
- Approximately $100 million is expected to be allocated to the Expansion Project. The project has a capex limit of $400 million (set by a Special Direction issued by the Province) and is expected to be in service in 2016.
- DBRS expects FEI to continue to finance its capex through dividend management and equity and debt issuances in a manner that maintains its credit metrics in line with "A" rating range.

Long-Term Debt and Liquidity

Liquidity

Credit Facilities (December 31, 2013)	Committed	Short-Term Notes	Letters of Credit	Available	Expiry
(CA$ millions)					
Syndicated unsecured credit facility	500	87	50	363	Aug-2015
Total	500	87	50	363	

- The unsecured credit facility is primarily used to support FEI's $500 million commercial paper program.
- Due to the seasonal nature of the business, liquidity requirements peak in the fall and winter.
- DBRS views FEI's liquidity as sufficient for its funding requirements during the peak period, given its stable cash flow and a low natural gas price environment.

Long-Term Debt, Capital Lease & Finance Obligations Schedule

(CA$ millions)	2014	2015	2016	2017	2018	Thereafter	Total
Amount due	7	82	207	7	34	1,327	1,664.0
% of total	0%	5%	12%	0%	2%	80%	100%

- The Company's near-term refinancing risk remains modest, as the debt maturity schedule is light until 2016, when approximately $207 million (or 12%) of total debt will be due.
- DBRS believes that refinancing of the debt maturity is manageable, given the Company's strong credit profile.

Debt Instruments

Debt Instruments	2013	2012
(CA$ millions)		
Secured Purchase Money Mortgages (PMMs)	275	275
Unsecured Debentures and MTNs	1,270	1,270
Capital lease and finance obligation	119	123
Total	1,664	1,668
Credit facilities	87	33
Less: Current portion	(7)	(7)
Total	1,744	1,694

- MTNs and Unsecured Debentures have the same rating as PMMs based on the following: (1) the outstanding amount of the PMMs is viewed as not significant; and (2) DBRS does not expect FEI to issue new PMMs in the future.

Transition to US GAAP

- Effective January 1, 2012, FEI adopted US GAAP and has restated the comparative reporting period. The major impact on key credit ratios in this report reflects the following changes as at December 31, 2011:
  (1) Total assets increased by approximately $951 million due primarily to increases in regulatory assets, plant and equipment and goodwill in accordance with US GAAP.
  (2) Total liabilities increased by approximately $202 million due primarily to increases in long-term debt and capital lease obligations and pension liabilities in accordance with US GAAP.
  (3) The equity base increased by approximately $750 million. The increase was due primarily to the application of push-down accounting, which was effective May 17, 2007 as a result of the Fortis acquisition.
- DBRS has adjusted for goodwill and "lease-in lease-out" arrangements for the debt-to-capital ratio under US GAAP for comparative purposes.

Regulation

Overview

FEI operated under a traditional cost-of-service (COS) methodology from 2010 through 2013. Under this methodology, FEI was allowed to have an opportunity to recover its prudently-incurred operating and maintenance costs and prudently-incurred capital investment. In addition, the BC regulatory framework allows FEI to pass on all gas supply costs to customers (subject to reasonable regulatory lag) and to implement deferral accounts to mitigate the volatility of weather impact and gas price fluctuation.

Future test year

- Under the traditional COS methodology, the BCUC uses a future test year to establish rates for a utility. FEI forecasts the volume of gas to be sold, gas supply costs and all operating costs that are incurred in the test year. The BCUC will then set rates to permit FEI to collect all of its approved forecast costs.

Deferral Accounts

FEI has a number of deferral accounts that are used to ameliorate unanticipated changes in certain forecast items, including the following two mechanisms:

(1) Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA):

- Any differences between actual and forecast gas costs are captured and recorded in these deferral accounts to be recovered or refunded in future rates. Forecast gas prices are adjusted on a quarterly basis for commodity rates, mitigating the impact of recovery lag.

(2) Revenue Stabilization Adjustment Mechanism (RSAM):

- The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in forecast versus actual customer usage throughout the year to recover them in rates over the following three years. This reduces FEI’s earnings volatility.
- Volume variances from large-volume industrial, transportation and other customers are not included in this deferral account. However, these customers’ usage is more predictable and less likely to be significantly affected by weather, even though it is sensitive to economic conditions.
- The RSAM and MCRA accounts are currently recovered/refunded in rates over three years. FEI has applied to the BCUC, requesting these amounts to be recovered/refunded over two years. The CCRA is anticipated to be fully recovered within the next fiscal year.

Generic Cost of Capital Proceeding (GCOC)

- In May 2013, the BCUC issued a decision on the first stage of the GCOC Proceeding, which determined that FEI’s ROE and deemed equity would be set at 8.75% and 38.5% respectively, both effective January 1, 2013.
- Effective January 2014, the BCUC introduced an Automatic Adjustment Mechanism (AAM) to set the ROE on an annual basis. The AAM will be in effect if the actual long-term Government of Canada (GOC) bond yield exceeds 3.8%. The AAM did not take effect in 2014, since the GOC bond yield in October 2013 did not exceed the 3.8% threshold. As a result, the ROE for FEI in 2014 remains at 8.75%.

The 2014-2018 Performance Based Ratemaking (PBR) Plan

- In June 2013, FEI filed an application for a PBR Plan for 2014 through 2018.
- The PBR application assumes a forecast average rate base of approximately $2,778 million for 2014 and requests approval of a delivery rate increase of 1.4%, based on a formula approach for operating and capital costs and a continuation of this rate setting methodology through 2018.
- The BCUC approved for a 1.4% interim refundable rate increase, effective January 1, 2014. A decision on FEI’s PBR application is expected to be rendered in Q3 2014.

Regulatory Ring-Fencing

- The regulatory ring-fencing imposed on FEI by the BCUC at the time of Fortis Inc.’s 2007 acquisition of FEI (a continuation of the ring-fencing imposed upon acquisition of the former Terasen Inc. by Kinder Morgan Inc. in 2005) is intended to ensure that public interest is protected and that FEI will continue to operate as a separate, stand-alone entity without undue parental influence. One of these conditions is that FEI must maintain its debt-to-capital ratio in line with the regulatory capital structure.

FortisBC Energy Inc.

Report Date:
March 18, 2014

FortisBC Energy Inc.

Balance Sheet (US GAAP)

(CA$ millions)	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Assets	**2013**	**2012**	**2011**	**Liabilities & Equity**	**2013**	**2012**	**2011**
Cash & equivalents	0	22	17	S.T. borrowings	87	33	65
Accounts receivable	228	205	238	Current portion of debt	7	7	7
Inventories	81	95	101	Accounts payable	221	226	304
Current regulatory assets	18	28	73	Current regulatory liabilities	39	35	23
Others	13	16	13	Others	40	32	38
Total Current Assets	**340**	**366**	**442**	**Total Current Liabilities**	**394**	**333**	**437**
Net fixed assets	2,651	2,604	2,573	Long-term debt	1,657	1,661	1,665
Intangible assets	122	121	117	Deferred income taxes	327	309	298
Goodwill	769	769	769	Regulatory liabilities	55	55	54
Regulatory assets	560	561	514	Other L.T. liabilities	167	194	185
Others	22	22	23	Shareholders equity	1,864	1,891	1,799
Total Assets	**4,464**	**4,443**	**4,438**	**Total Liab. & SE**	**4,464**	**4,443**	**4,438**

Balance Sheet &	**For the year ended December 31st**				
Liquidity & Capital Ratios	**2013**	**2012**	**2011**	**2010**	**2009**
Current ratio	0.86	1.10	1.01	0.94	0.88
Total debt in capital structure	48.4%	47.4%	49.1%	61.3%	65.2%
Total debt in capital structure (1) (2)	60.3%	58.9%	62.6%	62.6%	66.4%
Cash flow/Total debt	14.3%	13.9%	11.1%	10.9%	10.3%
Cash flow/Total debt (1)	14.2%	13.8%	10.5%	10.3%	9.8%
Cash flow/Capex	1.58	1.49	1.14	1.13	1.22
(Cash flow - Dividends)/Capex	0.75	0.96	0.64	0.59	0.74
Approved common equity	38.5%	40.0%	40.0%	40.0%	35.0%
Dividend payout ratio	126.0%	75.9%	77.3%	90.1%	76.8%
Coverage Ratios (times)					
EBIT gross interest coverage	1.98	2.03	2.04	2.17	1.96
EBITDA gross interest coverage	3.24	3.10	2.82	3.04	2.72
Fixed-charges coverage	1.98	2.03	2.04	2.17	1.96
Debt/EBITDA	4.58	4.61	5.22	5.13	5.55
EBIT gross interest coverage (1)	1.99	2.03	2.08	2.20	2.00
Profitability Ratios					
EBITDA margin	60.3%	60.0%	56.5%	55.3%	56.4%
EBIT margin	37.0%	39.2%	40.9%	39.4%	40.7%
Profit margin	16.4%	18.2%	18.7%	16.3%	16.5%
Return on avg. common equity (2)	9.4%	10.4%	10.7%	9.8%	9.9%
Return on capital (2)	6.9%	7.3%	7.1%	6.2%	6.2%
Allowed ROE	8.75%	9.5%	9.5%	9.5%	9.0%

(1) Adjusted for operating leases.
(2) Certain US GAAP adjustments in 2013, 2012 and 2011 have been adjusted for comparative purposes (see P6).

FortisBC Energy Inc.

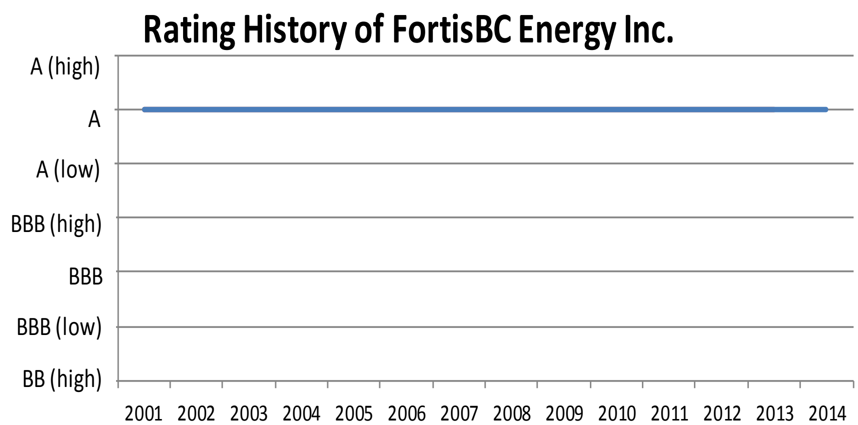
Report Date:
March 18, 2014

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
MTNs & Unsecured Debentures	A	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating History

Debt Rated	Current	2013	2012	2011	2010	2009
Issuer Rating	A	A	A	NR	NR	NR
MTNs & Unsecured Debentures	A	A	A	A	A	A
Purchase Money Mortgages	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)



Note:
All figures are in Canadian dollars unless otherwise noted.

MOODY'S
INVESTORS SERVICE

Credit Opinion: FortisBC Energy Inc.

Global Credit Research - 15 Jul 2014

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3
Parent: FortisBC Holdings Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
FortisBC Energy (Vancouver Island) Inc.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3

Contacts

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Key Indicators

[1]**FortisBC Energy Inc.**

	3/31/2014(L)	12/31/2013	12/31/2012	[2]12/31/2011	12/31/2010
CFO pre-WC + Interest / Interest	2.5x	2.5x	2.4x	2.2x	2.7x
CFO pre-WC / Debt	14.9%	14.8%	14.1%	11.2%	10.6%
CFO pre-WC - Dividends / Debt	6.8%	7.1%	9.2%	6.5%	5.9%
Debt / Capitalization	42.7%	43.9%	44.5%	47.4%	59.1%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics [2] 2011 Key Indicators reflect the company's retrospective changes due to adoption of US GAAP, effective January1, 2012

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Credit supportive regulatory environment

Stable cash flow and weak financial metrics

Transition to PBR expected to have minimal credit implications

Amalgamation credit neutral to FEI

FEI is independent of ultimate parent, Fortis Inc

Corporate Profile

FortisBC Energy Inc. (FEI), headquartered in Vancouver, is the largest gas local distribution company (LDC) in British Columbia serving about 850,000 customers, over 90% of which are residential. FEI is regulated by the British Columbia Utilities Commission (BCUC). From 2010 to 2013, FEI's revenue requirement was determined under cost of service regulation. For the 2014-2018 period, FEI has proposed a return to performance based regulation (PBR), which was previously in effect from 2004 to 2009.

FEI is a wholly-owned subsidiary of FortisBC Holdings Inc. (FHI; Baa2 stable) which, in turn, is wholly owned by Fortis Inc. (FTS, not rated), a diversified electric and gas utility holding company. FHI also owns 100% of FortisBC Energy (Vancouver Island) Inc. (FEVI; A3 stable) and FortisBC Energy (Whistler) Inc. (FEW, not rated).

SUMMARY RATING RATIONALE

FEI's credit quality is driven by its credit supportive regulatory environment and its monopoly position. The company has a long term track record of earning its allowed return on equity and its cash flow continues to be highly predictable. This is offset by the company's weak financial metrics, with limited headroom at the current rating level, that are primarily a product of the allowed return on equity and its equity ratio.

DETAILED RATING CONSIDERATIONS

CREDIT SUPPORTIVE REGUALTORY ENVIRONMENT

FEI's investment grade rating is driven by its credit supportive regulatory environment and its monopoly position. Rates are typically set using a cost of service framework and a forward test year that enables the company to recover its costs and earn an allowed return established by the regulator, resulting in stable cash flow. The company has a track record of passing through its commodity costs in rates and has no direct exposure to commodity price risk and limited volume risk. To the extent that these and many other costs differ from forecast values, deferral or true up mechanisms limit exposure to forecast error. As a result the company has a long track record of earning the return on equity (ROE) established by the regulator.

For capital projects in excess of $5 million the company requires a certificate of public convenience and necessity (CPCN) that reduces the probability of cost disallowances, a credit positive. For large capital projects, the company receives a weighted average cost of capital in rates for financing costs incurred during construction; however, depreciation charges only begin once projects are complete and added to rate base. We do not believe the company has experienced any material cost disallowances. Decisions from the regulator tend to be reasonably predictable, consistent and transparent with a consultative approach. We have noted regulatory lag in some recent decisions, but the company has generally received interim rates as requested, mitigating some lag effects. Generally, when utility or other stakeholders materially disagree with some aspects of decisions, they have been successful in asking the regulator to review and vary its decisions with final outcomes acceptable to all parties as evidenced by a lack of court challenges. The company has access to the courts to challenge regulatory decisions, although we do not believe this has happened since the utility was acquired by Fortis Inc. The legislative and judicial underpinnings of the regulatory framework continue to be stable.

The company benefits from a monopoly position. We believe that its customers, who are primarily residential, continue to have the capacity and willingness to pay their bills.

