BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF THE UTILITIES COMMISSION ACT
R.S.B.C. 1996, CHAPTER 473

And

Re: British Columbia Utilities Commission
Project No. 3698659/G-20-12

Generic Cost of Capital Proceeding

Vancouver, B.C.
December 12, 2012

PROCEEDINGS

BEFORE:

D. Cote,	**Panel Chair / Commissioner**
M. Harle,	**Commissioner**
L. O'Hara,	**Commissioner**
R. Giammarino	**Commissioner**

VOLUME 2

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J. CHRISTIAN	B.C. Hydro and Power Authority
R. HANSON	River District Energy
J. QUAIL	Canadian Office and Professional Employees' Union, Local 378
R. HOBBS	Industrial Customers Group
L. WORTH, E. KUNG &	
T. BRAITHWAITE	British Columbia Pensioners' and Seniors' Organization (BCPSO)
R.B. WALLACE QC	Association of Major Power Customers of B.C. (AMPC)
C. WEAFER & D. CRAIG	Commercial Energy Consumers of British Columbia

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CAARS

VANCOUVER, B.C.

December 12th, 2012

(PROCEEDINGS RESUMING AT 9:00 A.M.)

THE CHAIRPERSON: Please be seated.

Good morning, ladies and gentlemen. For those of you that don't know me, my name is Dennis Cote. As stated at the Procedural Conference of October the 4th, 2012, I've been designated chair of this panel that has been assigned to hear the generic cost of capital proceeding which has been initiated by the British Columbia Utilities Commission pursuant to Section 82 of the *Utilities Commission Act*. With me today are Commissioners Liisa O'Hara, on my left, and Ron Giammarino and Michael Harle on my right.

Also in attendance today are Commission counsel, Mr. Gordon Fulton, Q.C., and Lino Bussoli, from Boughton Law.

Our lead staff for the Commission is Ms. Eileen Chang, who has been joined by a number of Commission staff. And our Hearing Officer is Mr. Hal Bemister. I don't see him.

The generic cost of capital proceeding has been initiated to review and decide among other things the following. The setting of a corporate return on equity and capital structure for a benchmark low-risk

utility. A generic methodology or process for each utility to determine its unique cost of capital in reference to the benchmark. The possible return to an automatic adjustment mechanism for setting a return on equity for the benchmark low-risk utility, and the establishment of a deemed capital structure and deemed cost of capital methodology with particular attention to those utilities without third-party debt.

On November 28th, 2011, the Commission issued a preliminary notification of the initiation of the generic cost of capital proceeding. By Order G-20-12, dated February 28th, 2012, the Commission established the generic cost of capital proceeding and provided an initial regulatory timetable. The Order also established that all public utilities regulated by the Commission were to be considered applicants in a GCOC proceeding, and outlined a process to follow in the event a utility did not desire applicant status. Also included with this order was a preliminary scoping document which set out a list of matters to be examined and determined within the proceedings, and invited submissions from registered participants by March the 20th, 2012.

Following submissions from a number of participants regarding the preliminary scoping document, the Commission, by Order G-47-12, dated

April 18th, 2012, issued a final scoping document outlining the purpose and scope of the proceeding. On April 19th, 2012, Order G-50-12 provided a preliminary draft of the minimum filing requirements for affected utilities, and a draft preliminary regulatory timetable for matters requiring action.

Registered participants were invited to file submissions on the preliminary minimum filing requirements by May the 3rd, 2012. On June the 1st, 2012, by Order G-27-12, the Commission issued the minimum filing requirements for affected utilities, and a preliminary regulatory timetable for stage 1 of this proceeding.

On June 8th, 2012, the survey of cost of capital practices in Canada report, which was prepared by the Brattle Group on behalf of the Commission, was released. This report was intended to provide context and background for the establishment of the benchmark low-risk utility and its cost of capital. By Order G-84-12 on June 12th, 2012, an amended preliminary timetable was issued. This was in response to a proposal of FortisBC Utilities to vary dates in the preliminary regulatory timetable. The preliminary regulatory timetable was further amended by letter on September the 13th, 2012 and the date for the procedural conference rescheduled to take place on

October the 4th, 2012.

On October 11th, 2012, following the procedural conference, the Commission issued Order G-148-12, with attached reasons for decision, which established an oral public hearing to review the application to commence on December the 12th, which is today.

In addition, this Order established the following: that FEI, in 2012, in its pre-amalgamation state, will serve as the benchmark for the GCOC proceeding. Whether FEI in 2012 is a pure-play gas distribution utility will be determined after further evidence on this matter. And a Stage 2 will be added to the GCOC with the schedule to be determined prior to a decision on Stage 1.

