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BRITISH COLUMBIA UTILITIES COMMISSION
GENERIC COST OF CAPITAL PROCEEDING EXHIBIT B1-33

December 10, 2012

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

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: Generic Cost of Capital Proceeding
FortisBC Utilities[1] (the "FBCU" or the "Company") Opening Statement

The British Columbia Utilities Commission Order No. G-148-12 established an Oral Public Hearing for the Generic Cost of Capital Proceeding commending on December 12, 2012. Attached please find Opening Statement of Mr. Roger Dall'Antonia on behalf of the FBCU.

If you require further information or have any questions regarding this submission, please contact the undersigned.

Yours very truly,

on behalf of the FORTISBC UTILITIES

Original signed by: Shawn Hill

For: Diane Roy

Attachments

cc (email only): Registered Parties

[1] comprised of FortisBC Inc., FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc.

OPENING STATEMENT OF ROGER DALL'ANTONIA
FORTISBC UTILITIES[1]

Good morning Mr. Chairman and Commissioners.

The FortisBC Utilities are pleased to appear before you to address the evidence that we have filed in this initial phase of the Commission's Generic Cost of Capital Proceeding.

The main subject of this initial phase is to determine the return on equity ("ROE") and capital structure of the benchmark utility, FortisBC Energy Inc. ("FEI") for ratemaking purposes. The Commission's determinations on these matters are of fundamental importance to the FortisBC Utilities. Operating a large utility system is a capital intensive business. Significant long-term investments in infrastructure are required to maintain safe and reliable service to customers. FEI's allowed ROE and capital structure, taken together, should ensure that we can continue to compete effectively for capital, maintain our financial integrity, and be treated fairly relative to other comparable entities.

Similarities to 2009

The Commission initiated this Generic Cost of Capital proceeding in February of this year noting that "Since the issuance of the 2009 ROE Decision, changes have occurred in the financial markets." The general market conditions today are, despite the passage of time, similar to those in late 2009. FEI's overall business is also similar.

In the last FortisBC Energy Utilities cost of capital proceeding, the oral hearing concluded in early October 2009. The financial markets had significantly improved by that time from the depths of the crisis in the fall of 2008, but they were still uncertain and volatile. The defining characteristic of FEI's business risk in 2009 was a trend of declining throughput among core residential and commercial customers, brought on by factors such as improved appliance efficiency, the new prevalence of smaller multi-family dwellings, changes in the way people use natural gas, upfront capital costs associated with natural gas equipment, and lower capture rates in new housing.

How does that compare to today? Mr. Engen can speak to capital markets; his view is that capital market conditions remain similar in tone to late 2009 and continue to be volatile. Our company evidence recognizes that shale gas development has changed the North American supply situation, and that we currently find ourselves in a low price environment for natural gas. Yet we still see the same trends in capture rates, declining use rates and declining throughput on the system. The impact of new supply and lower prices has been muted by the non-price factors referenced by the Commission in its 2009 Decision. Commodity prices are expected to move up again in response to market forces.

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[1] comprised of FortisBC Inc., FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc.

The 2010 *Clean Energy Act* foreclosed the opportunity that FEI had been pursuing at the time of the 2009 hearing to promote residential fuel switching from electricity to natural gas, leaving natural gas for transportation as the best option of expanding FEI's customer base to mitigate declines in other markets. NGT is a good opportunity for FEI and can benefit customers; however, at this point in time it has very little impact in terms of diversifying FEI's business risk. The actual and expected NGT load is very small relative to the total throughput on the system. Just as in 2009, FEI's business risk is largely dictated by how successful we are in retaining core space and water heating load and market share in the residential and commercial sectors. In that regard, we continue to face challenges.

FEI has also seen little change in the way it is regulated over the last number of years, in particular since 2009. Rates are based on forecast revenues and costs and we exercise sound management to manage within those requirements. We continue to make use of the same types of deferral mechanisms that have been in use prior to 2009, which provide a similar level of protection against forecast error as in past years. In short, the risk associated to achieving our allowed return within a test period has not fundamentally changed since the last time the Commission reviewed FEI's business risk.

In total, we characterize FEI's business risk as similar – no lower and perhaps somewhat higher – to where it stood in 2009. Our view is reflected in our support for maintaining FEI's existing capital structure.

Fair Return for FEI

Ms. McShane and Dr. Vander Weide have estimated the fair return for FEI. They conclude that the Fair Return Standard is met by an ROE of 10.5% based on FEI's existing capital structure. Mr. Engen has expressed his view that their recommended return for FEI is consistent with current capital market conditions, and would be viewed by the financial market as representative of FEI's true cost of capital. Ms. McShane, Dr. Vander Weide and Mr. Engen will speak to their evidence.

The Company can speak to the fact that FEI's credit metrics remain a challenge. The Commission in 2009 accepted that FEI should maintain an A3 rating by Moody's, yet, despite the increases in FEI's allowed ROE and capital structure in 2009, Moody's continues to note that FEI's financial metrics are "materially weaker than those of its A3 rated global gas utility peers". Moody's key credit metrics for FEI are below the level of FEI's current rating. Moody's has stated that weak credit metrics are offset by a supportive regulatory environment. However, in 2012, Moody's revised downwards its assessment of the level of regulatory support afforded to FEI. Reductions in ROE or the equity component of capital structure of the nature suggested by the Intervenors' experts would put pressure on already weak credit metrics, may further bring into question the supportive regulatory environment, and may adversely impact credit ratings.

Automatic Adjustment Mechanism

We have expressed from the outset of this proceeding a reluctance to return to an Automatic Adjustment Mechanism ("AAM"). We have instead supported periodic reviews of the benchmark return.

The Commission eliminated the Automatic Adjustment Mechanism in 2009 because it wasn't working. BC's move away from an AAM in 2009 was consistent with a trend seen in other jurisdictions. AAM's remain the exception in North America. In our view, the same reasons that justified discontinuing the AAM in 2009 apply today. We urge the Commission to give weight to the assessment of Mr. Coyne, Ms. McShane and Dr. Vander Weide in this regard. Tweaking the formula only masks the fundamental problems with an AAM. In our view, it is preferable to set the fair return for FEI based on evidence and then maintain it at that level between reviews, rather than relying on an imperfect formulaic proxy to make ROE adjustments between those reviews.

The primary thrust of the questions we have fielded on this topic is that an AAM is more efficient. That might be the case if the alternative was annual hearings, but FEI is not advocating annual hearings. Our collective experience with the old formula suggests that regular adjustments would likely be required for any AAM adopted. Simply put, our proposal is no more efficient, and no less efficient, than the alternative that has been put forward. A precondition for any AAM, whether efficient or not, is that the output must in all cases meet the Fair Return Standard.

Conclusion

In closing, we have done our best to provide comprehensive evidence in response to the Commission's Mandatory Filing Requirements, as well as complete responses to information requests. We believe that the evidence we have provided supports maintaining the existing capital structure and the requested increase in FEI's ROE.

Thank you.