STABLE CASH FLOW AND WEAK FINANCIAL METRICS

We expect the company to continue to generate stable cash flow, a key credit strength. Underpinning this stability, cash flow from operations is generally a function of the company's rate base, its deemed capital structure (38.5% equity layer effective 1/1/2013 - 12/31/2015), the allowed return on equity (currently 8.75%) and depreciation. The ROE contains an automatic adjustment mechanism for 2014 and 2015 that increases rates in case of rising interest rates - because of ongoing low interest rates 2014 does not qualify for an adjustment. We have incorporated into our analysis that the company continues to perform broadly in line with our expectations, including an assumption that the company will earn its allowed ROE. We expect the company's dividend policy net of any equity injections will maintain the deemed capital structure. The company is forecast to have limited financial metric headroom at the current rating. Planned large capital projects are expected to place some downward pressure on credit metrics, i.e., Tilbury LNG Expansion Project and the pipeline to serve the Woodfibre LNG (being developed at FEVI) because depreciation cash flow will not begin until these projects are in operation.

As a result, we forecast that credit metrics will decline somewhat until these projects are completed in 2016-17 and then improve modestly from the nadir that occurs prior to the in-service dates. This forecasted weakness is incorporated in the current rating.

TRANSITION TO PBR EXPECTED TO HAVE MINIMAL CREDIT IMPLICATIONS

FortisBC utilities have submitted detailed PBR proposals for both FEI and FBC for the period 2014-2018. We have assumed that it does not represent a material change in risk and that the company continues to earn its allowed ROE. The proposed PBR plan is broadly similar to the previous PBR plan and would have both an annual and mid-term review. FEI's proposal would set controllable O&M and non-CPCN (CPCN includes large capital projects that currently require regulatory pre-approval) capex by formula with substantial costs remaining as pass through items. The proposal contains a proposed symmetrical earnings sharing mechanism on up to 200bps and is subject to meeting service quality targets. Performance above or below the allowed ROE by more than 200bps would trigger an automatic review of the PBR plan. There are no proposed changes to key deferral accounts. While we don't expect it, a key risk to the proposal is that the regulator adopts very difficult efficiency targets within the formula. The PBR plan does not propose to modify support for CPCN capex. A final decision on the PBR is expected from the regulator in Q3 or Q4 2014. FEI previously operated under a PBR framework from 2004 to 2009 during which it earned its allowed ROE each year.

AMALGAMATION CREDIT NEUTRAL TO FEI

In February of 2014 the regulator determined that the amalgamation of FEI, FEVI and FEW is in the public interest. As a result we expect FEI, FEVI and FEW will report as a consolidated entity under the FEI name beginning Dec. 31, 2014. Current unsecured debt at FEVI will be assumed by FEI and will rank pari passu with existing FEI unsecured debt following amalgamation. FEVI and FEW are smaller utilities and they will benefit from the increase in scale that comes with the amalgamation with FEI. Their rates will decline as their higher costs are shared across a much larger customer base. Amalgamation is largely neutral to FEI as the increase in its customers' rates as a result of amalgamation are modest and will not affect its ability to recover its revenue requirement. Rate harmonization among the utilities will take place over a three year period. FEI's allowed ROE of 8.75% and an equity thickness of 38.5% would remain unchanged following amalgamation. FEVI's pipeline to serve Woodfibre LNG Expansion will place some modest additional pressure on FEI's amalgamated credit metrics during construction, a credit negative.

FEI IS INDEPENDENT OF ULTIMATE PARENT FORTIS INC

We consider FEI to be operationally and financially independent of ultimate parent Fortis Inc, although the company may periodically rely on its parent for equity injections to maintain its capital structure in line with the regulator's established parameters. Rate base of FortisBC companies accounts for over 45% of FTS's total rate base, although this will decline with Fortis Inc's planned acquisition of UNS Energy Corporation, expected to close at the end of 2014. We expect that Fortis Inc. would provide extraordinary support to FEI if required, provided that the parent had the economic incentive to do so. We believe that the parent will continue to have sufficient resources to provide support, if required. At March 31, 2014, FTS had a $1 billion committed revolving corporate facility at the FTS corporate level, of which $824 million was unused. Ring fencing provisions at FEI limit the ability of Fortis Inc to upstream cash, although we do not believe the parent would seek to increase leverage above levels established by the regulator.

Liquidity Profile

FEI has adequate liquidity.

For LTM 1Q14, FEI had negative free cash flow of $81 million as a result of $227 million CFO, $136 million dividends and $172 million capex. With the slated Tilbury LNG Expansion Project from 2014 to 2016, we estimate annual negative free cash flow at $110-140 million in 2014 on the basis of about $300 million capex and reduced annual dividends from the 2013 level. FEI is expected to manage dividend payouts and parent equity injections to maintain the equity layer close to the approved level of 38.5% along with its capex spending and borrowing profile. We expect FEI to raise additional debt post amalgamation to support both the Tilbury and Woodfibre projects.

FEI's has a $500 million syndicated credit facility maturing on August 24, 2015 that supports its $500 million commercial paper program. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement. As of March 31, 2014, there was $403 million available under the facility.

FEI has limited near term debt obligations in the next 12-18 months: $75 million of debt maturity in September 2015 and $7 million capital lease obligation. The next material maturity is in September 2016 when $200 million of debt retires.

Rating Outlook

The stable outlook is based on our expectation of a stable regulatory environment and stable, albeit weak financial metrics with ongoing limited headroom at the current rating level.

What Could Change the Rating - Up

Given the ongoing forecast weakness in credit metrics an upgrade is unlikely. We could upgrade the company with a material sustained improvement in financial metrics, including CFO pre W/C to debt in the mid to high teens.

What Could Change the Rating - Down

While we don't expect it several factors could lead to a downgrade. For example, an unexpected, material adverse regulatory decision or forecast sustained deterioration in credit metrics including CFO/pre-W/C to debt of less than 11%.

Rating Factors

FortisBC Energy Inc.

Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 3/31/2014**		[3][4]**Moody's 12-18 Month Forward ViewAs of June 2014**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	2.4x	Ba	2.4 - 2.8x	Ba
b) CFO pre-WC / Debt (3 Year Avg)	13.9%	Baa	11 - 14%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	8.4%	Baa	6 - 9%	Ba
d) Debt / Capitalization (3 Year Avg)	44.1%	A	45 - 48%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching	0	0	0	0
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 3/31/2014(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view, not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures. [4] Moody's forward view is based on FEI's post-amalgamation financial projections

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Rating Report

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DBRS

Insight beyond the rating.

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
MTNs & Unsecured Debentures	A	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On January 6, 2015, DBRS Limited (DBRS) confirmed the Issuer Rating as well as the MTNs & Unsecured Debentures and Purchase Money Mortgages ratings of FortisBC Energy Inc. (FEI or the Company) at "A" and its Commercial Paper rating at R-1 (low). All trends are Stable. The rating confirmation follows the completion of the amalgamation of FEI, FortisBC Energy (Vancouver Island) Inc. (FEVI), FortisBC Energy (Whistler) Inc. (FEW) and Terasen Gas Holdings Inc. (the Amalgamation) on December 31, 2014. The amalgamated entity is known as FortisBC Energy Inc. (FEI). The confirmation is based on DBRS's view that the Amalgamation will not have a material impact on FEI's credit profile, reflecting the following factors:

(1) The business risk profile of the amalgamated entity would not be materially different from FEI's pre-amalgamation business risk level. The amalgamated entity will have a larger customer base than FEI's pre-amalgamation customer base, and the risk previously attributable to FEVI's and FEW's competitive position and smaller size is eliminated.

(2) The British Columbia Utilities Commission (BCUC) has approved the adoption of common rates to be phased in over a three-year period for natural gas delivery to all customers of the amalgamated entity except those in the Fort Nelson, British Columbia, service area.

(3) The BCUC issued its decision on FEI's multi-year Performance Based Ratemaking Plan Application in September 2014 (the multi-year PBR). The term of the multi-year PBR was extended to 2019. The multi-year PBR incorporates a mechanism for improving operating efficiencies, with operation and maintenance costs as well as base capital expenditures (capex) being subject to a formula during the PBR period. The BCUC also approved a 50/50 sharing of variances from the formula-driven expenditures over the PBR period.

(4) Starting in 2015, the new amalgamated entity will have a return on equity (ROE) of 8.75% and a deemed equity component of the capital structure of 38.5%, which is unchanged from 2014 for FEI. As a result, FEI's financial metrics are expected to remain within DBRS's "A" rating guidelines.

Financial Information (DOES NOT RECOGNIZE THE RETROACTIVE EFFECT OF THE AMALGAMATION)

FortisBC Energy Inc.	9 months	9 months	12 months	For the year ended December 31st		
(CA$ millions)	Sep. 30. 14	Sep. 30. 13	Sep. 30. 14	2013	2012	2011
EBIT gross interest coverage 1	1.82	1.74	2.05	1.99	2.03	2.08
% debt in capital structure 1	61.4%	59.7%	61.4%	60.3%	58.9%	62.6%
Cash flow/Total debt	12.9%	12.9%	14.3%	14.3%	13.9%	11.1%
Cash flow/Capex	1.20	1.66	1.27	1.58	1.49	1.14
Net income before extra. items	59	57	106	104	112	110
Cash flow from operations	177	166	262	251	237	193

1 Adjusted for operating leases.

Issuer Description

FortisBC Energy Inc. (FEI or the Company) is the largest natural gas distributor in British Columbia, serving approximately 960,000 customers. The Company is a 100% indirectly owned subsidiary of Fortis Inc. (rated A (low)).

Rating Considerations

Strengths

1. Relatively low business risk.
FEI's business risk is viewed as relatively low, supported by the following factors: (a) FEI generates virtually all of its earnings from its regulated natural gas distribution and transportation operations, where competition is limited to other forms of energy (electricity); (b) FEI is not exposed to commodity price risk, as natural gas costs are passed on to the customers, with adjustments made through quarterly review and application to the BCUC; and (c) volatility in usage by residential and commercial customers caused by the impact of weather is mitigated through a deferral account (see Regulation Section).

2. Economically strong service territory.
FEI, post-amalgamation, operates in the Greater Vancouver, Fraser Valley, Thompson, Okanagan, Kootenay, North Central Interior, Vancouver Island, Sunshine Coast and Whistler regions.

3. Good financial profile.
FEI has maintained its capital structure in line with the approved regulatory capital structure. All of the Company's credit metrics as of September 30, 2014, were indicative of the "A" rating category. These metrics are expected to remain stable following the Amalgamation, as the Company is expected to continue to finance its future capex and maintain its balance-sheet leverage in line with the regulatory approved capital structure.

4. Larger customer base.
Following the amalgamation completed on December 31, 2014, FEI has a larger customer base of approximately 960,000 customers compared with the FEI pre-amalgamation customer base of 852,000 customers (as at September 30, 2014). The customer mix is weighted toward residential and commercial customers, whose consumption is less sensitive to economic conditions.

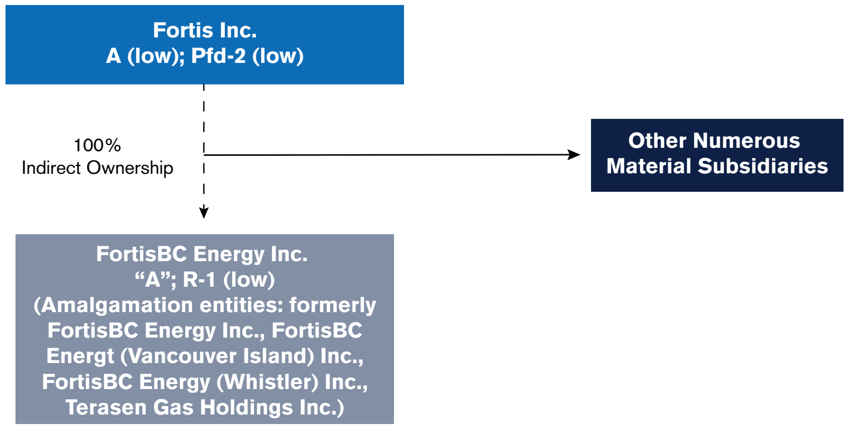
Challenges

1. Tilbury Expansion Project execution risk.
The Company started construction on the expansion of its Tilbury LNG facility (the Tilbury Project) in October 2014. The capital cost of the Tilbury Project is estimated to be approximately $400 million, which is the upper limit set by the Province of British Columbia (the Province) through an Order in Council. Any significant cost overruns above the upper limit may not be recovered through customer rates. The Tilbury Project is expected to be in service in the second half of 2016.

2. Indirect access to the public equity market.
FEI has no direct access to the public equity market. As a result, it finances cash flow deficits by managing its dividend payouts and equity issuances to the parent as well as through debt issuances. The Company's current rating incorporates DBRS's expectation that the parent will continue to provide equity financing support in a timely manner if required.

3. Competition from electricity.
FEI faces more intense competition from electricity in British Columbia than other provinces in Canada (except Québec) because of the low power costs in the Province. DBRS notes that the electricity retail rates in the Province are expected to increase considerably over the next few years, thereby potentially reducing the competition.

Simplified Organization Chart as of January 1, 2015



Amalgamation Update

On December 31, 2014, the amalgamation of FEI, FEVI, FEW and Terasen Gas Holdings Inc. was completed. As part of the approval of the Amalgamation, the BCUC approved the adoption of common rates to be phased in over a three-year period for natural gas delivery to all customers of the new amalgamated entity (known as FEI) except those in the Fort Nelson service area. The ROE and the deemed equity component of the capital structure for the new amalgamated entity is 8.75% and 38.5%, respectively.

The Tilbury LNG Facility Expansion Project

In November 2013, an Order in Council (Special Direction) was signed by the Province to allow FEI to expand its LNG facilities at Tilbury Island, British Columbia. The Special Direction set out a number of requirements for the BCUC as follows:

1. The Tilbury Project is exempt from a Certificate of Public Convenience and Necessity (CPCN) process;
2. The upper limit for the costs related to the expansion project is $400 million; and
3. FEI is allowed to recover the cost of the Tilbury Project from customers.

In October 2014, FEI started construction of the Tilbury Project. The Company will add a second LNG tank and a new liquefier, both expected to be in service in the second half of 2016.

Earnings and Outlook (DOES NOT RECOGNIZE THE RETROACTIVE EFFECT OF THE AMALGAMATION)

Consolidated Income Statement	9 months	9 months	12 months	For the year ended December 31st		
(CA$ millions)	**Sep. 30. 14**	**Sep. 30. 13**	**Sep. 30. 14**	**2013**	**2012**	**2011**
EBITDA 1	280	264	398	382	369	333
EBIT 1	161	154	241	234	241	241
Gross interest expense 1	89	89	118	118	119	118
Pre-tax income	74	66	126	118	123	126
Income tax	15	9	20	14	11	16
Net income before extra. items	59	57	106	104	112	110
Reported net income	59	57	106	104	112	110
Rate base	N/A	N/A	2,765	2,777	2,725	2,636
Approved common equity	38.5%	38.5%	38.5%	38.5%	40.0%	40.0%
Allowed ROE	8.75%	8.75%	8.75%	8.75%	9.50%	9.50%

1 Less inter-company interest payments.

2014 Summary

- In general, earnings in 2014 largely reflected (1) ROE (8.75% in 2014), (2) the deemed equity component of capital structure (38.5% in 2014) and (3) the size of the average rate base for the year (approximately $2,765 million for 2014).
- During the PBR period (2014–2019), earnings will also reflect a 50/50 sharing of variances from the formula-driven operation and maintenance costs, and base capex.

2015 Outlook

- Earnings for 2015 are expected to increase after the Amalgamation as a result of the consolidation of FEI's rate base with FEVI and FEW, while the ROE and deemed equity component of the amalgamated entity will remain the same as FEI's in 2014.