By letter dated November the 29th, 2012, the Commission sought submissions from the parties with respect to maintaining the current return on equity and capital structure, specifically ROE and capital structure for Fortis Energy and all regulated entities that use the benchmark to establish rates would be made interim at current levels effective January the 1st, until a decision on the new ROE and capital structure is issued.

Four utilities and three registered intervenors made submissions. On December the 10th,

2012, Order G-187-12 was issued and addressed this issue, and provided the Commission's determination on the matter.

To date, we have had two rounds of Information Requests with respect to evidence filed by the affected utilities, and one round of Information Requests on evidence filed by interveners. With regard to witness panels for this oral hearing, on November 23rd, 2012, Corix advised the Commission that it intends having one witness panel with its expert, Ms. Pauline Ahearn. On November the 30th, 2012, Fortis Utility -- FortisBC Utilities provided its list of five witness panels, identified the witnesses sitting on those panels, and outlined areas of testimony for each panel.

In addition, FortisBC Utilities outlined their intention for its legal counsel to make opening remarks prior to calling his first witness panel.

On the same date, the Industrial Customers Group advised the Commission that it would be putting forward a panel of one, Dr. Safir. Further, the Association of Major Power Customers has advised the Commission it will be calling one panel, with Dr. Booth.

So, in all, we have -- we're going to be hearing over the course of this hearing from eight

1 witness panels. Now, the Commission has provided a
2 general procedure information regarding what you can
3 expect at an oral hearing, in its letter dated
4 December the 3rd, 2012, which has been marked as
5 Exhibit A-28. From the exhibit you can see that after
6 my opening statement, the designated effected
7 utilities and then interveners will be called upon
8 according to the order of appearances. Prior to
9 hearing of evidence, each party will have the
10 opportunity to make an opening statement.
11 And I would ask that when you enter your
12 appearance, that you state your full name, and spell
13 it, identify the party you represent and advise
14 whether you intend to make an opening statement.
15 Now, the Panel understands that this is a
16 challenging time of year with respect to commitments,
17 but also understands the importance of completing this
18 hearing prior to Christmas period. With this in mind,
19 we expect to sit in accordance with the following
20 schedule. Today we will sit until 4:30 p.m. Tomorrow
21 and Friday we will start at 8:30 a.m., not nine like
22 today, and end at 4:30 p.m. In each day, we will have
23 a 15-minute break in both the morning and the
24 afternoon. The lunch break will be scheduled from 12
25 noon to 1:30 each day.
26 With a firm end date on Friday, December

21st in mind, we will be monitoring our progress throughout this week. Looking ahead to next week, we will be not sitting on Thursday, December the 20th, due to a prior commitment of one of the Panel members. Tentatively, we expect to sit in accordance with the same schedule for the four full days scheduled next week. However, this may be subject to change depending upon the progress we are able to make. If the situation dictates, the panel will therefore remain open to starting earlier or extending the time each day to allow for completion of this hearing by the 21st of December.

Now that the context for this oral hearing has been set, I'll ask Mr. Fulton to call for appearances.

Proceeding Time 9:05 a.m. T02

MR. FULTON: Thank you, Mr. Chairman. Good morning, panel.

I'll begin with counsel for the affected utilities, FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., FortisBC Energy (Whistler) Inc., and FortisBC Inc., which are collectively referred to in this proceeding as FortisBC Utilities.

MR. GHIKAS: Good morning, Mr. Chairman, Commissioners. My name is Matthew Ghikas, G-H-I-K-A-S. And I'm appearing on behalf of the FortisBC Utilities. With

me this morning is Tarek Ahmed, A-H-M-E-D, first name initial T. Thank you.

MR. FULTON: Corix Multi Utility Services Inc.

MS. CHEESMAN: Good morning. My name is Mal Cheesman, C-H-E-E-S-M-A-N, and I am representing Corix Utilities today. We do not intend to make an opening statement. Thank you.

THE CHAIRPERSON: Thank you, Ms. Cheesman.

MR. FULTON: Pacific Northern Gas Limited and Pacific Northern Gas Northeast Limited.

MS. KENNEDY: Good morning. My name is Janet Kennedy, K-E-N-N-E-D-Y. I am representing Pacific Northern Gas Ltd. (inaudible) and we not intend to make a statement.

THE CHAIRPERSON: Thank you very much, Ms. Kennedy.

MR. FULTON: B.C. Hydro and Power Authority.

