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VIA EMAIL

August 31, 2012

BRITISH COLUMBIA UTILITIES COMMISSION
GENERIC COST OF CAPITAL PROCEEDING EXHIBIT A2-12

To: All Registered Parties
(*BCUC-GCOC*)

Re: British Columbia Utilities Commission
Project No. 3698660/G-20-12
Generic Cost of Capital Proceeding

Commission staff submits the following document for the record in this proceeding:

Extract from April 12, 2012 BCUC Decision
The FortisBC Energy Utilities – 2012-2013 Revenue Requirements and Rates

Yours truly,

Erica Hamilton

/dg
Attachment



IN THE MATTER OF

THE FORTISBC ENERGY UTILITIES

**[comprised of FortisBC Energy Inc., FortisBC Energy Inc. Fort Nelson Service Area,
FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc.]**

2012-2013 REVENUE REQUIREMENTS AND RATES

DECISION

April 12, 2012

Before:

D.A. Cote, Commissioner/Panel Chair

A.A. Rhodes, Commissioner

N.E. MacMurchy, Commissioner

3.0 REGULATORY CONTEXT

3.1 Introduction

This Application is being reviewed during a period of significant change in terms of BC Government Energy Policy and regulation. The *CEA* which was introduced in 2010 was further amended in June of 2011. More recently, the *Demand-Side Measures Regulation* issued under the *UCA* on November 6, 2008, was amended on December 8, 2011. Add to this the Provincial Government's announcement on February 3, 2011, of changes to the BC Government's "The BC Energy Plan: A *Vision for Clean Energy Leadership*" (2007 Energy Plan) and it becomes clear that we are in a period of re-examination and considerable change. It can also be stated that this Application and its review is occurring during a period of major change for the FEU. As noted previously, the FEU have embarked upon a series of new business initiatives which have the potential to transform the positioning of the Companies and how they do business in the future.

Given the level of change in both the policy environment and the approach to new business initiatives being undertaken by the FEU, the Commission Panel believes there is value in examining both of these areas to set a context for this Application.

3.2 FortisBC Energy Utilities an Organization in Transition

The FEU can be described as a group of companies in transition. While still highly reliant upon the delivery of natural gas to residential, commercial and industrial customers as their primary business, the FEU have made significant progress in moving away from their traditional roots. In recent years, the Companies have explored and developed what they believe to be an expanded range of service offerings to satisfy growing needs of the customer base. As a result, the Companies have initiated programs into non-traditional areas including a Biomethane offering, a program designed to grow specific segments of the natural gas vehicle (NGV) business and a

Thermal Energy Services (TES) program. Collectively, these will be referred to as AES Initiatives within this Decision.

The genesis for much of this change in approach may well have been driven by the same concerns as those raised in the Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc. and Terasen Gas Whistler Inc. (collectively, Terasen Companies) Return on Equity and Capital Structure Proceeding from 2009 (2009 ROE Proceeding). In the 2009 ROE Proceeding, the Terasen Companies raised a number of factors which they argued were contributing to increased business risk. (Exhibit B-1, p. 24, Tab 1) In the view of the Terasen Companies, these factors, which included items such as the impact of Provincial climate change and energy policies and the growth of electricity as the fuel of choice for high-density housing, had the potential to significantly affect the ability of the Terasen Companies to earn a return on capital. The Commission Panel in the 2009 ROE Decision agreed with the Terasen Companies with respect to climate change and energy policies noting “that the introduction of climate change legislation by the Provincial Government has created a level of uncertainty that did not exist in 2005 and that the change in government policy will quite probably cause potential customers not to opt for natural gas and persuade potential retrofitters to opt for electricity.”² (2009 ROE Decision, p. 37)

Of importance is that the concerns of the Companies were a factor in their decision to explore alternative business initiatives more closely aligned with British Columbia’s climate and energy policies. On June 8, 2010, Terasen Gas Inc. filed an application for approval of what it described as an end-to-end business model encompassing the purchase of Biomethane for sale to its customers. This application was filed against the backdrop of the *Clean Energy Act* which received Royal Assent on June 3, 2010 and, in Terasen’s view, underlined the importance of its role in developing renewable resources, reducing GHG emissions and reducing waste by using biogas and biomass as

² In the Matter of An Application by Terasen Gas Inc. (TGI), Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas (Whistler) Inc. (TGW) (collectively the Terasen Utilities) for Return on Equity and Capital Structure; Decision and Order G-158-09 dated December 16, 2009 (2009 ROE Decision)