Financial Profile (DOES NOT RECOGNIZE THE RETROACTIVE EFFECT OF THE AMALGAMATION)

Consolidated Cash Flow Statement	9 months	9 months	12 months	For the year ended December 31st		
(CA$ millions)	**Sep. 30. 14**	**Sep. 30. 13**	**Sep. 30. 14**	**2013**	**2012**	**2011**
Net income before extra. items	59	57	106	104	112	110
Depreciation & amortization	119	110	157	148	128	92
Deferred income taxes/Other	(1)	(1)	(1)	(1)	(3)	(9)
Cash flow from operations	177	166	262	251	237	193
Dividends paid	(57)	(84)	(104)	(131)	(85)	(85)
Capex	(159)	(124)	(194)	(159)	(159)	(169)
Free cash flow before WC	(39)	(42)	(36)	(39)	(7)	(61)
Changes in working capital (WC)	23	49	(18)	8	14	84
Changes in regulatory assets & liabilities	(61)	(56)	(34)	(29)	(17)	(10)
Net free cash flow	(77)	(49)	(88)	(60)	(10)	13
Acquisitions	0	0	0	0	0	0
Assets sales/Divestitures	0	0	0	0	0	0
Net changes in equity	0	0	0	0	65	0
Net changes in debt	78	13	115	50	(36)	(15)
Other/Adjustments by DBRS	3	17	(26)	(12)	(14)	4
Change in cash	4	(19)	1	(22)	5	2
Total debt	1,829	1,713	1,829	1,751	1,701	1,737
Total debt in capital structure	49.5%	47.9%	49.5%	48.4%	47.4%	49.1%
Total debt in capital structure 1	61.4%	59.7%	61.4%	60.3%	58.9%	62.6%
Cash flow/Total debt	12.9%	12.9%	14.3%	14.3%	13.9%	11.1%
EBIT gross interest coverage 1	1.82	1.74	2.05	1.99	2.03	2.08
Total debt/EBITDA	6.53	6.49	4.60	4.58	4.61	5.22
Dividend payout ratio	96.6%	147.4%	98.1%	126.0%	75.9%	77.3%

1 Adjusted for operating leases.

2014 Summary

- FEI's financial profile remained relatively stable in 2014 compared with 2013, with a slightly higher debt leverage and a modestly stronger interest coverage ratio.
- All credit metrics for the 12 months ended September 30, 2014, remained within DBRS's "A" rating category.
- Cash deficit was considerably higher than 2013 as a result of higher capex for the year. The increase in capex was largely due to the Tilbury Project.
- The Company financed its 2014 capex program primarily by issuing short-term notes.

2015 Outlook

- Capex in 2015 is expected to be higher than 2014 due to the Tilbury Project and the impact of the Amalgamation.
- DBRS expects FEI's cash flow metrics to be under pressure until the Tilbury Project is in service (expected in the second half of 2016), as free cash flow deficits are expected to persist. However, DBRS expects FEI to maintain its capital structure within the range set by the regulator.

Long-Term Debt and Liquidity (PRIOR TO RECOGNIZING THE IMPACT OF THE AMALGAMATION)

Liquidity

Credit Facilities (As at September 30, 2014)

(CA$ millions)	Committed	Short-Term Notes	Letters of Credit	Available	Expiry
Syndicated unsecured credit facility	500	170	50	280	Aug-2016
Total	**500**	**170**	**50**	**280**	

- The unsecured credit facility is primarily used to support FEI's $500 million commercial paper program. In July 2014, the credit facility maturity was extended to August 2016 with substantially similar terms.
- Due to the seasonal nature of the business, liquidity requirements peak in the fall and winter.
- As at September 30, 2014, FEI had $280 million available under its credit facility. FEI's liquidity should be sufficient to finance the Company's short-term operating needs.

Long-Term Debt, Capital Lease & Finance Obligations Schedule

As of September 30, 2014 (CA$ millions)	Due within 1 Year	Due in Year 2	Due in Year 3	Due in Year 4	Due in Year 5	Thereafter	Total
Amount due	82	206	6	7	33	1,325	1,659
% of total	5%	12%	0%	0%	2%	80%	100%

- The Company's near-term refinancing risk remains modest with $206 million of debt due in 2016.
- DBRS believes that refinancing of the debt maturity is manageable, given the Company's strong credit profile.

Debt Instruments

(CA$ millions)	Sep. 30, 2014	2013
Secured Purchase Money Mortgages (PMMs)	275	275
Unsecured Debentures and MTNs	1,270	1,270
Capital lease and finance obligations	114	119
Total	**1,659**	**1,664**
Credit facilities	170	87
Less: Current portion	(252)	(94)
Total	**1,577**	**1,657**

- MTNs and Unsecured Debentures have the same rating as PMMs based on the following: (1) The outstanding amount of the PMMs is viewed as not significant; and (2) DBRS does not expect FEI to issue new PMMs in the future.
- The PMMs consist of $75 million of Series A notes and $200 million of Series B notes. Series A will mature in September 2015, and Series B will mature in September 2016.

Regulation

Regulation Update

FEI currently operates under a Performance Based Ratemaking (PBR) plan through 2019. FEI had previously operated under a traditional cost-of-service (COS) methodology, which ended December 31, 2013.

- The approved PBR plan incorporates an incentive mechanism for improving operating efficiencies. During the PBR period, operation and maintenance costs and base capex are subject to a formula reflecting incremental costs for inflation and half of customer growth, less a fixed productivity improvement factor of 1.1% each year. It also includes a 50/50 sharing of variances from the formula-driven expenditures over the PBR period, and a number of service quality measures.
- In September 2014, the BCUC issued the PBR Decision on FEI's PBR Application. The term of the PBR was extended to 2019. In October 2014, FEI filed a PBR Decision Compliance filing. The 2014 average rate base was updated to approximately $2,765 million, and the 2014 delivery rate increased to 1.8% as compared with the interim delivery rate increase of 1.4%. FEI implemented permanent 2014 delivery rates in November 2014 to reflect the additional delivery rate increase compared with the interim rates and will recover the January 2014 to October 2014 revenue deficiency through a deferral mechanism.

Deferral Accounts

FEI has a number of deferral accounts that are used to ameliorate unanticipated changes in certain forecast items, including the following two mechanisms:

1. Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA):

- Any differences between actual and forecast gas costs are captured and recorded in these deferral accounts to be recovered or refunded in future rates. Forecast gas prices are adjusted on a quarterly basis for commodity rates, mitigating the impact of recovery lag.

2. Revenue Stabilization Adjustment Mechanism (RSAM):

- The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in forecast versus actual customer usage throughout the year to recover them in rates over the following two years. This reduces FEI's earnings volatility.
- Volume variances from large-volume industrial, transportation and other customers are not included in this deferral account. However, they are also recovered through a deferral mechanism starting in 2014 as part of the PBR Decision.
- The RSAM and MCRA accounts are currently recovered/refunded in rates over two years. The CCRA is anticipated to be fully recovered within the next fiscal year.

Generic Cost of Capital Proceeding (GCOC Proceeding)

- In May 2013, the BCUC issued a decision on the first stage of the GCOC Proceeding, which determined that FEI's ROE and deemed equity would be set at 8.75% and 38.5%, respectively, both in effect until December 31, 2015.
- Effective January 2014, the BCUC introduced an Automatic Adjustment Mechanism (AAM) to set the ROE on an annual basis. The AAM will be in effect if the actual long-term Government of Canada (GOC) bond yield exceeds 3.8%. The AAM will be in effect until December 31, 2015. The AAM did not take effect in 2014, since the GOC bond yield in October 2013 did not exceed the 3.8% threshold. As a result, the ROE for FEI in 2014 remained at 8.75%.

Regulatory Ring-Fencing

- The regulatory ring-fencing imposed on FEI by the BCUC at the time of Fortis Inc.'s 2007 acquisition of FEI (a continuation of the ring-fencing imposed upon acquisition of the former Terasen Inc. by Kinder Morgan Inc. in 2005) is intended to ensure that public interest is protected and that FEI will continue to operate as a separate, stand-alone entity without undue parental influence. One of these conditions is that FEI must maintain its debt-to-capital ratio in line with the regulatory capital structure.

FortisBC Energy Inc.

Balance Sheet (Does not recognize the retroactive effect of the Amalgamation)

(CA$ millions)	Sep. 30	Dec. 31	Dec. 31		Sep. 30	Dec. 31	Dec. 31
Assets	**2014**	**2013**	**2012**	**Liabilities & Equity**	**2014**	**2013**	**2012**
Cash & equivalents	4	0	22	S.T. borrowings	170	87	33
Accounts receivable	96	228	205	Current portion of debt	82	7	7
Inventories	129	81	95	Accounts payable	284	221	226
Current regulatory assets	15	18	28	Current regulatory liabilities	14	39	35
Others	20	13	16	Others	0	40	32
Total Current Assets	**264**	**340**	**366**	**Total Current Liabilities**	**550**	**394**	**333**
Net fixed assets	2,766	2,651	2,604	Long-term debt	1,577	1,657	1,661
Intangible assets	121	122	121	Deferred income taxes	334	327	309
Goodwill	769	769	769	Regulatory liabilities	41	55	55
Regulatory assets	596	560	561	Other L.T. liabilities	170	167	194
Others	22	22	22	Shareholders equity	1,866	1,864	1,891
Total Assets	**4,538**	**4,464**	**4,443**	**Total Liab. & SE**	**4,538**	**4,464**	**4,443**

FortisBC Energy Inc.

Balance Sheet & Liquidity & Capital Ratios	9 months	9 months	12 months	For the year ended December 31st		
(Does not recognize the retroactive effect of the Amalgamation)	**Sep. 30. 14**	**Sep. 30. 13**	**Sep. 30. 14**	**2013**	**2012**	**2011**
Current ratio	0.48	0.80	0.48	0.86	1.10	1.01
Total debt in capital structure	49.5%	47.9%	49.5%	48.4%	47.4%	49.1%
Total debt in capital structure 1	61.4%	59.7%	61.4%	60.3%	58.9%	62.6%
Cash flow/Total debt	12.9%	12.9%	14.3%	14.3%	13.9%	11.1%
Cash flow/Total debt 1	12.8%	12.8%	14.2%	14.2%	13.8%	10.5%
Cash flow/Capex	1.20	1.66	1.27	1.58	1.49	1.14
(Cash flow - Dividends)/Capex	0.82	0.82	0.77	0.75	0.96	0.64
Approved common equity	38.5%	38.5%	38.5%	38.5%	40.0%	40.0%
Dividend payout ratio	96.6%	147.4%	98.1%	126.0%	75.9%	77.3%
Coverage Ratios (times)						
EBIT gross interest coverage	1.81	1.73	2.04	1.98	2.03	2.04
EBITDA gross interest coverage	3.15	2.97	3.37	3.24	3.10	2.82
Fixed-charges coverage	1.81	1.73	2.04	1.98	2.03	2.04
Debt/EBITDA	6.53	6.49	4.60	4.58	4.61	5.22
EBIT gross interest coverage 1	1.82	1.74	2.05	1.99	2.03	2.08
Profitability Ratios						
EBITDA margin	61.0%	60.0%	61.0%	60.3%	60.0%	56.5%
EBIT margin	35.1%	35.0%	37.0%	37.0%	39.2%	40.9%
Profit margin	12.9%	13.0%	16.3%	16.4%	18.2%	18.7%
Return on avg. common equity	7.2%	6.9%	9.7%	9.4%	10.4%	10.7%
Return on capital	5.9%	6.0%	6.9%	6.9%	7.3%	7.1%
Allowed ROE	8.75%	8.75%	8.75%	8.75%	9.5%	9.5%

1 Adjusted for operating leases.

Rating History

Debt Rated	Current	2014	2013	2012	2011	2010	2009
Issuer Rating	A	A	A	A	NR	NR	NR
MTNs & Unsecured Debentures	A	A	A	A	A	A	A
Purchase Money Mortgages	A	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Commercial Paper Limit

- $500 million.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on **www.dbrs.com**.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

MOODY'S
INVESTORS SERVICE

Credit Opinion: FortisBC Energy Inc.

Global Credit Research - 20 Jul 2015

Vancouver, British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3

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Key Indicators

[1]**FortisBC Energy Inc.**

	3/31/2015(L)	12/31/2014	12/31/2013	12/31/2012	12/31/2011
CFO pre-WC + Interest / Interest	**2.8x**	**2.8x**	**2.7x**	**2.5x**	**2.3x**
CFO pre-WC / Debt	**15.0%**	**14.4%**	**15.1%**	**14.5%**	**11.2%**
CFO pre-WC - Dividends / Debt	**9.1%**	**10.3%**	**8.0%**	**9.6%**	**6.6%**
Debt / Capitalization	**44.8%**	**45.2%**	**43.6%**	**44.0%**	**47.4%**

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Credit supportive regulatory environment

PBR marginally increases risk

Stable cash flow and weak financial metrics

FEI is independent of ultimate parent, Fortis Inc

Corporate Profile

FortisBC Energy Inc. (FEI), headquartered in Vancouver, is the largest gas local distribution company (LDC) in British Columbia serving about 967,000 customers, around 90% of which are residential. As the result of the amalgamation on December 31, 2014, FEI began to consolidate results of FortisBC Energy (Vancouver Island) Inc. (FEVI; A3 prior to consolidation), FortisBC Energy (Whistler) Inc. (FEW, not rated) and Terasen Gas Holdings Inc. (TGHI; not rated). FEI is regulated by the British Columbia Utilities Commission (BCUC). From 2010 to 2013, FEI's revenue requirement was determined under cost of service regulation. For the 2014-2019 period, FEI is subject to performance based regulation (PBR), which was previously in effect from 2004 to 2009. FEI is a wholly-owned subsidiary of FortisBC Holdings Inc. (FHI not rated) which, in turn, is wholly owned by Fortis Inc. (FTS, not rated), a diversified electric and gas utility holding company.

SUMMARY RATING RATIONALE

FEI's credit quality is driven by its credit supportive regulatory environment and its monopoly position. The company has a long term track record of earning its allowed return on equity and its cash flow continues to be highly predictable. This is offset by the company's weak financial metrics, with limited headroom at the current rating level, that are primarily a product of the allowed return on equity and the equity component of its capital structure.

DETAILED RATING CONSIDERATIONS

CREDIT SUPPORTIVE REGUALTORY ENVIRONMENT

FEI's investment grade rating has been primarily driven by its credit supportive regulatory environment and its monopoly position. Rates have typically set using a cost of service framework and a forward test year that has enabled the company to recover its costs and earn an allowed return established bythe regulator, resulting in stable cash flow. The company has a track record of passing through its commodity costs in rates and has no direct exposure to commodity price risk and limited volume risk. To the extent that these and many other costs differ from forecast values, deferral or true up mechanisms limit exposure to forecast error. As a result the company has a long track record of earning the return on equity (ROE) established by the regulator.