MR. CHRISTIAN: Jeff Christian, appearing for B.C. Hydro and Power Authority (inaudible).

MR. FULTON: River District Energy.

MR. HANSON: Ross Hanson, and I do not intend to make a statement.

THE CHAIRPERSON: Thank you, Mr. Hanson.

MR. FULTON: Union Gas Limited. No response, Mr. Chairman.

THE CHAIRPERSON: Thank you.

MR. FULTON: Canadian Office and Professional Employees'

Union, local 378.

MR. QUAIL: Good morning. Jim Quail appearing. This is probably the only you'll see me, other than eating cookies at the back and just maintaining a watch. Don't expect to be making any submissions, and I will be participating in cross-examination.

THE CHAIRPERSON: Thanks, Mr. Quail. Nice to see you again.

MR. FULTON: Sentinel Energy Management. No response. Industrial Customers Group.

MR. HOBBS: Mr. Chair, Commissioners, Robert Hobbs, H-O-B-B-S. And I, with your leave, do intend to make an opening statement.

THE CHAIRPERSON: Thanks, Mr. Hobbs.

MR. FULTON: British Columbia Pensioners and Seniors' Organization *et al.*

MS. WORTH: Good morning, Mr. Chair, members of the panel. Leigha Worth, W-O-R-T-H, here with co-counsel Eugene Kung, K-U-N-G, and Tannis Braithwaite, B-R-A-I-T-W-A-I-T -- or T-H -- sorry, I'll start again. B-R-A-I-T-H-W-A-I-T-E. And we do not intend to make an opening statement.

THE CHAIRPERSON: Thanks, Ms. Worth.

MR. FULTON: Association of Major Power Customers.

MR. WALLACE: Good morning. R. B. Wallace appearing on behalf of the Association of Major Power Customers of

British Columbia. I do not intend to make an opening statement. I do have one procedural matter I'd like to raise with respect to confidential documents and how the hearing will be conducted with respect to that. I can make that -- raise that point now, or I can do it at a more appropriate time, whatever is best.

THE CHAIRPERSON: I would --

MR. FULTON: Let's complete the appearances, Mr. Chairman. And Mr. Wallace has alerted me to the issue. I have spoken to Mr. Ghikas about it, and I have a proposal to make that I think will be satisfactory to -- or should be satisfactory to everyone.

MR. WALLACE: That's fine.

THE CHAIRPERSON: Okay, let's go over it then. Thanks, Mr. Wallace.

MR. WALLACE: Thank you.

MR. FULTON: Commercial Energy Consumers of British Columbia.

MR. WEAFER: Good morning, Mr. Chairman, members of the panel. Chris Weafer, W-E-A-F-E-R, appearing for the Commercial Energy Consumers in this proceeding. And just -- will not be making an opening statement, and also to give the panel a heads-up, as the Panel is aware we have aligned our interests with the other

1 customer groups in this proceeding, and we can help
2 you make your December 21st deadline. We don't intend
3 to be that active in cross-examination. So we will be
4 filing a written -- file written argument. But I may
5 be in and out of the hearing room and Mr. Craig will
6 be here for the CEC for a good part of the hearing.
7 Thank you.
8 THE CHAIRPERSON: Thank you, Mr. Weafer.
9 MR. FULTON: Is there any other party who has intervened
10 in the proceedings whose name I have not called, who
11 wishes to appear this morning?
12 No response, Mr. Chairman. That then
13 concludes the appearances. Before I call on parties
14 to make their opening statements, I will address the
15 issue that Mr. Wallace raised in his appearance, and
16 that relates to confidential information.
17 **Proceeding Time 9:14 a.m. T03**
18 And as I understand it, the Association of
19 Major Power Customers and the groups that they are
20 aligned with wish to cross-examine Ms. McShane on some
21 confidential information that has been filed with the
22 Commission. The Commission has in the past from time
23 to time held an *in camera* session relating to
24 confidential information, and the proposal that I am
25 going to make for this hearing is that once Ms.
26 McShane -- the cross-examination of Ms. McShane is

completed on the public record, that we then stand down and have her recalled, the room cleared save for those parties who have signed the confidential undertakings, and that Ms. McShane then be cross-examined *in camera* on that confidential information.

I understand that that proposal is satisfactory to Mr. Wallace, and I believe it's also satisfactory to Mr. Ghikas. So, unless there is someone else in the room who is opposed to that procedure -- Mr. Wallace, I see, has a comment that he wishes to make.

THE HEARING OFFICER: I need to have a 15-minute break for a technical fault we've got.