For capital projects in excess of $5 million the company requires a certificate of public convenience and necessity (CPCN) that reduces the probability of cost disallowances, a credit positive. For large capital projects, the company receives a weighted average cost of capital in rates for financing costs incurred during construction; however, depreciation charges only begin once projects are complete and added to rate base. We do not believe the company has experienced any material cost disallowances. Decisions from the regulator tend to be reasonably predictable, consistent and transparent with a consultative approach. We have noted regulatory lag in some recent decisions, but the company has generally received interim rates as requested, mitigating some lag effects. Generally, when utility or other stakeholders materially disagree with some aspects of decisions, they have been successful in asking the regulator to review and vary its decisions with final outcomes acceptable to all parties as evidenced by a lack of court challenges. The company has access to the courts to challenge regulatory decisions, although we do not believe this has happened since the utility was acquired by Fortis Inc. The legislative and judicial underpinnings of the regulatory framework continue to be stable. We view debt-financed deferral accounts as a credit negative, however the balances remain small.

The company benefits from a monopoly position. We believe that its customers, who are primarily residential, continue to have the capacity and willingness to pay their bills.

PBR MARGINALLY INCREASES RISK

The shift to PBR marginally increases risk because of the potential for increased cash flow volatility compared to cost of service regulation. However, we believe that management will be successful in achieving the challenges inherent in its PBR plan and continue to earn the allowed return on equity established by the regulator. While there is some increased regulatory risk pending resolution of some outstanding issues, particularly capital spending, once a precedent is established it will reduce regulatory risk for the PBR term. Performance based regulation utilizes a formula based approach to rate making. Revenues associated with controllable operating expenses and capital expenditure are adjusted on an annual basis during the 6 year period of the plan, from 2014-2019. Each year they are adjusted for inflation, a productivity or X-factor of 1.1% (FBC 1.03%), while initial rates were based on 2013 cost of service based rates with some adjustments. Many costs remain pass through items; for example, interest expenses and taxes limiting risk to the utility. The PBR plan has a symmetrical earnings sharing mechanism that is partially subject to service quality indicators. An annual review process forms part of the PBR plan to mitigate the risk of the plan failing to achieve its objectives. CPCN capital has been excluded from the PBR plan on a temporary basis, while different options are evaluated.

STABLE CASH FLOW AND WEAK FINANCIAL METRICS

We expect the company to continue to generate stable cash flow, a key credit strength. Underpinning this stability, cash flow from operations is generally a function of the company's rate base, its deemed capital structure (38.5%

equity layer effective 1/1/2013 - 12/31/2015), the allowed return on equity (currently 8.75%) and depreciation. The ROE contains an automatic adjustment mechanism for 2014 and 2015 that increases rates in case of rising interest rates; however, because of ongoing low interest rates neither 2014 nor 2015 qualified for an adjustment. Our analysis assumes that the company continues to earn its allowed ROE. We expect the company's dividend policy net of any equity injections will maintain the deemed capital structure. The company is forecast to have limited financial metric headroom at the current rating. Planned large capital projects are expected to place some downward pressure on credit metrics; for example, the Tilbury LNG Expansion Project (Tilbury 1A) with a capital cost of about C$440 million because depreciation cash flow will not begin until this project is in operation. In addition, the amalgamation will place some modest downward pressure on financial metrics as the company unwinds a regulated liability in 2015 and 2016. As a result, we forecast that credit metrics will decline somewhat in 2015 and improve as capital projects are completed in 2016-17. This forecasted weakness is incorporated in the current rating.

FEI IS INDEPENDENT OF ULTIMATE PARENT FORTIS INC

We consider FEI to be operationally and financially independent of ultimate parent Fortis Inc, although the company may periodically rely on its parent for equity injections to maintain its capital structure in line with the regulator's established parameters. We expect that Fortis Inc. would provide extraordinary support to FEI, if required, provided that the parent had the economic incentive to do so. We believe that the parent will continue to have sufficient resources to provide support, if required. At FYE 2014, FTS had a $1 billion committed revolving credit facility at the FTS corporate level, of which $509 million was unused. Ring fencing provisions at FEI limit the ability of Fortis Inc to upstream cash, although we do not believe the parent would seek to increase leverage above levels established by the regulator.

Liquidity Profile

FEI has adequate liquidity. For LTM 1Q15, FEI had negative free cash flow of $203 million as a result of $321 million CFO, $136 million dividends and $388 million capex. We estimate annual negative free cash flow at $300-350 million in 2015 on the basis of about $450 million capex and increased annual dividends from the 2014 level. We expect FEI to manage dividend payouts and parent equity injections to maintain the equity layer close to the approved level of 38.5% along with its capex spending and borrowing profile.

FEI has $700 million in two syndicated credit facilities that support a commercial paper program. The $500 million and $200 million credit facilities mature in August 2016 and December 2015, respectively. Our liquidity analysis incorporates the expectation that the company will extend the maturities of these facilities well in advance of their expiration. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreements. At March 31, 2015, $352 million was available under these facilities.

FEI has limited short-term debt obligations in the next 12 months: $75 million of debt maturity in September 2015, $10 million government loan and $6 million capital lease obligation. The next material maturity is in September 2016 when $200 million of debt matures.

Rating Outlook

The stable outlook is based on our expectation of a continuing supportive regulatory environment and stable, albeit weak financial metrics with ongoing limited headroom at the current rating level.

What Could Change the Rating - Up

Given the ongoing forecasted weakness in credit metrics an upgrade is unlikely. We could upgrade the company with a material sustained improvement in financial metrics, including CFO pre W/C to debt in the mid to high teens.

What Could Change the Rating - Down

While we don't expect it several factors could lead to a downgrade. For example, an unexpected, material adverse regulatory decision or a forecast of a sustained deterioration in credit metrics including CFO/pre-W/C to debt of less than 11%.

Rating Factors

FortisBC Energy Inc.

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 3/31/2015		[3]Moody's 12-18 Month Forward ViewAs of 7/16/2015	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	2.7x	Ba	2.4x - 2.8x	Ba
b) CFO pre-WC / Debt (3 Year Avg)	16.7%	Baa	11% - 13%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	10.3%	Baa	5% - 8%	Ba
d) Debt / Capitalization (3 Year Avg)	43.4%	A	46% - 49%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching	0	0	0	0
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 3/31/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

Rating Report

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DBRS
Insight beyond the rating.

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
MTNs & Unsecured Debentures	A	Confirmed	Stable
Purchase Money Mortgages	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On January 14, 2016, DBRS Limited (DBRS) confirmed the Issuer Rating, the MTNs & Unsecured Debentures rating and the Purchase Money Mortgages (PMM) rating of FortisBC Energy Inc. (FEI or the Company) at "A" as well as its Commercial Paper rating at R-1 (low). All trends are Stable. The rating confirmations reflect the following factors:

1. The financial risk profile has remained relatively stable subsequent to the completion of the amalgamation of FEI, FortisBC Energy (Vancouver Island) Inc. (FEVI), FortisBC Energy (Whistler) Inc. (FEW) and Terasen Gas Holdings Inc. on December 31, 2014. Amalgamated FEI's nine months to September 30, 2015 (YTD 2015), earnings were modestly lower than the same period in 2014 largely because of lower return on equity (ROE) and deemed equity in the capital structure related to the former FEVI and FEW operations; however, the impact was not material. Based on the last 12 months to September 30, 2015 (LTM 2015) results, FEI's credit metrics remain consistent with the "A" rating category.
2. FEI is in its third year of the six-year Performance Base Ratemaking (PBR) plan as approved by the British Columbia Utilities Commission (BCUC) (2014 through 2019). FEI's operational and financial performance to date has been reasonably efficient because of its large base of customers and strong franchise areas. Amalgamated FEI's ROE of 8.75% and a deemed equity component of the capital structure of 38.5% are lower than those of the 2009-2012 period, but remain reasonable. During the current PBR period, FEI is allowed to pass through natural gas costs and regulated forecast cost items outside of formulaic operation and maintenance costs, which reduces forecast risk.
3. The construction of Tilbury Expansion Project Phase 1A (the Tilbury Project) is in good progress. The cost of the project, estimated to be $440 million including allowance for funds used during construction (AFUDC), will be added to the rate base. This project is currently on budget and is expected to be completed on time (by the end of 2016).
4. The Company has filed a 2016 rate application and an application to review its 2016 ROE and capital structure. The BCUC issued a decision in December 2015 on the 2016 rate application allowing an interim delivery rate increase of 1.79% for 2016 and making FEI's existing ROE and deemed equity interim for 2016. A final decision is expected in H1 2016. The Stable trend is based on DBRS's expectation that there will be no adverse decisions that would have a material impact on the Company's current credit profile.

Financial Information

	9 months		12 months	For the year ended December 31st	
(CA$ millions)	**Sep. 30. 15**	**Sep. 30. 14**	**Sep. 30. 15**	**2014***	**2013***
EBIT-to-gross interest (x) 1	1.90	2.01	2.15	2.24	2.10
Total debt-to-capital	49.3%	n/a	49.3%	49.1%	47.7%
Cash flow-to-total debt 2	11.8%	n/a	13.1%	14.2%	14.7%
Net income before extra. Items	75	85	132	142	136
Cash flow from operations	213	227	317	331	320

* Amalgamated FEI financial statements are presented as if the Amalgamation occurred on January 1, 2013. n/a = not available.
1 Adjusted for operating leases. 2 Annualized for 9 months to September 30.

Issuer Description

FortisBC Energy Inc. (FEI) is the largest distributor of natural gas in British Columbia serving approximately 970,000 residential, commercial and industrial and transportation customers (September 2015) in more than 125 communities. FEI provides distribution and transportation services to its customers, and obtains natural gas supplies on behalf of most residential, commercial and industrial customers.

Rating Considerations

Strengths

1. Relatively low business risk
FEI's business risk is viewed as relatively low, supported by the following factors: (a) FEI generates virtually all of its earnings from its regulated natural gas distribution and transportation operations, where competition is limited to other forms of energy (such as electricity); (b) FEI is not exposed to commodity price risk as natural gas costs are passed on to the customers, with adjustments made through quarterly review and application to the BCUC; and (c) volatility in usage by residential and commercial customers caused by the impact of weather is mitigated through deferral accounts (see Regulation section).

2. Economically strong service territory
FEI's largest service area is Greater Vancouver, which is economically strong. Other major service areas are the Fraser Valley, Thompson, Okanagan, Kootenay, North Central Interior, Vancouver Island, Sunshine Coast and Whistler regions.

3. Good financial profile
The Company's credit metrics as of September 30, 2015, were indicative of the "A" rating category. The Company's strategy is to finance its current and future capital expenditures (capex) in a manner such that the regulatory capital structure will be maintained. As a result, FEI's metrics are expected to remain stable and in support of the current rating. The Company's liquidity remained solid with a sizable unused credit facility ($311 million at September 30, 2015), with only $200 million of PMMs maturing in 2016 and no other maturities until 2029 based on existing debt maturities.

4. Large customer base
Following the amalgamation, FEI's customer base has grown modestly. As of September 30, 2015, FEI served approximately 970,000 customers. The customer mix is weighted toward residential and commercial customers whose consumption is less sensitive to economic conditions. The large number of customers and broad scope of operations helps FEI to operate more efficiently, particularly during the PBR period.

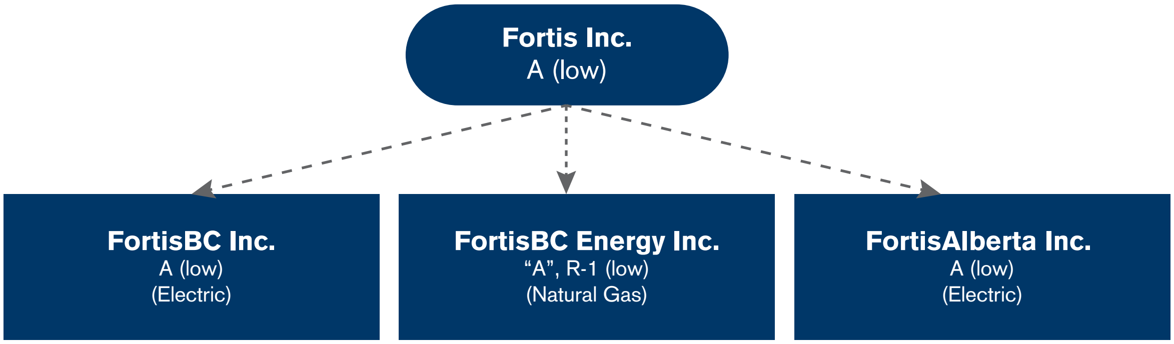
Challenges

1. Regulatory risk
FEI's operations are subject to some uncertainties including (a) allowed ROE and deemed equity for 2016 compared with 2013 to 2015 (which are already lower than the 2009-2012 period), (b) the ability of the Company to achieve the forecasts established in the rate-setting process and (c) the recovery of capital cost overruns, if incurred. The BCUC has approved a PBR rate-setting methodology for FEI for a term of 2014 through 2019. Rates during this term will be determined through an annual regulatory review. There can be no assurance that the rate orders issued by the BCUC will permit FEI to recover all costs actually incurred and to earn the expected rate of return.

2. Tilbury Expansion Project Phase 1A execution risk
FEI started construction on the Tilbury Project Phase 1A in October 2014. The capital cost of the Tilbury Project is estimated to be approximately $400 million ($440 million including AFUDC), which is the upper limit set by the Province of British Columbia (the Province) through an Order in Council. Completing this project on time and within the upper limit is critical for the Company. Any significant cost overruns beyond the upper limit may not be recovered.

3. Long-term competition from electricity
FEI faces more intense competition from electricity in British Columbia than other provinces in Canada (except Québec) because of the relatively low power costs in the Province. DBRS notes that there has been upward pressure on electricity rates in British Columbia because of new investments in electricity generation and transmission while natural gas prices have remained relatively low, thereby improving the price competitiveness of FEI.

Simplified Organization Chart AS OF JANUARY 1, 2015



Western Canadian

- Fortis Inc. (Fortis) indirectly owns 100% of all three regulated utilities (shown in the chart above). These utilities form Fortis' Western Canadian operations.
- Fortis also directly or indirectly owns regulated utilities in its Eastern Canadian, U.S. and Caribbean operations.
- See DBRS's Fortis Inc. report dated January 6, 2016, for more details.

The Tilbury LNG Facility Expansion Project

In November 2013, an Order in Council (2013 OIC or Special Direction) was signed by the Province to allow FEI to expand its liquefied natural gas (LNG) facilities at Tilbury Island, British Columbia. The Special Direction set out a number of requirements for the BCUC as follows:

1. The Tilbury Project is exempt from a Certificate of Public Convenience and Necessity process;
2. The upper limit for the costs related to the expansion project is $400 million; and
3. FEI is allowed to recover the cost of the Tilbury Project from customers.

In December 2014, the B.C. government issued another Order in Council (2014 OIC) amending directions to the BCUC in the 2013 OIC. Some of the requirements set out by the 2014 OIC are as follows:

1. To allow the Tilbury Expansion Project to proceed in two phases – Phase 1A and Phase 1B. Phase 1B can proceed if FEI obtains long-term contracts, taking a minimum 70% of the liquefaction capacity of 1B, on average, for the first 15 years of its operations;
2. To impose an upper limit of $400 million of capital costs plus construction carrying costs on each phase;
3. To provide methodologies for regulatory treatment of certain of the costs of these various projects; and
4. To provide clarification on certain items in the 2013 OIC.

In October 2014, FEI started construction of the Tilbury Project Phase 1A. The Company will add a second LNG tank with 1.1 million gigajoules (GJs) of LNG storage and a new liquefier with 34,000 GJs per day of liquefaction capacity. The project is expected to be completed by the end of 2016.

Earnings and Outlook

Consolidated Income Statement	9 months		12 months	For the year ended December 31st	
(CA$ millions)	Sep. 30. 15	Sep. 30. 14	Sep. 30. 15	2014*	2013*
EBITDA	349	356	502	509	487
EBIT	203	211	308	316	302
Gross interest expense 1	107	105	143	141	144
Pre-tax income	101	108	170	177	160
Income tax	26	23	38	35	24
Net income before extra. items	75	85	132	142	136
Net income available to common shareholders	74	84	131	141	135
Rate base (mid-year) (amalgamated FEI)	3,661				
Allowed ROE (amalgamated FEI)	8.75%	n/a			
Allowed ROE (FEI pre-amalgamation)		8.75%		8.75%	8.75%
Allowed ROE (FEVI)		9.25%		9.25%	9.25%
Allowed ROE (FEW)		9.50%		9.50%	9.50%

* Amalgamated FEI financial statements are presented as if the Amalgamation occurred on January 1, 2013. n/a = not available.
1 Less interest expense on inter-company subordinated debt.

Summary for YTD 2015

Lower earnings in the YTD 2015 compared with the same period in 2014 largely reflected the following factors:

- Seasonal earnings: the pre-amalgamation earnings of FEVI were subject to the use of the Rate Stabilization Deferral Account (RSDA), which accumulated the difference between the revenues received and the actual cost of services (excluding operation and maintenance cost variances from forecast); however, effective January 1, 2015, the use of RSDA was discontinued, subjecting that part of amalgamated FEI to quarterly seasonal consumption differences, which resulted in higher earnings being recognized in Q1 and Q4 as well as lower earnings in Q2 and Q3.
- Beginning January 1, 2015, the amalgamated FEI's earnings were based on a deemed equity of 38.5% and an allowed ROE of 8.75%. Earnings in 2014 (pre-amalgamation) for FEVI and FEW were based on a deemed equity of 41.5% and an allowed ROE of 9.25% and 9.50%, respectively.
- Tax savings from the current year's tax loss utilization plan (TLUP) were lower for YTD 2015. The TLUP in 2015 was put in place in Q3 2015 whereas the TLUP in 2014 was put in place in Q2 2014. This negative impact of lower tax savings was partially offset by a higher allowance for funds used during construction as well as operation and maintenance cost savings.

Outlook

- The Company has filed an application for 2016 ROE and deemed equity in capital structure. As a result, earnings for 2016 are expected to largely reflect the potential change in these two items and its performance against the efficiency factor in the formula. In the meantime, FEI's earnings continue to be based on interim ROE and deemed equity for 2016.
- Earnings for 2016 are expected to reflect a modestly larger rate base as the Company's rate base continues to grow due to new investments.

Financial Profile

Consolidated Cash Flow Statement	9 months		12 months	For the year ended December 31st	
(CA$ millions)	Sep. 30. 15	Sep. 30. 14	Sep. 30. 15	2014*	2013*
Net income before extra. items	75	85	132	142	136
Depreciation & amortization	146	145	194	193	185
Deferred income taxes/Other	(8)	(3)	(9)	(4)	(1)
Cash flow from operations	**213**	**227**	**317**	**331**	**320**
Dividends paid to parent	(97)	(78)	(114)	(95)	(150)
Capex	(341)	(183)	(469)	(311)	(187)
Free cash flow before WC	(225)	(34)	(266)	(75)	(17)
Changes in working capital (WC)	129	15	88	(26)	4
Changes in regulatory assets & liabilities	(63)	(69)	(48)	(54)	(31)
Net free cash flow	(159)	(88)	(226)	(155)	(44)
Acquisitions	0	0	0	0	0
Other investment activities	(9)	(9)	(10)	(10)	(7)
Net changes in equity	85	0	85	0	0
Net changes in debt	74	103	139	168	30
Other financing	(1)	(1)	(1)	(1)	(1)
Change in cash	(10)	5	(13)	2	(22)
Total debt	2,417	n/a	2,417	2,338	2,171
Total debt-to-capital	49.3%	n/a	49.3%	49.1%	47.7%
Cash flow-to-total debt 2	11.8%	n/a	13.1%	14.2%	14.7%
EBIT-to-gross interest (x) 1	1.90	2.01	2.15	2.24	2.10
Total debt-to-EBITDA (x)	6.93	n/a	4.81	4.59	4.46
Dividend payout ratio	131.1%	92.9%	87.0%	67.4%	111.1%

* Amalgamated FEI financial statements are presented as if the Amalgamation occurred on January 1, 2013. n/a = not available
1 Adjusted for operating leases. 2 Annualized for 9-months to September 30.

Summary

- FEI's financial profile for the LTM 2015 remained solid. Overall, FEI's credit metrics remained within the "A" rating category.
- The Company operated at a free cash flow deficit for LTM 2015 because of the much higher capex for the year. The increase in capex was largely a result of the Tilbury Project Phase 1A.
- Positive change in working capital reflected lower costs of inventories, positive movements of short-term net regulatory assets and liabilities as well as higher income and other taxes payable.
- The change in long-term regulatory assets and liabilities largely reflected the movements of deferral accounts during the period.
- DBRS notes that FEI's reported debt-to-capital ratio is much lower than the regulatory debt in the capital structure because when FEI moved to U.S. Generally Accepted Accounting Principles in 2012, the debt and equity base were adjusted to reflect (1) higher debt caused by lease-in and lease-out arrangements and (2) higher equity because goodwill was added to the equity base as a result of push-down accounting in connection with the Fortis acquisition in 2007.

Outlook

- As in the case of 2015, capex for 2016 is estimated to be higher than in 2013 and 2014. Much of this increase is caused by the investment in the Tilbury Project.
- DBRS expects FEI's cash flow metrics to be under pressure until the Tilbury Project is in service as free cash flow deficits are expected to persist because of high capex; however, DBRS expects FEI to maintain its capital structure within the range set by the regulator.

Long-Term Debt and Liquidity

Credit Facilities (Sept. 30. 2015)

(CA$ millions)	Committed	Short-term notes	Letters of credit	Available	Expiry
Syndicated unsecured credit facility	700	335	54	311	Aug-2018
Total	**700**	**335**	**54**	**311**	

- FEI's liquidity remained solid at September 30, 2015, with a sizable unused credit facility and modest long-term debt due in 2016.
- The $200 million credit facility, which was due to mature in December 2015, was cancelled in August 2015. In conjunction with the cancellation of the $200 million facility in August 2015, FEI's $500 million credit facility was increased to $700 million and extended to 2018.
- This facility is sufficient to support the Company's $700 million commercial paper program.
- Because of the seasonal nature of the business, liquidity requirements peak in the fall and winter.

Long-Term Debt, Capital Lease & Finance Obligations Schedule

As of September 30, 2015 (CA$ millions)	Due Within 1 year	Due in Year 2	Due in Year 3	Due in Year 4	Due in Year 5	Due after 5 Years	Total
MTNs, Unsecured Debentures and PMMs	205	-	-	-	-	1,770	1,975
Capital lease and finance obligations	6	6	5	33	17	40	107
Total	**211**	**6**	**5**	**33**	**17**	**1,810**	**2,082**

- The Company's near-term refinancing risk remains modest. The refinancing of the $200 million PMMs due in September 2016 should be manageable, given the strong credit quality of FEI.

Long-term Debt and Capital Leases

(CA$ millions)	Sept. 30 2015	Dec. 31 2014
Secured Purchase Money Mortgages (PMMs)	200	275
Unsecured Debentures	1,770	1,620
Promissory notes payable to FHI	-	20
Government loan repayable	5	10
Total	**1,975**	**1,925**
Less: Current portion	(205)	(105)
Total L.T. debt	**1,770**	**1,820**
Capital lease and finance obligations	107	112
Less: Current portion	(6)	(6)
Total capital leases	**101**	**106**

- MTNs & Unsecured Debentures have the same rating as PMMs, reflecting the following: (1) the outstanding amount of PMMs is viewed as insignificant and (2) DBRS does not expect FEI to issue new PMMs in the future.
- In April 2015, FEI issued $150 million of unsecured MTN debentures, with the net proceeds used to repay short-term note indebtedness.
- The PMMs consisted of $75 million of Series A Notes and $200 million of Series B Notes. Series A was paid off in September 2015 with proceeds from short-term notes.
- The $20 million promissory notes owed to FortisBC Holdings Inc. was repaid in January 2015.

Regulation

Regulation Update

FEI currently operates under a PBR plan through 2019. FEI had previously operated under a traditional cost-of-service methodology, which ended December 31, 2013.

- The approved PBR plan incorporates an incentive mechanism for improving operating efficiencies. During the PBR period, operation and maintenance costs as well as base capex are subject to a formula reflecting incremental costs for inflation and half of customer growth, less a fixed productivity improvement factor of 1.1% each year. It also includes a 50/50 sharing of variances from the formula-driven expenditures over the PBR period and a number of service quality measures.
- In September 2015, FEI filed an application for approval of 2016 rates under its current PBR plan (the 2016 Application).
- The 2016 Application also requested an increase of delivery rate for 2016 of 2.22%. In October 2015, FEI filed evidentiary updates to the 2016 Application, requesting a 2016 customer increase in delivery rate of 2.74%.
- A decision was issued by the BCUC in December 2015 on FEI's 2016 rate application, the key items of which included: (1) the interim delivery rate effective January 1, 2016, increased by 1.79% and will remain interim pending the outcome of FEI's cost of capital proceeding and (2) FEI's existing ROE (8.75%) and capital structure (38.5% deemed equity) are made interim effective January 1, 2016, and will remain in force until otherwise directed by the BCUC in the current FEI cost of capital proceeding.

Deferral Accounts

FEI has a number of deferral accounts that are used to ameliorate unanticipated changes in certain forecast items, including the following two mechanisms:

1. The first mechanism relates to the recovery of all gas supply cost through two separate accounts: Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA).
    - Any differences between actual and forecast gas costs are captured and recorded in these deferral accounts to be recovered or refunded in future rates via quarterly review and application to the BCUC. Forecast gas prices are adjusted on a quarterly basis for commodity rates, mitigating the impact of recovery lag.
2. Revenue Stabilization Adjustment Mechanism (RSAM).
    - The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in forecast versus actual customer usage throughout the year to recover them in rates. This reduces FEI's earnings volatility.
    - The RSAM and MCRA accounts are currently recovered/refunded in rates over two years. The CCRA is anticipated to be fully recovered within the next fiscal year.

Before the amalgamation, FEVI had two deferral accounts: (1) an RSDA that accumulated the difference between the revenues received and the actual cost of service, excluding operation and maintenance cost variances from the forecast and (2) a Gas Cost Variance Account (GCVA) that accumulated variances between the forecast and actual gas costs, which were passed on to customers through future rates.

- The BCUC approved the balance of the GCVA at the end of 2014 be transferred to the RSDA effective January 1, 2015. The RSDA balance will be returned to customers (excluding customers residing on Vancouver Island and the Sunshine Coast and in Whistler) over a period of three years.

In addition to the two above mechanisms, FEI also has a BCUC-approved flow-through deferral account. This account captures variances from regulated forecast items (excluding formulaic operation and maintenance costs) that do not have separate approved deferral mechanisms. Items included in this account are variances in interest rates, insurance and factors affecting income taxes; variance in margin related to customer growth and industrial margin; and certain other items that were previously not subject to flow-through treatment. These variances will flow through customer rates in the following year.

Allowed ROE and Common Equity Component

- Effective January 1, 2015, ROE and common equity component of capital structure for the amalgamated FEI is set to be the same as the benchmark utility (FEI), which are 8.75% and 38.5%, respectively.
- Prior to amalgamation, the ROE and common equity component of capital structure for FEI were 8.75% and 38.5%, respectively, while ROE was 9.25% for FEVI and 9.5% for FEW. Common equity component of capital structure for FEVI and FEW was 41.5%.
- As directed by the BCUC, FEI filed an application to review the 2016 benchmark ROE and common equity component of capital structure in October 2015. A decision on this is expected in the first half of 2016.

Regulatory Ring-Fencing

- The regulatory ring-fencing imposed on FEI by the BCUC at the time of Fortis' 2007 acquisition of FEI (a continuation of the ring-fencing imposed upon acquisition of the former Terasen Inc. by Kinder Morgan Inc. in 2005) is intended to ensure that public interest is protected and that FEI will continue to operate as a separate, stand-alone entity without undue parental influence. One of these conditions is that FEI must maintain its debt-to-capital ratio in line with the regulatory capital structure.

FortisBC Energy Inc.

Balance Sheet

(CA$ millions)	Sep. 30	Dec. 31			Sep. 30	Dec. 31	
Assets	**2015**	**2014**	**2013**	**Liabilities & Equity**	**2015**	**2014**	**2013**
Cash & equivalents	0	10	8	S.T. borrowings	335	301	127
Accounts receivable	75	218	257	Current portion of L.T. debt	211	111	37
Inventories	104	111	95	Accounts payable	218	299	255
Current regulatory assets	11	47	31	Current regulatory liabilities	39	33	39
Others	23	19	13	Others	29	38	45
Total Current Assets	**213**	**405**	**404**	**Total Current Liabilities**	**832**	**782**	**503**
Net fixed assets	3,894	3,675	3,456	Long-term (L.T.) debt	1,871	1,926	2,007
Intangible assets	132	139	142	Deferred income taxes	408	407	392
Goodwill	913	913	913	Regulatory liabilities	118	129	149
Regulatory assets	781	751	681	Other L.T. liabilities	240	239	191
Others	22	24	24	Shareholders' equity	2,486	2,424	2,378
Total Assets	**5,955**	**5,907**	**5,620**	**Total Liab. & SE**	**5,955**	**5,907**	**5,620**

Balance Sheet &	9 months		12 months	For the year ended December 31st	
Liquidity & Capital Ratios	**Sep. 30. 15**	**Sep. 30. 14**	**Sep. 30. 15**	**2014***	**2013***
Current ratio (x)	0.26	n/a	0.26	0.52	0.80
Total debt-to-capital	49.3%	n/a	49.3%	49.1%	47.7%
Cash flow-to-total debt 2	11.8%	n/a	13.1%	14.2%	14.7%
Cash flow-to-total debt 1 2	11.7%	n/a	13.0%	14.0%	14.6%
(Cash flow - Dividends)/Capex	34.0%	81.4%	43.3%	75.9%	90.9%
Coverage Ratios					
EBIT-to-gross interest (x) 1	1.90	2.01	2.15	2.24	2.10
EBITDA-to-gross interest (x)	3.26	3.39	3.51	3.61	3.38
Fixed-charges coverage (x)	1.90	2.01	2.15	2.24	2.10
Debt/EBITDA (x)	6.93	n/a	4.81	4.59	4.46
Profitability Ratios					
EBITDA margin	63.0%	62.9%	64.3%	64.2%	62.4%
EBIT margin	36.6%	37.3%	39.4%	39.8%	38.7%
Profit margin	13.4%	14.8%	16.8%	17.8%	17.3%
Return on avg. common equity 2 3	6.4%	n/a	8.7%	9.5%	10.5%
Return on capital 2 3	5.2%	n/a	6.2%	6.7%	7.7%

* Amalgamated FEI financial statements are presented as if the Amalgamation occurred on January 1, 2013. n/a = not available.
1 Adjusted for operating leases. 2 Annualized for 9 months to September 30. 3 Excludes goodwill.