MR. FULTON: Okay. So I'm told that we're going to have to hold off on hearing from Mr. Wallace while a technical fault is remedied by the Hearing Officer. So, if the Panel could stand down, please.

THE CHAIRPERSON: Okay. Okay. We'll break for 15 minutes. Thank you.

(PROCEEDINGS ADJOURNED AT 9:16 A.M.)

(PROCEEDINGS RESUMED AT 9:46 A.M.) **T5-8**

THE CHAIRPERSON: Please be seated.

Back in business, I hear.

MR. FULTON: Yes, Mr. Chairman. I will say that in the years that I have been acting as Commission Counsel I think this is probably the first time that we've had

technical difficulties, so the Hearing Officer has had an incredibly good track record up until today and we'll just look upon this as a one-off.

THE CHAIRPERSON: Comforting to hear.

MR. FULTON: Where we left off was that Mr. Wallace was going to come forward to the mike, but we resolved his issue offline. So that will then take us to the opening statements and we'll begin with Mr. Ghikas who will be joining us momentarily.

OPENING STATEMENT OF MR. GHIKAS:

Mr. Chairman, Commissioners, thank you. I'll start with a few brief remarks and then deal with some key findings of fact that I would ask the Commission make at the conclusion of this proceeding and then move on to dealing with the witness panels.\

Now, as I understand it, there is a written -- essentially a written version of what I'm going to say, which we can hand out now and have filed as the next exhibit.

THE CHAIRPERSON: Okay.

MR. GHIKAS: And that's, I believe, Exhibit B1-34 is the next exhibit, Mr. Chairman.

("OPENING REMARKS FOR LEGAL COUNSEL FOR FORTISBC UTILITIES ("FBCU"), DECEMBER 12, 2012" MARKED EXHIBIT B1-34)

Proceeding Time 9:48 a.m. T9

1 MR. GHIKAS: And that is more of a takeaway for the
2 Commission. I will be sticking quite closely to it.
3 I'll start off by saying, Mr. Chairman,
4 that the touchstone of this generic cost of capital
5 proceeding must be the fair return standard. And
6 that's an easy concept to say but a difficult one to
7 apply. There will be general agreement, I expect,
8 based on past history of other proceedings that indeed
9 the fair return standard is the standard for you to be
10 applying in this case, but the real challenge for the
11 Commission in this case is to give that legal standard
12 real meaning. And fundamentally the fair return
13 standard is about fairness. Fairness to investors.
14 And that's a point that can easily be lost in a sea of
15 data and models, but it really is important to keep
16 that in mind, in my submission.
17 What we have are investors who have
18 committed and who are being asked to continue to
19 commit capital on a long-term basis to fund system
20 assets to allow the utility to provide service on an
21 ongoing basis to customers. These investors, in my
22 submission, are being asked to commit capital in the
23 expectation, and in my submission a reasonable
24 expectation, that they will be afforded fair
25 compensation for their investment that's commensurate
26 with the business and investment risks that the

1 investment entails.
2 The Commission has recognized in past
3 decisions that the fair return standard is reduced to
4 a hollow concept by simply targeting the lowest
5 possible return that is necessary to avoid a credit
6 downgrade, and FortisBC's fundamental submission in
7 this proceeding will be that the Commission should
8 reaffirm its past approach of targeting a return
9 that's reasonable and fair to investors. And in the
10 context of this hearing, FortisBC's position will be
11 that targeting a fair and reasonable return for
12 investors means accepting the business risk evidence
13 filed by the Fortis Utilities and giving weight to the
14 expert evidence put forward by the experts that are
15 being called on behalf of the FortisBC Utilities.
16 Now, in terms of some key findings of fact
17 that the Fortis Utilities will be looking for the
18 Commission to make at the conclusion of this
19 proceeding, the Commission last addressed the fair
20 return standard for FEI, the benchmark, in 2009, and
21 in introducing the generic cost of capital proceeding
22 this time around the Commission cited changes in
23 capital markets from what they were at the end of 2009
24 when the last proceeding was resolved. And it's
25 Fortis's position that that is in fact the correct
26 frame of reference, late 2009, for the analysis of