Rating History

Debt Rated	Current	2015	2014	2013	2012	2011	2010
Issuer Rating	A	A	A	A	A	NR	NR
MTNs & Unsecured Debentures	A	A	A	A	A	A	A
Purchase Money Mortgages	A	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Previous Report

- FortisBC Energy Inc., Rating Report, January 14, 2015.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on **www.dbrs.com**.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
21 July 2016

Update

Rate this Research

RATINGS

FortisBC Energy Inc.

Domicile	British Columbia, Canada
Long Term Rating	A3
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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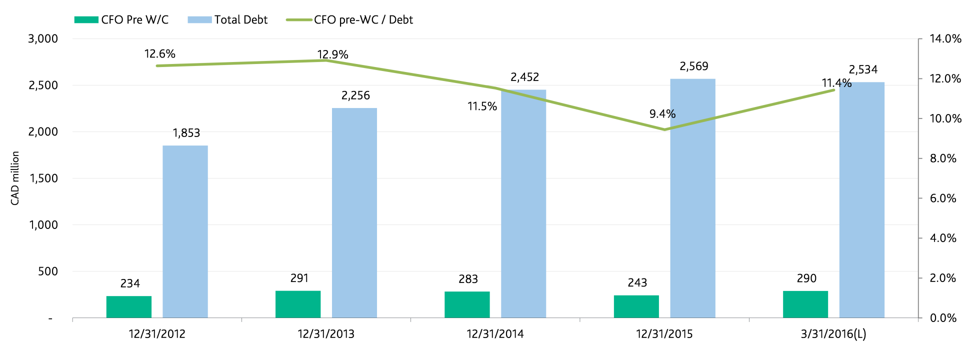
FortisBC Energy Inc.

Largest gas local distribution company in British Columbia

Summary Rating Rationale

FortisBC Energy Inc.'s (FEI) credit quality is driven by its credit supportive regulatory environment and its monopoly position. The company has a long term track record of earning its allowed return on equity and its cash flow continues to be highly predictable. This is offset by the company's weak financial metrics, with limited headroom at the current rating level, that are primarily a product of the allowed return on equity and the equity component of its capital structure.

Exhibit 1
Historical CFO Pre W/C, Total Debt and CFO Pre W/C to Debt



Source: Moody's Financial Metrics

Credit Strengths

» Credit supportive regulatory environment

» Stable cash flow

» FEI is independent of ultimate parent, Fortis Inc

Credit Challenges

» PBR marginally increases risk

» High leverage and weak financial metrics

Rating Outlook

The stable outlook is based on our expectation of a continuing supportive regulatory environment and stable, albeit weak financial metrics with ongoing limited headroom at the current rating level.

Factors that Could Lead to an Upgrade

Given the ongoing forecasted weakness in credit metrics an upgrade is unlikely. We could upgrade the company with a material sustained improvement in financial metrics, including CFO pre W/C to debt in the mid to high teens.

Factors that Could Lead to a Downgrade

While we don't expect it several factors could lead to a downgrade. For example, an unexpected, material adverse regulatory decision or a forecast of a sustained deterioration in credit metrics including CFO pre-W/C to debt of less than 11%.

Key Indicators

Exhibit 2

	12/31/2012	12/31/2013	12/31/2014	12/31/2015	3/31/2016(L)
CFO pre-WC + Interest / Interest	2.4x	2.5x	2.5x	2.3x	2.6x
CFO pre-WC / Debt	12.6%	12.9%	11.5%	9.4%	11.4%
CFO pre-WC – Dividends / Debt	8.1%	6.2%	7.6%	4.1%	6.9%
Debt / Capitalization	45.7%	44.9%	46.5%	46.7%	45.9%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

Detailed Rating Considerations

CREDIT SUPPORTIVE REGULATORY ENVIRONMENT

FEI's A3 rating has been primarily driven by its credit supportive regulatory environment and its monopoly position. Rates have typically been set using a cost of service framework and a forward test year that has enabled the company to recover its costs and earn an allowed return established by the regulator, the British Columbia Utilities Commission, resulting in stable cash flow. The company has a track record of passing through its commodity costs in rates and has no direct exposure to commodity price risk and limited volume risk. To the extent that these and many other costs differ from forecast values, deferral or true up mechanisms limit exposure to forecast error. As a result the company has a long track record of earning the return on equity (ROE) established by the regulator.

For capital projects in excess of $15 million the company requires a certificate of public convenience and necessity (CPCN) that reduces the probability of cost disallowances, a credit positive. For large capital projects, the company receives a weighted average cost of capital in rates for financing costs incurred during construction; however, depreciation charges only begin once projects are complete and added to rate base. We do not believe the company has experienced any material cost disallowances. Decisions from the regulator tend to be reasonably predictable, consistent and transparent with a consultative approach. We have noted regulatory lag in some recent decisions, but the company has generally received interim rates as requested, mitigating some lag effects. Generally, when utility or other stakeholders materially disagree with some aspects of decisions, they have been successful in asking the regulator to review and vary its decisions with final outcomes acceptable to all parties as evidenced by a lack of court challenges. The company has access to the courts to challenge regulatory decisions, although we do not believe this has happened since the utility was acquired by Fortis Inc in 2007. The legislative and judicial underpinnings of the regulatory framework continue to be stable. We view debt-financed deferral accounts as a credit negative, however the balances remain small.

The company benefits from a monopoly position. We believe that its customers, who are primarily residential, continue to have the capacity and willingness to pay their bills.

PBR MARGINALLY INCREASES RISK

The shift to performance based regulation (PBR) marginally increases risk because of the potential for higher cash flow volatility compared to cost of service regulation. However, we believe that management will be successful in achieving the challenges inherent in its PBR plan and continue to earn the allowed return on equity established by the regulator. Performance based regulation utilizes a formula based approach to rate making. Revenues associated with controllable operating expenses and capital expenditure are adjusted on an annual basis during the 6 year period of the plan, from 2014-2019. Each year they are adjusted for inflation, a productivity or X-factor of 1.1% (FBC 1.03%), while initial rates were based on 2013 cost of service based rates with some adjustments. Many costs remain pass through items; for example, interest expenses and taxes limiting risk to the utility. The PBR plan has a symmetrical earnings sharing mechanism that is partially subject to service quality indicators. An annual review process forms part of the PBR plan to mitigate the risk of the plan failing to achieve its objectives. CPCN capital is excluded from formula driven capital spending.

STABLE CASH FLOW AND WEAK FINANCIAL METRICS

We expect the company to continue to generate stable cash flow, a key credit strength. Underpinning this stability, cash flow from operations is generally a function of the company's rate base, its deemed capital structure (currently 38.5%), the allowed return on equity (currently 8.75%) and depreciation. The ROE contains an automatic adjustment mechanism for 2014 and 2015 that increases rates in case of rising interest rates; however, because of ongoing low interest rates neither 2014 nor 2015 qualified for an adjustment. Our analysis assumes that the company continues to earn its allowed ROE and that there are no material changes stemming from the next generic cost of capital decision expected in mid-2016. We expect the company's dividend policy net of any equity injections will maintain the deemed capital structure. The company is forecast to have limited financial metric headroom at the current rating. Planned large capital projects are expected to place some downward pressure on credit metrics; for example, the Tilbury LNG Expansion Project (Tilbury 1A) with a capital cost of about $440 million places some downward pressure on financial metrics because depreciation cash flow will not begin until this project is in operation expected around the end of 2016. In addition, the amalgamation will place some modest downward pressure on financial metrics as the company unwinds a regulated liability in 2015 and 2016. As a result, credit metrics deteriorated in 2015 (CFO pre-W/C to debt of 9.4% as of 12/31/2015), but we expect that they will improve as the liability is unwound and capital projects are completed in 2016-17.

FEI IS INDEPENDENT OF ULTIMATE PARENT FORTIS INC

We consider FEI to be operationally and financially independent of ultimate parent Fortis Inc. (FTS, not rated), although the company may periodically rely on its parent for equity injections to maintain its capital structure in line with the regulator's established parameters. We expect that FTS would provide extraordinary support to FEI, if required, provided that the parent had the economic incentive to do so. We believe that the parent will continue to have sufficient resources to provide support, if required. At FYE 2015, FTS had a $1.4 billion committed revolving credit facility at the FTS corporate level, of which $838 million was unused. Ring fencing provisions at FEI limit the ability of Fortis Inc to upstream cash, although we do not believe the parent would seek to increase leverage above levels established by the regulator. Our view of parent Fortis inc does not currently limit the rating of FEI.

Liquidity Analysis

FEI has adequate liquidity. For LTM 1Q16, FEI had negative free cash flow of $201 million as a result of $334 million CFO, $116 million dividends and $419 million capex (all numbers are Moody's adjusted). We estimate annual negative free cash flow at $120-170 million in 2016 on the basis of about $280 million capex and $120 million annual dividends (all number are Moody's adjusted). We expect FEI to manage dividend payouts and parent equity injections to maintain the equity layer close to the approved level of 38.5% along with its capex spending and borrowing profile.

FEI has a $700 million syndicated credit facility maturing in August 2018 that supports a commercial paper program. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement. At March 31, 2016, $289 million was available under this facility.

FEI has $211 million short-term debt obligations maturing in the next 12 months: $200 million of debt maturity in September 2016, $5 million government loan and $6 million capital lease obligation. We expect that FEI will be able to refinance upcoming debt repayments.

Profile

FEI, headquartered in Vancouver, is the largest gas local distribution company (LDC) in British Columbia serving about 985,000 customers, around 90% of which are residential. As the result of the amalgamation on December 31, 2014, FEI began to consolidate results of FortisBC Energy (Vancouver Island) Inc. (FEVI; A3 prior to consolidation), FortisBC Energy (Whistler) Inc. (FEW, not rated) and Terasen Gas Holdings Inc. (TGHI; not rated). FEI is regulated by the British Columbia Utilities Commission (BCUC). From 2010 to 2013, FEI's revenue requirement was determined under cost of service regulation. For the 2014-2019 period, FEI is subject to PBR, which was previously in effect from 2004 to 2009. FEI is a wholly-owned subsidiary of FortisBC Holdings Inc. (FHI not rated) which, in turn, is wholly owned by Fortis Inc., a diversified electric and gas utility holding company.

Rating Methodology and Scorecard Factors

Exhibit 3

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 3/31/2016		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	2.5x	Ba	2.2x - 2.7x	Ba
b) CFO pre-WC / Debt (3 Year Avg)	12.8%	Baa	11% - 13%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	6.7%	Ba	5% - 8%	Ba
d) Debt / Capitalization (3 Year Avg)	45.1%	A	46% - 49%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching	0	0	0	0
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned				A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations;
[2] As of 3/31/2016(L);
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Ratings

Exhibit 4

Category	Moody's Rating
FORTISBC ENERGY INC.	
Outlook	Stable
Senior Secured -Dom Curr	A1
Senior Unsecured -Dom Curr	A3

Source: Moody's Investors Service

REPORT NUMBER 1033617

MOODY'S
INVESTORS SERVICE

Rating Report

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DBRS

Insight beyond the rating.

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
MTNs & Unsecured Debentures	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On December 14, 2017, DBRS Limited (DBRS) confirmed FortisBC Energy Inc.'s (FEI or the Company) Issuer Rating and Medium-Term Notes rating at "A" and the Commercial Paper rating at R-1 (low). All trends remain Stable.

The confirmations reflect FEI's solid financial performance over the last 12 months ended September 30, 2017 (LTM 2017). FEI's earnings and cash flows have shown modest but steady increases, reflecting its growing rate base, good operational efficiency and tax recovery. All of FEI's key credit metrics remained supportive of the current ratings in LTM 2017. FEI's liquidity remained solid at the end of Q3 2017, reflecting stable cash flows, sizable credit facility availability and no long-term debt maturing within the next five years.

The regulatory framework in British Columbia (BC) remained stable in 2017, with allowed return on equity (ROE) and deemed equity component of the capital structure remaining unchanged from 2016 at 8.75% and 38.5%, respectively. FEI is in its fourth year of the 2014–2019 Performance Based Ratemaking (PBR) plan. During the current PBR period, FEI is allowed to pass through natural gas costs and regulated forecast cost items outside of formulaic operation and maintenance costs and to set up deferral accounts to ameliorate unanticipated changes in certain forecast items, including the variances in volume consumption by customers, which reduces forecast risk. Although FEI's current allowed ROE is viewed as low, compared with the average allowed ROE in North America, DBRS believes that the PBR plan continues to provide FEI the opportunity to earn a return on equity beyond the allowed ROE and support its cash flow stability. Given the current regulatory environment, a rating upgrade is unlikely. However, DBRS could take a negative rating action if the allowed ROE and deemed equity is significantly reduced.

DBRS notes that FEI is currently undertaking a number of capital projects, including the Tilbury Phase 1A Expansion project (in-service date expected to be in the first half of 2018), Coastal Transmission System project and the Lower Mainland Intermediate Pressure System Upgrade project. Completing these projects on time and within budget is important. Any significant cost overruns may not be recovered and could negatively affect FEI's credit metrics. DBRS expects FEI's current credit metrics to remain stable in the medium term. A material weakening of these credit metrics for a sustainable period could result in a negative rating action.

Financial Information

	9 months September 30		12 months September 30	For the year ended December 31st			
(CA$ millions)	**2017**	**2016**	**2017**	**2016**	**2015**	**2014***	**2013***
EBIT-to-gross interest (times) 1	2.01	1.94	2.43	2.35	2.27	2.23	2.09
Cash flow-to-total debt 2	13.1%	12.9%	14.6%	14.3%	13.5%	14.2%	14.7%
Total debt-to-capital	49.3%	48.6%	49.3%	49.0%	49.3%	49.0%	47.7%
Adjusted total debt-to-capital 3	59.2%	58.7%	59.2%	58.9%	59.6%	59.7%	58.7%

* Amalgamated FEI financial statements are presented as if the Amalgamation occurred on January 1, 2013. 1 Adjusted for operating leases. 2 Cash flow is annualized for 9 months to September 30. 3 DBRS adjusts for "lease-in lease-out" and "goodwill" under U.S.GAAP (see Note 3 of Table on page 6 for details).

Issuer Description

FortisBC Energy Inc. (FEI) is the largest distributor of natural gas in British Columbia and serves approximately 999,000 residential, commercial and industrial and transportation customers (September 2017) in more than 135 communities. FEI provides distribution and transportation services to its customers and obtains natural gas supplies on behalf of most residential, commercial and industrial clients.

Rating Considerations

Strengths

1. Relatively low business risk

FEI's business risk is viewed as relatively low, supported by the following factors: (a) FEI generates virtually all of its earnings from its regulated natural gas distribution and transportation operations where competition is limited to other forms of energy (such as electricity); (b) FEI is not exposed to commodity price risk, as the cost of natural gas is passed through to the customers without mark-up, with adjustments made through quarterly review and application to the British Columbia Utilities Commission (BCUC); and (c) volatility in usage by residential and commercial customers caused by the impact of weather is mitigated through deferral accounts (see Regulation section).

2. Economically strong service territory

FEI's largest service area is Greater Vancouver, which is economically strong. Other major service areas are the Fraser Valley, Thompson, Okanagan, Kootenay, North Central Interior, Vancouver Island, Sunshine Coast and Whistler regions.

3. Solid financial profile

The Company's credit metrics as of September 30, 2017, were supportive of the "A" rating category. The Company's strategy is to finance its current and future capital expenditures (capex) in a manner such that the regulatory capital structure will be maintained. As a result, FEI's credit metrics are expected to remain stable and in support of the current ratings.

4. Large customer base

As of September 30, 2017, FEI served approximately 999,000 customers. The customer mix is weighted heavily toward residential and commercial customers, whose consumption is less sensitive to economic conditions. The large number of customers and broad scope of operations help FEI operate more efficiently, particularly during the PBR period.

Challenges

1. Regulatory risk

As a regulated utility, FEI's operations are subject to some uncertainties, including the following factors: (a) the ability of the Company to recover the actual costs of providing services and to earn the approved rates of return is affected by achieving the forecasts established in the rate-setting process and (b) there is no assurance that capital projects perceived as required by the management of the Company will be approved or that conditions to such approval will not be imposed. DBRS expects the current regulatory framework to remain stable. Any regulatory decision by the BCUC that may have a material negative impact on the Company's earnings and cash flow could result in a negative rating action.

2. Project execution risk

FEI engages in a number of capital projects, including the Tilbury Phase 1A Expansion project, Coastal Transmission System (CTS) project and the Lower Mainland Intermediate Pressure System Upgrade (LMIPSU) project. FEI is also pursuing additional liquefied natural gas (LNG) infrastructure opportunities, including a pipeline expansion to the proposed Woodfibre LNG site near Squamish and a further expansion of the Tilbury Facility. Completing these projects on time and within the budget is important. Any significant cost overruns would be reviewed by the BCUC and some of these costs may potentially not be recovered in rates.

3. Long-term competition from electricity

FEI faces more intense competition from electricity in British Columbia than most gas distributors in other provinces in Canada (except Québec) because of the relatively low power costs in the province. DBRS notes that there has been upward pressure on electricity rates in British Columbia because of new investments in electricity generation and transmission, whereas natural gas prices have remained relatively low, thereby improving the price competitiveness of FEI.

Major Capital Projects

1. Tilbury LNG Facility - Phase 1A Expansion Project (Tilbury Phase 1A) - Update

- The expansion of the Tilbury LNG Facility received an Order-In-Council (OIC) approval in 2013 and the subsequent amendments made to the OIC by the provincial government in December 2014 and March 2017.
- In October 2014, FEI started the construction of the Tilbury Phase 1A.
- The cost of the portion of the Tilbury Phase 1A currently under construction is approximately $400 million (excluding allowance for funds used during construction and development costs), but include a new LNG storage tank and liquefier.
- The project is expected to be in service in the first half of 2018.

2. Coastal Transmission System (CTS) Project

- This project received an OIC approval in 2014. The CTS project involves the installation of 11 kilometres of pipeline in the cities of Surrey and Coquitlam.
- The cost of the project is estimated to be approximately $170 million.
- The construction of the project is expected to be primarily completed by the end of 2017.

3. Lower Mainland Intermediate Pressure System Upgrade (LMIPSU) Project

- In October 2015, FEI received an approval from the BCUC for its Certificate of Public Convenience and Necessity (CPCN) application to replace certain sections of the intermediate pressure pipeline segments within the Great Vancouver area.
- The approved CPCN anticipated the total project cost of approximately $250 million, with an in-service date expected in 2018.

4. LNG Infrastructure Project

- FEI is pursuing additional LNG Infrastructure opportunities, including a pipeline expansion to the proposed Eagle Mountain Woodfibre LNG (Woodfibre LNG) site and a further expansion of the Tilbury Facility.
- In December 2014, FEI received an OIC from the provincial government granting an exemption from the requirement to seek the BCUC CPCN approvals for the expansion to the Woodfibre LNG site and certain further expansions at the Tilbury site. The potential pipeline expansion is contingent on Woodfibre LNG proceeding with its LNG export facility.
- Woodfibre LNG has obtained an export licence from the National Energy Board and received environmental assessment approvals from the Squamish First Nation, the British Columbia Environmental Assessment Office and the Canadian Environmental Assessment Agency.
- FEI has received the necessary environmental assessment approvals for the pipeline expansion from the Squamish First Nation and provincial environmental assessment office.
- The capital cost for FEI's pipeline expansion is estimated to be approximately $350 million, net of forecasted customer contributions. If the project proceeds, it is not expected to be in service before 2021.

Regulation

Multi-Year PBR Plan for 2014 to 2019 - Update

FEI currently operates under a PBR plan through 2019. FEI had previously operated under a traditional cost-of-service methodology, which ended December 31, 2013.

- The approved PBR plan incorporates an incentive mechanism for improving operating efficiencies. During the PBR period, operation and maintenance costs and base capex are subject to a formula reflecting incremental costs for inflation and half of customer growth, less a fixed productivity improvement factor of 1.1% each year. It also includes a 50/50 sharing of variances from the formula-driven operation and maintenance expenses and capital expenditures over the PBR period and a number of service quality measures designed to ensure FEI maintains an adequate service level.
- In December 2016, the BCUC issued its decision on the Company's 2017 delivery rates (the 2017 Decision), which resulted in a 2017 average rate base of approximately \$3,705 million (excluding the rate base of approximately \$11 million for Fort Nelson). The 2017 Decision also resulted in no increase in customer delivery rates before consideration of rate riders, effective January 1, 2017.
- In September 2017, FEI filed its application for approval of 2018 delivery rates. The 2018 application includes a forecast average rate base of approximately \$4,370 million (excluding the rate base of approximately \$11 million for Fort Nelson). In its application, FEI requests no increase in customer delivery rates for 2018. The BCUC decision on the Company's 2018 delivery rate application is expected in January 2018.

Allowed ROE and Common Equity Component - Update

- There has been no change in allowed ROE and deemed equity of the capital structure since the BCUC issued its decision in August 2016. The August 2016 BCUC decision confirmed that FEI's existing common equity component of capital structure and ROE will remain at 38.5% and 8.75%, respectively. The BCUC also determined that the ROE approved for FEI will serve as the benchmark cost of equity for all other regulated entities in the Province that use the benchmark utility to set rates and that the common equity component of capital structure and ROE for FEI will remain in effect until otherwise determined by the Commission.

Deferral Accounts

FEI has a number of deferral accounts that are used to ameliorate unanticipated changes in certain forecast items, including the following two mechanisms:

- The first mechanism relates to the recovery of all gas supply cost through two separate deferral accounts: Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA).
  - Any differences between actual and forecast gas and midstream costs are captured and recorded in these deferral accounts to be recovered or refunded in future rates via quarterly review and application to the BCUC. Forecast gas prices are adjusted on a quarterly basis for commodity rates, mitigating the impact of recovery lag.
- The second mechanism is called Revenue Stabilization Adjustment Mechanism (RSAM).
  - The RSAM seeks to stabilize revenues from residential and commercial customers through a deferral account that captures variances in forecast versus actual customer usage throughout the year to recover them in rates. This reduces FEI's earnings volatility.
- The RSAM and MCRA accounts are currently recovered/refunded in rates over two years. The CCRA is anticipated to be fully recovered within the next fiscal year.
- In addition to the two above mechanisms, FEI also has a BCUC-approved flow-through deferral account. This account captures variances from regulated forecast items (excluding formulaic operation and maintenance costs) that do not have separate approved deferral mechanisms. Items included in this account are variances in interest rates, insurance and factors affecting income taxes; variance in margin related to customer growth and industrial margin; and certain other items that were previously not subject to flow-through treatment. These variances will flow through to customer rates in the following year.
- Before the amalgamation, FEI's Vancouver Island utility had two deferral accounts: (1) a rate stabilization deferral account (RSDA) that accumulated the difference between the revenues received and the actual cost of service, excluding operation and maintenance cost variances from the forecast; and (2) a Gas Cost Variance Account (GCVA) that accumulated variances between the forecast and actual gas costs, which were passed on to customers through future rates.
  - The BCUC approved the balance of the GCVA being transferred at the end of 2014 to the RSDA effective January 1, 2015. The RSDA balance is being returned to customers (excluding customers residing on Vancouver Island and the Sunshine Coast and in Whistler) over a period of three years, ending in 2017.

Regulatory Ring-Fencing

- The regulatory ring-fencing imposed on FEI by the BCUC at the time of Fortis' 2007 acquisition of FEI (a continuation of the ring-fencing imposed upon acquisition of the former Terasen Inc. by Kinder Morgan Inc. in 2005) is intended to ensure that public interest is protected and that FEI will continue to operate as a separate, stand-alone entity without undue parental influence. One of these conditions is that FEI must maintain its debt-to-capital ratio in line with the regulatory capital structure.

Earnings and Outlook

Consolidated Income Statement (CA$ millions)	9 months September 30		12 months September 30	For the year ended December 31st			
	2017	2016	2017	2016	2015	2014*	2013*
EBITDA	348	356	518	526	517	509	487
EBIT	196	204	315	323	323	316	302
Gross interest expense 1	97	105	129	137	142	141	144
Pre-tax income	109	107	200	198	189	177	160
Income tax	(4)	13	10	27	38	35	24
Net income before extra. items	113	94	190	171	151	142	136
Net income available to common shareholders	112	93	189	170	150	141	135
Rate base (mid-year) (amalgamated FEI)	3,716	3,704	n/a	3,704	3,672	n/a	n/a
Allowed ROE (amalgamated FEI)	8.75%	8.75%	8.75%	8.75%	8.75%	n/a	n/a
Allowed ROE (FEI pre-amalgamation)	n/a	n/a	n/a	n/a	n/a	8.75%	8.75%
Actual ROE (FEI)	n/a	n/a	n/a	9.28%	9.19%	9.20%	9.12%

* Amalgamated FEI financial statements are presented as if the Amalgamation occurred on January 1, 2013.
1 Less interest expense on inter-company subordinated debt.
n/a = not available.

Summary

Higher earnings in the nine months ended September 30, 2017 (9M 2017) compared with 9M 2016 largely reflected the following factors:

- Higher income tax recovery as a result of FEI having a tax loss utilization plan (TLUP) in the place since Q1 2017. A TLUP is a series of transactions whereby FEI sets up an investment in an affiliate's preferred shares and issues subordinated debt from that affiliate. FEI receives non-taxable dividend income from the preferred shares and pays tax deductible interest on the subordinated debt.
- Higher investments in regulated assets, which increased the rate base.

Outlook

- Net earnings for 2018 should increase modestly from 2017 reflecting an expected increase in rate base and returns on investment made in 2017 in growth projects that are under construction.
- DBRS notes that FEI's operating efficiency will continue to be an important factor to its 2018 earnings.

Financial Profile

Consolidated Cash Flow Statement (CA$ millions)	9 months September 30 2017	9 months September 30 2016	12 months September 30 2017	For the year ended December 31st 2016	2015	2014*	2013*
Net income before extra. items	113	94	190	171	151	142	136
Depreciation & amortization	152	152	203	203	194	193	185
Deferred income taxes/Other	(13)	(11)	(19)	(17)	(12)	(4)	(1)
Cash flow from operations	**252**	**235**	**374**	**357**	**333**	**331**	**320**
Dividends on common shares	(84)	(80)	(124)	(120)	(134)	(95)	(150)
Capex (net of contributions in aid of construction)	(325)	(247)	(405)	(327)	(454)	(311)	(187)
Free cash flow before WC	(157)	(92)	(155)	(90)	(255)	(75)	(17)
Changes in working capital (WC)	47	27	(20)	(40)	156	(26)	4
Changes in regulatory assets & liabilities	49	3	62	16	(124)	(54)	(31)
Net free cash flow	(61)	(62)	(113)	(114)	(223)	(155)	(44)
Acquisitions	0	0	0	0	0	0	0
Other investment activities	0	2	(17)	(15)	5	(10)	(7)
Net changes in equity	0	30	0	30	85	0	0
Net changes in debt	61	(28)	130	41	133	168	30
Other financing	4	60	(1)	55	(7)	(1)	(1)
Change in cash	4	2	(1)	(3)	(7)	2	(22)
Total debt	2,558	2,428	2,558	2,497	2,458	2,326	2,171
Total debt-to-capital	49.3%	48.6%	49.3%	49.0%	49.3%	49.0%	47.7%
Adjusted total debt-to-capital 3	59.2%	58.7%	59.2%	58.9%	59.6%	59.7%	58.7%
Cash flow-to-total debt 2	13.1%	12.9%	14.6%	14.3%	13.5%	14.2%	14.7%
EBIT-to-gross interest (times) 1	2.01	1.94	2.43	2.35	2.27	2.23	2.09
Dividend payout ratio	75.0%	86.0%	65.6%	70.6%	89.3%	67.4%	111.1%

* Amalgamated FEI financial statements are presented as if the Amalgamation occurred on January 1, 2013.
1 Adjusted for operating leases. 2 Cash flow is annualized for 9 months to September 30. 3 When FEI moved to U.S. GAAP in 2012, the debt and equity base were adjusted to reflect (i) higher debt caused by lease-in and lease-out arrangements and (ii) higher equity base because goodwill was added to the equity base in connection with Fortis Acquisition in 2007. DBRS excluded these adjustments in its calculation of this ratio.

Summary

- DBRS notes that FEI's total debt-to-capital ratio is much lower than its adjusted total debt-to-capital ratio, reflecting a modest amount of lease-in and lease-out excluded from the debt but a significant amount of goodwill excluded from the equity base in the adjusted-debt-to-capital ratio.
- FEI's financial profile remained solid for LTM 2017, with all key credit metrics remaining relatively stable from the 2016 levels and being supportive of current ratings. FEI's credit metrics continued to be supported by growing cash flow from operations and a reasonable adjusted capital structure, which was slightly below the regulatory capital structure.
- Large capex for the whole year 2017, approximately $480 million, consists of capital investment in the Tilbury Phase 1A (approximately $30 million) and the CTS project (approximately $130 million) and an increase base capital driven by customer growth.
- FEI continues to maintain a flexible dividend policy and to finance its cash flow deficit in the manner that keeps its capital structure consistent with regulatory capital structure.
- The change in long-term regulatory assets and liabilities largely reflected the movements of deferral accounts during the period.

Outlook

- Overall, DBRS expects all FEI's key credit metrics to remain supportive of the current ratings on a sustained basis.
- Based on the Company's current financing plan, DBRS expects FEI's debt-to-capital ratio to remain in line with the regulatory capital structure.
- DBRS expects incremental cash flow from a higher rate base as a result of investment made in 2017. This increase should help to maintain a stable cash flow-to-debt ratio over the medium term.

Liquidity and Long-Term Debt Maturities

Liquidity

Credit Facilities (Sep. 30, 2017)

(CA$ millions)	Committed	Drawn	LC	Available	Expiry
Syndicated unsecured credit facility	700	(260)	(56)	384	Aug-2022

- FEI's liquidity remained solid as at September 30, 2017, with a sizable unused credit facility and minimal long-term debt due in next five years.
- In July 2017, FEI's $700 million credit facility was extended by one year to mature in August 2022.
- This facility is sufficient to support the Company's $700 million commercial paper program.
- Because of the seasonal nature of the business, liquidity requirements peak in the fall and winter.
- Letters of credit outstanding at September 30, 2017, was $56 million. This amount was used to primarily support the Company's unfunded supplemental pension benefit plans.