1 this proceeding.
2 **Proceeding Time 9:53 a.m. T10**
3 And the same is true with respect to the
4 assessment of FEI's overall business risk. And I
5 raise this because 2009 in the great scheme of things
6 wasn't all that long ago, and a comparison of the
7 circumstances between today and 2008 yields greater
8 similarities than it does differences. And in this
9 regard the companies will be asking the Commission to
10 make three key findings among others. And the first
11 is that FEI's overall business risk is similar, no
12 lower, perhaps somewhat higher, but essentially
13 similar than it was in 2009. And building on that
14 first point, FEI's business fundamentals and its
15 overall operating environment does remain similar to
16 where it stood three years ago, and if we go back to
17 the last proceeding, the Commission acknowledged in
18 that proceeding that there were new non-price factors
19 that were coming into play: government policy,
20 housing trends, consumer preferences, which were
21 posing a long-term risk to the utilities. And those
22 factors, which ultimately influenced the utilities'
23 ability to retain and -- retain customers, attract
24 customers and maintain throughput levels are still
25 relevant today.
26 Commodity prices have fallen, and commodity

1 prices do represent a portion of what the consumer
2 pays at the end of the day, but it is only a portion.
3 There are delivery -- there's a delivery rate
4 component to their bill and there is a fixed charge
5 aspect to a customer's bill as well, and from the
6 perspective of looking at price, all of those things
7 have to be taken into account. More importantly, the
8 trends, the non-price factors, as I've said, remain
9 relevant today.
10 The second key fact that the companies will
11 be asking the Commission to make is that FEI's
12 regulatory risk is similar to what it was in 2009.
13 Now, I'll start off by saying rate regulation
14 generally speaking does reduce a utility's risk
15 relative to the non-regulated market. There's no
16 question about that. But the regulatory framework
17 does place fundamental business decisions in the hands
18 of the regulator that would otherwise be in the hands
19 of the company itself, and that does entail regulatory
20 risk. And the key thing to keep in mind, however, is
21 that rate base rate of return cost of service
22 regulation for utilities in B.C. is nothing new. It's
23 been that way for many, many, many years. And the
24 regulatory constructs that govern how FEI forecasts
25 its costs and fixes rates and thus earns a return on
26 and of its capital are essentially the same constructs

that have been in place for many years. The key deferral accounts remain essentially the same as they were in the past. And the risk that a utility faces in managing its -- to its forecast are more or less the same as they always have been. It's a risk that can be mitigated but never completely eliminated by sound management.

Proceeding Time 9:57 a.m. T11

The third key fact that I wish to deal with is that capital markets remain volatile, and investors remain apprehensive and sensitive to world events. And on this point, the Commission need only look to the evidence that Mr. Engen will be speaking to. And the objective market indicators that he will be pointing to, that -- to see that the equity capital markets in particular don't look all that different from where they were in the fall of 2009.

The market tone is still very sensitive, and Canadian equity capital markets remain challenging and volatile. So, simply put, we're not in the depths of where we were back in the middle of the financial crisis, but we are not entirely out of the woods either.

So those are the three facts. And based on those key findings, and some others which we'll take you to in final argument, is -- it will be FortisBC's

1 submission that the fair return for FEI in the
2 circumstance, giving weight to the evidence of Ms.
3 McShane and Dr. Vander Weide, is an ROE of 10.5
4 percent, and a capital structure as it remains today
5 with 40 percent common equity ratio. Now that is 50
6 basis points lower than what these experts recommended
7 in 2009, but it is still above the present allowed ROE
8 and capital structure for the utility.
9 The point being that if the Commission is
10 going to initiate a change to the existing ROE, that
11 really the ROE should be going up and not down. And
12 FEI's capital structure should remain well-supported
13 by equity, and it shouldn't be rolled back, as Dr.
14 Booth would suggest, to pre-2005 levels that reflect a
15 time when -- before B.C. natural gas utilities faced a
16 lot of the non-price considerations, government
17 policies, GHG policy, change in consumer attitudes, et
18 cetera, that they have faced since that time.
19 So turning to the witness panels that the
20 companies will be putting forward, Mr. Chairman, the
21 companies are putting forward, as described in Exhibit
22 B1-31, the letter filed by Fortis on November 30th, the
23 companies are going to call a total of eight witnesses
24 appearing as five panels. The first panel will be the
25 company panel, and it will consist of four members of
26 FEI's executive, with responsibility for the areas of