Long-Term Debt, Capital Lease & Finance Obligations Schedule

As of September 30, 2017 (CA$ millions)	Due Within 1 year	Due in Year 2	Due in Year 3	Due in Year 4	Due in Year 5	Due after 5 Years	Total
Unsecured Debentures	-	-	-	-	-	2,220	**2,220**
Capital lease and finance obligations	8	37	19	10	33	3	**110**
Total	**8**	**37**	**19**	**10**	**33**	**2,223**	**2,330**

- Overall, the Company's refinancing requirements are very light in the next five years.
- In October 2017, FEI issued $175 million of unsecured MTN Debentures Series 30 maturing on October 30, 2047, with the net proceeds used to repay short-term indebtedness and finance its capex program.
- DBRS is of a view that the issuance of the $175 million MTN Debentures has no material impact on the Company's LTM 2017 credit ratios.

FortisBC Energy Inc.

Balance Sheet (CA$ millions)	Sep. 30 2017	Dec. 31 2016	Dec. 31 2015		Sep. 30 2017	Dec. 31 2016	Dec. 31 2015
Assets				**Liabilities & Equity**			
Cash & equivalents	4	0	3	S.T. borrowings	260	194	391
Accounts receivable	113	228	213	Current portion of L.T. debt	5	6	211
Inventories	67	54	81	Accounts payable	310	349	253
Current regulatory assets	55	73	43	Current regulatory liabilities	68	83	128
Others	25	10	4	Others	17	38	53
Total Current Assets	**264**	**365**	**344**	**Total Current Liabilities**	**660**	**670**	**1036**
Net fixed assets	4,331	4,131	3,957	Long-term (L.T.) debt	2,205	2,205	1,757
Intangible assets	119	122	127	Capital leases/finance obligations	88	92	99
Goodwill	913	913	913	Deferred income taxes	422	431	418
Regulatory assets	710	749	768	Regulatory liabilities	132	89	75
Others	15	20	9	Other L.T. liabilities	213	209	209
				Non controlling interest	10	10	10
				Shareholders' equity	2,622	2,594	2,514
Total Assets	**6,352**	**6,300**	**6,118**	**Total Liab. & SE**	**6,352**	**6,300**	**6,118**

	9 months September 30		12 months September 30	For the year ended December 31st			
	2017	**2016**	**2017**	**2016**	**2015**	**2014***	**2013***
Leverage Ratios							
Total debt-to-capital	49.3%	48.6%	49.3%	49.0%	49.3%	49.0%	47.7%
Cash flow-to-total debt 2	13.1%	12.9%	14.6%	14.3%	13.5%	14.2%	14.7%
(Cash flow - Dividends)/Capex	51.7%	62.8%	61.7%	72.5%	43.8%	75.9%	90.9%
Coverage Ratios							
EBIT-to-gross interest (times) 1	2.01	1.94	2.43	2.35	2.27	2.23	2.09
EBITDA-to-gross interest (times)	3.59	3.39	4.02	3.84	3.64	3.61	3.38
Fixed-charges coverage (times)	2.01	1.94	2.43	2.35	2.27	2.23	2.09
Profitability Ratios							
EBITDA margin	62.7%	63.0%	63.9%	64.1%	63.9%	64.2%	62.4%
EBIT margin	35.3%	36.1%	38.8%	39.3%	39.9%	39.8%	38.7%
Profit margin	20.2%	16.5%	23.3%	20.7%	18.5%	17.8%	17.3%
Return on avg. common equity 2, 3	8.8%	7.6%	11.3%	10.4%	9.7%	9.5%	10.5%

* Amalgamated FEI financial statements are presented as if the Amalgamation occurred on January 1, 2013.
1 Adjusted for operating leases. 2 Cash flow is annualized for 9 months to September 30. 3 Excludes goodwill.

Rating History

	Current	2016	2015	2014	2013	2012
Issuer Rating	A	A	A	A	A	A
MTNs & Unsecured Debentures	A	A	A	A	A	A
Purchase Money Mortgages	-	Discontinued	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Related Research

- *Rating Companies in the Regulated Electric, Natural Gas and Water Utilities Industry*, September 22, 2017.
- *DBRS Criteria: Commercial Paper Liquidity Support for Non-Bank Issuers*, March 22, 2017.

Previous Report

- FortisBC Energy Inc.: Rating Report, December 22, 2016.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrs.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

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CREDIT OPINION
26 July 2017

Update

Rate this Research

RATINGS

FortisBC Energy Inc.

Domicile	British Columbia, Canada
Long Term Rating	A3
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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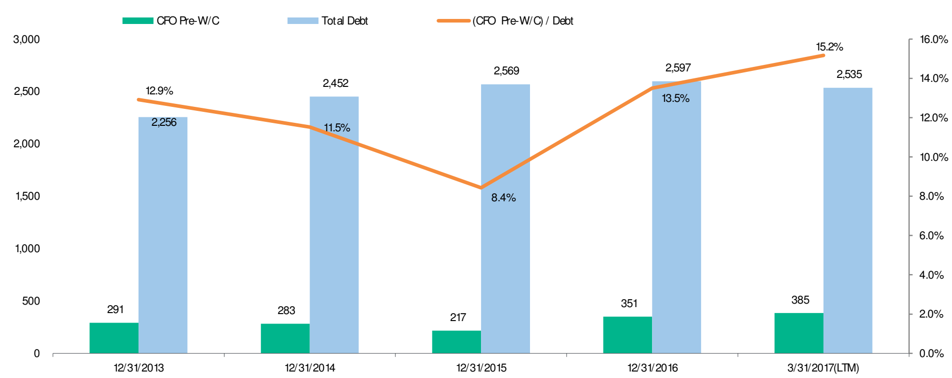
FortisBC Energy Inc.

Largest local gas distribution company in British Columbia

Summary Rating Rationale

FortisBC Energy Inc.'s (FEI) credit quality is driven by its low business risk gas transmission and distribution assets that operate in a credit supportive regulatory environment and its monopoly position. The company has a long term track record of earning its allowed return on equity and its cash flow continues to be highly predictable. This is offset by the company's weak financial metrics, with limited headroom at the current rating level, that are primarily a product of the allowed return on equity and the equity component of its capital structure. The rating reflects FEI's independence from heavily levered parent Fortis Inc.

Exhibit 1
Historical CFO Pre W/C, Total Debt and CFO Pre W/C to Debt



Source: Moody's Financial Metrics

Credit Strengths

» Low risk gas transmission and distribution business

» Credit supportive regulatory environment

» Stable cash flow

Credit Challenges

» PBR marginally increases risk compared to cost of service regulation

» High leverage and weak financial metrics

» FEI is independent of heavily levered parent Fortis Inc.

Rating Outlook

The stable outlook is based on our expectation of a continuing supportive regulatory environment and stable, albeit weak financial metrics with ongoing limited headroom at the current rating level.

Factors that Could Lead to an Upgrade

Given the ongoing forecasted weakness in credit metrics an upgrade is unlikely. We could upgrade the company with a material sustained improvement in financial metrics, including a ratio of CFO pre W/C to debt in the mid to high teens.

Factors that Could Lead to a Downgrade

While we don't expect it, several factors could lead to a downgrade. For example, an unexpected, material adverse regulatory decision or a forecast of a sustained deterioration in credit metrics including CFO pre-W/C to debt of less than 11%.

Key Indicators

Exhibit 2

KEY INDICATORS [1]

FortisBC Energy Inc.

	12/31/2013	12/31/2014	12/31/2015	12/31/2016	3/31/2017(LTM)
CFO pre-WC + Interest / Interest	2.5x	2.5x	2.2x	2.5x	2.7x
CFO pre-WC / Debt	12.9%	11.5%	8.4%	13.5%	15.2%
CFO pre-WC – Dividends / Debt	6.2%	7.6%	3.1%	8.8%	10.3%
Debt / Capitalization	44.9%	46.5%	46.7%	46.3%	45.3%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

Detailed Rating Considerations

CREDIT SUPPORTIVE REGULATORY ENVIRONMENT

FEI's A3 rating has been primarily driven by its credit supportive regulatory environment and its monopoly position. Rates have typically been set using a cost of service framework and a forward test year that has enabled the company to recover its costs and earn an allowed return established by the regulator, the British Columbia Utilities Commission, resulting in stable cash flow. The company has a track record of passing through its commodity costs in rates and has no direct exposure to commodity price risk and limited volume risk. To the extent that these and many other costs differ from forecast values, deferral or true up mechanisms limit exposure to forecast error. As a result the company has a long track record of earning the return on equity (ROE) established by the regulator.

For capital projects in excess of $15 million the company requires a certificate of public convenience and necessity (CPCN) that reduces the probability of cost disallowances, a credit positive. For large capital projects, the company receives a weighted average cost of capital in rates for financing costs incurred during construction; however, depreciation charges only begin once projects are complete and added to rate base. We do not believe the company has experienced any material cost disallowances. Decisions from the regulator tend to be reasonably predictable, consistent and transparent with a consultative approach. We have noted regulatory lag in some recent decisions, but the company has generally received interim rates as requested, mitigating some lag effects. Generally, when utility or other stakeholders materially disagree with some aspects of decisions, they have been successful in asking the regulator to review and vary its decisions with final outcomes acceptable to all parties as evidenced by a lack of court challenges. The company has access to the courts to challenge regulatory decisions, although this has not happened since the utility was acquired by Fortis Inc in 2007. The legislative and judicial underpinnings of the regulatory framework continue to be stable. We view debt-financed deferral accounts as a credit negative, however the balances remain small.

The company benefits from a monopoly position. We believe that its customers, who are primarily residential, continue to have the capacity and willingness to pay their bills.

PBR MARGINALLY INCREASES RISK

The shift to performance based regulation (PBR) marginally increases risk because of the potential for higher cash flow volatility compared to cost of service regulation. However, we believe that management will be successful in achieving the challenges inherent in its PBR plan and continue to earn the allowed return on equity established by the regulator. Performance based regulation utilizes a formula based approach to rate making. Revenues associated with controllable operating expenses and capital expenditure are adjusted on an annual basis during the 6 year period of the plan, from 2014-2019. Each year they are adjusted for inflation, by a productivity or X-factor of 1.1% (FBC 1.03%), while initial rates were based on 2013 cost of service based rates with some adjustments. Many costs remain pass through items; for example, interest expenses and taxes limiting risk to the utility. The PBR plan has a symmetrical earnings sharing mechanism that is partially subject to service quality indicators. An annual review process forms part of the PBR plan to mitigate the risk of the plan failing to achieve its objectives. CPCN capital is excluded from formula driven capital spending.

STABLE CASH FLOW AND WEAK FINANCIAL METRICS

We expect the company to continue to generate stable cash flow, a key credit strength. Underpinning this stability, cash flow from operations is generally a function of the company's rate base, its deemed capital structure (38.5% equity), the allowed return on equity (8.75%) and depreciation. Our analysis assumes that the company continues to earn its allowed ROE and that there are no material changes stemming from the next cost of capital decision. We expect the company's dividend policy net of any equity injections will maintain the deemed capital structure. The company is forecast to have limited financial metric headroom at the current rating. Planned large capital projects are expected to place some downward pressure on credit metrics; for example, the Tilbury LNG Expansion Project (Tilbury 1A) with a capital cost of about $400 million (excluding AFUDC and scope changes) places some downward pressure on financial metrics because depreciation cash flow will not begin until this project is fully operational. We expect the project to start operating in the second half of 2017 and be fully operational in 2018, when depreciation cash flow will begin. The amalgamation placed some downward pressure on financial metrics in 2015 and 2016 as the company unwound a regulated liability.

FEI IS INDEPENDENT OF HEAVILY LEVERED PARENT FORTIS INC

We consider FEI to be operationally and financially independent of ultimate parent Fortis Inc. (FTS, Baa3 stable). FEI benefits from access to a large and diversified parent that may facilitate streamlining operations and costs and provides strong access to capital markets. The company may periodically rely on its parent for equity injections to maintain its capital structure in line with the regulator's established parameters. We expect that FTS would provide extraordinary support to FEI, if required, provided that the parent had the economic incentive to do so. We believe that the parent will continue to have sufficient resources to provide support, if required. At FYE 2016, FTS had a $2.2 billion committed revolving credit facility at the FTS corporate level, of which $1,122 million was unused. Ring fencing provisions at FEI limit the ability of Fortis Inc to upstream cash, although we do not believe the parent would seek to increase leverage above levels established by the regulator. Offsetting these benefits, Fortis Inc has very high levels of leverage and holding company debt and is dependent upon its many subsidiaries, including FEI, to make distributions, to service its obligations. Our view of parent Fortis Inc does not currently limit the rating of FEI.

Liquidity Analysis

FEI has adequate liquidity. For LTM 1Q17, FEI had negative free cash flow of $111 million as a result of $342 million CFO, $123 million dividends and $330 million capex (all numbers are Moody's adjusted). We estimate annual negative free cash flow at $180-200 million in 2017 on the basis of about $420 million capex and $120 million annual dividends (all numbers are Moody's adjusted). We expect FEI to manage dividend payouts and parent equity injections to maintain the equity layer close to the approved level of 38.5% along with its capex spending and borrowing profile.

FEI has a $700 million syndicated credit facility maturing in August 2021 that supports a commercial paper program. The company is currently well below the debt to total capitalization ratio covenant (maximum 75%) in the credit agreement. At March 31, 2017, $514 million was available under this facility.

FEI has a $6 million capital lease obligation maturing in the next 12 months. FEI's next debt maturity is $150 million of unsecured debentures due in 2026. We expect that FEI will be able to refinance upcoming debt repayments.

Profile

FEI, headquartered in Vancouver, is the largest gas local distribution company (LDC) in British Columbia serving about 997,500 customers, around 90% of which are residential. As the result of the amalgamation on December 31, 2014, FEI began to consolidate results of FortisBC Energy (Vancouver Island) Inc. (FEVI; A3 prior to consolidation), FortisBC Energy (Whistler) Inc. (FEW, not rated) and Terasen Gas Holdings Inc. (TGHI; not rated). FEI is regulated by the British Columbia Utilities Commission (BCUC). From 2010 to 2013, FEI's revenue requirement was determined under cost of service regulation. For the 2014-2019 period, FEI is subject to PBR, which was previously in effect from 2004 to 2009. FEI is a wholly-owned subsidiary of FortisBC Holdings Inc. (FHI not rated) which, in turn, is wholly owned by Fortis Inc., a diversified electric and gas utility holding company.

Rating Methodology and Scorecard Factors

Exhibit 3

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 3/31/2017		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	2.5x	Ba	2.5x - 3x	Ba
b) CFO pre-WC / Debt (3 Year Avg)	12.0%	Baa	11% - 13%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	7.0%	Baa	6% - 9%	Baa
d) Debt / Capitalization (3 Year Avg)	45.8%	A	46% - 49%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching	0	0	0	0
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations;
[2] As of 3/31/2017(LTM);
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Ratings

Exhibit 4

Category	Moody's Rating
FORTISBC ENERGY INC.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3
ULT PARENT: FORTIS INC.	
Outlook	Stable
Issuer Rating -Dom Curr	Baa3
Senior Unsecured	Baa3

Source: Moody's Investors Service

REPORT NUMBER 1081767

MOODY'S
INVESTORS SERVICE