1 finance, regulatory, business development and gas
2 supply. And they will collectively be able to address
3 the business risk evidence that's been put forward.
4 Ms. McShane will sit as the second panel.
5 Ms. McShane appeared in 2009 and 2005. And she is an
6 expert on cost of capital and the fair return for
7 utilities. And she has estimated FEI's fair return
8 using the same treatment methodologies that she's used
9 in 2009. And in her estimation, the recommendation is
10 for an ROE of 10.5 percent on 40 percent common
11 equity.
12 The third panel will be Jim Coyne, who is
13 of Concentric Financial -- sorry, Concentric Advisors.
14 He is also a cost of capital expert, but in the
15 current proceeding he has been called because if the
16 Commission will recall, back at the end of the 2009
17 proceeding, there was a direction for the companies to
18 file a report on the state of automatic adjustment
19 mechanisms across North America. And Mr. Coyne was
20 the author of that report, which was then filed in
21 2010 with the Commission. And Mr. Coyne's retainer in
22 this hearing has been limited to essentially updating
23 his 2010 report and outlining his views on an
24 automatic adjustment mechanism. And his evidence does
25 outline his view in that regard.
26 The next panel will be Aaron Engen. Mr.

1 Engen is managing director of BMO Capital Markets, and
2 that's one of the country's largest investment banks.
3 Mr. Engen has compared the current state of the
4 capital markets to what they were in 2009, when the
5 previous hearing was concluded, and it is evident from
6 his evidence that the similarities in the data that he
7 has put forward are striking.
8 **Proceeding Time 10:02 a.m. T12**
9 The final panel will be Dr. Jim Vander
10 Weide, and he is also a cost of capital expert. He
11 estimates the fair return for FEI at 10.5 percent on
12 40 percent common equity using the same two models
13 that he had employed in 2009.
14 So I'll leave the Commission with this, Mr.
15 Chairman, that the evidence put forward by the
16 companies and the expert evidence that's tendered
17 should at the conclusion of the proceeding be
18 accepted, and that that together supports a benchmark
19 return for 2013 of 10.5 percent ROE on 40 percent
20 common equity. Thank you.
21 THE CHAIRPERSON: Thank you, Mr. Ghikas.
22 MR. FULTON: Industrial Customers Group.
23 **OPENING STATEMENT OF MR. HOBBS:**
24 Mr. Chair, I too have made copies of my
25 opening comments and I believe the next exhibit number
26 is Exhibit C4-13.

1 THE CHAIRPERSON: Thank you.
2 **("THE ICG---OPENING COMMENTS", MARKED EXHIBIT C4-13)**
3 MR. HOBBS: Mr. Chair, after hearing from Mr. Ghikas I'm
4 pleased that I have been granted the opportunity to
5 respond. You can expect that my comments will be very
6 different than Mr. Ghikas's.
7 We do appreciate the opportunity provided
8 by this proceeding to review the cost of capital of
9 the utilities in B.C. In the absence of an automatic
10 adjustment mechanism, we believe that the fair return
11 standard should be applied in circumstances and in
12 accordance with criteria established by the
13 Commission, so we're delighted that you've initiated
14 this proceeding. These proceedings should not be
15 determined or the schedule of these proceedings should
16 not be determined in accordance with the circumstances
17 that is favourable to shareholders, so I'm pleased
18 that we're here now.
19 One of the most difficult and yet one of
20 the central issues for this proceeding will be, have
21 the business risks of FEI been increasing, stayed the
22 same, or decreasing? And as you've heard from Mr.
23 Ghikas, he thinks they're the same. It's our view
24 that they are not, that they've been decreasing. And
25 again as you've heard from Mr. Ghikas, he focuses on
26 the business risks in 2009 as the comparison point.

1 We submit that it is going to be important to consider
2 business risks from 2005 to today.
3 You will hear evidence from the Fortis
4 Utilities Company panel that business risks of FEI are
5 the same or slightly higher than, and that's what
6 you've heard already. When you look at gas prices,
7 they are at or close to a ten-year low, and certainly
8 lower than in 2009, and much lower than they were in
9 2005. The ICG submits that the current gas prices
10 together with the throughput and the customer account
11 evidence already filed in this proceeding will not
12 support the Fortis Utilities conclusions regarding
13 business risks.
14 After assessing business risks, the next
15 issue for the Commission Panel will be to determine
16 whether or not the fair return standard is being met.
17 In cost of capital proceedings there's considerable
18 disagreement on almost all issues, but the one notable
19 exception is that we will all agree that the fair
20 return standard is not being met.
21 There are three approaches that the
22 Commission Panel has been encouraged to consider in
23 order to determine the appropriate return on equity
24 and capital structure that will meet the fair return
25 standard. Each of those three approaches relies on
26 expert opinion, which has already been filed and will

1 occupy most of the hearing time. The weight to give
2 to each of those three approaches is a matter of
3 judgment. Dr. Safir has suggested that each be given
4 equal weight.
5 In the end, the Commission Panel will need
6 to consider the evidence from each approach to
7 determine the appropriate return on equity and the
8 capital structure. Clearly, the estimation of a fair
9 return is not a statistical exercise. Given that
10 regulations imposed for the benefit of customers, the
11 outcome of the fair return should always favour
12 customers.
13 **Proceeding Time 10:06 a.m. T13**
14 As well as the three approaches, the
15 Commission Panel may also consider the decisions of
16 other jurisdictions, especially other Canadian
17 jurisdictions. In the past, returns on equity in this
18 province as compared to other jurisdictions have
19 favoured customers. But unfortunately since 2009,
20 returns on equity in B.C. have been materially higher
21 than returns in other jurisdictions. The ICG sees
22 this as a proceeding and an opportunity for this
23 Commission Panel to render a decision that once again
24 compares favourably to other jurisdictions, thereby,
25 unlike Mr. Ghikas, who puts the interests -- or the
26 emphasis on interest -- on investors and shareholders,

1 but thereby balancing the interests of both investors
2 and customers.
3 In the past, the capital structure of the
4 benchmark utility has not been as significant to other
5 utilities in the province as has been the rate of
6 return. For that reason, the focus of the ICG
7 evidence filed in this proceeding has been rate of
8 return evidence. The ICG anticipates, and welcomes
9 the opportunity to participate in the second stage of
10 this proceeding, and we then anticipate that we will
11 file evidence relevant to both the capital structure
12 and the rate of return of FortisBC Inc.
13 In closing, let me say that this is an
14 important proceeding that the ICG because -- it is an
15 important proceeding for the ICG because the rates for
16 utility service to the ICG members who are customers
17 of FortisBC Inc. are significantly higher than rates
18 paid by any other industrial customers in B.C. This
19 rate differential will only be aggravated by the
20 government decision to reduce the return on equity for
21 B.C. Hydro customers. The ICG members are concerned
22 that the rate differentials will have significant
23 adverse economic consequences for the service area of
24 FortisBC Inc., and for that reason and many others the
25 ICG believes that a review of the cost of capital for
26 FortisBC Utilities is very much needed.

1 There is one last comment I'd like to make,
2 Mr. Chair, and I do so very hesitantly. And it's a
3 comment about scheduling. And before I make my
4 comment, let me acknowledge how difficult it is to
5 schedule proceedings. So in that context, I will make
6 a comment. We're not going to be able to sit next
7 Thursday. Friday is the Friday before Christmas. I
8 would encourage you to consider, at least, the
9 possibility of adjourning on Wednesday if we're not
10 finished and returning in the New Year. Instead of
11 sitting on Friday next week.
12 THE CHAIRPERSON: We'll take that under advisement.
13 Thank you, Mr. Hobbs.
14 MR. HOBBS: Thank you.
15 MR. FULTON: Mr. Chairman, that concludes the opening
16 statements, so I will turn the mike over to Mr. Ghikas
17 to empanel the first of the FortisBC panels.
18 THE CHAIRPERSON: Mr. Ghikas, would you like five minutes
19 to set your panel up?
20 MR. GHIKAS: Maybe a couple of minutes. Two minutes
21 might be.
22 THE CHAIRPERSON: Yes. We'll adjourn for two minutes.
23 MR. GHIKAS: Thank you.
24 **(PROCEEDINGS ADJOURNED AT 10:10 A.M.)**
25 **(PROCEEDINGS RESUMED AT 10:13 A.M.)** **T14/15**
26 THE CHAIRPERSON: Please be seated.

1 MR. GHIKAS: Thank you for that break, Mr. Chairman.
2 Perhaps we could have the witnesses affirmed, please.
3 FBCU - PANEL 1, COMPANY EVIDENCE
4 **DOUGLAS STOUT, Affirmed:**
5 **ROGER DALL'ANTONIA, Affirmed:**
6 **MICHELE LEENERS, Affirmed:**
7 **CYNTHIA DES BRISAY, Affirmed:**
8 **EXAMINATION IN CHIEF BY MR. GHIKAS:**
9 MR. GHIKAS: Q: Ms. Des Brisay, if I could start with
10 you, please. Do you have before you a copy of your
11 prefiled direct testimony that's marked as Exhibit B1-
12 31?
13 MS. DES BRISAY: A: Yes, I do.
14 MR. GHIKAS: Q: And you've read it?
15 MS. DES BRISAY: A: Yes, I have.
16 MR. GHIKAS: Q: Does it accurately reflect your
17 education and experience?
18 MS. DES BRISAY: A: Yes, it does.
19 MR. GHIKAS: Q: Ms. Des Brisay, you are the Vice
20 President Energy Supply and Resource Development for
21 the FortisBC Utilities, correct?
22 MS. DES BRISAY: A: That's correct.
23 MR. GHIKAS: Q: And you've held that position since
24 February 2011?
25 MS. DES BRISAY: A: That's correct.
26 MR. GHIKAS: Q: In the response to question 7 of your

1 prefiled testimony, you indicated that in terms of
2 your role in preparing evidence for this proceeding,
3 you were responsible for the evidence relating to gas
4 supply and natural gas prices and price forecasts,
5 correct?
6 MS. DES BRISAY: A: That's correct.
7 MR. GHIKAS: Q: Okay. Are there any changes or
8 corrections you wish to make to that evidence at this
9 time?
10 MS. DES BRISAY: A: No, there's not.
11 MR. GHIKAS: Q: And do you adopt as your evidence in
12 this proceeding the portions of the company's evidence
13 filed as part of Exhibit B1-9-6, responses to
14 information requests on the subjects of gas supply,
15 natural gas prices and price forecasts as your
16 evidence in this proceeding?
17 MS. DES BRISAY: A: Yes, I do.
18 MR. GHIKAS: Q: Thank you. If we can move to you, Mr.
19 Stout, and do you have a copy of your prefiled direct
20 testimony in front of you?
21 MR. STOUT: A: Yes, I do.
22 MR. GHIKAS: Q: And you've read it?
23 MR. STOUT: A: Yes, I have.
24 MR. GHIKAS: Q: And it accurately describes your
25 education and experience, correct?
26 MR. STOUT: A: Yes.

1 MR. GHIKAS: Q: You are the Vice President Energy
2 Solutions and External Relations for the FortisBC
3 Utilities?
4 MR. STOUT: A: Yes.
5 MR. GHIKAS: Q: In terms of your role developing
6 evidence for this proceeding, you indicated in your
7 response to question 7 that you provided policy
8 guidance, oversight and review of the company's
9 evidence including on matters relating to FEI's
10 business environment, market forces and trends, and
11 business risk generally. Is that an accurate
12 description?
13 MR. STOUT: A: Yes.
14 MR. GHIKAS: Q: Are there any changes or corrections
15 you wish to make to that evidence?
16 MR. STOUT: A: No, there aren't.
17 MR. GHIKAS: Q: Do you adopt as your evidence in this
18 proceeding the portions of the company's evidence
19 filed as part of Exhibit B1-9-6, responses to
20 information requests and rebuttal evidence relating to
21 the areas you've identified?
22 MR. STOUT: A: Yes.
23 MR. GHIKAS: Q: Ms. Leeners, do you have before you
24 your prefiled direct testimony filed as part of
25 Exhibit B1-31?
26 MS. LEENERS: A: I do.

1 MR. GHIKAS: Q: And you've read it?
2 MS. LEENERS: A: I have.
3 MR. GHIKAS: Q: And does it accurately set out your
4 education, qualifications and experience?
5 MS. LEENERS: A: It does.
6 MR. GHIKAS: Q: You're the Vice President Finance and
7 Chief Financial Officer for the FortisBC Utilities,
8 correct?
9 MS. LEENERS: A: That's correct.
10 MR. GHIKAS: Q: And you're a chartered accountant.
11 MS. LEENERS: A: I am.
12 MR. GHIKAS: Q: You indicate in response to question 7
13 that you provided general input into the development
14 of the company's evidence and provided specific
15 guidance on FEI's accounting and financial reporting
16 matters. Is that correct?
17 MS. LEENERS: A: That is correct.
18 MR. GHIKAS: Q: Are there any changes or corrections
19 you wish to make to that evidence right now?
20 MS. LEENERS: A: No.
21 MR. GHIKAS: Q: Do you adopt the evidence with respect
22 to which you provided specific guidance as your
23 evidence in this proceeding?
24 MS. LEENERS: A: I do.
25 MR. GHIKAS: Q: Mr. Dall'Antonia, do you have your
26 prefiled direct testimony before you?

1 MR. DALL'ANTONIA: A: I do.
2 MR. GHIKAS: Q: You've read it?
3 MR. DALL'ANTONIA: A: Yes, I have.
4 MR. GHIKAS: Q: And does it accurately reflect your
5 education, qualifications and experience?
6 MR. DALL'ANTONIA: A: It does.
7 MR. GHIKAS: Q: You are the Vice President Strategic
8 Planning, Corporate Development and Regulatory Affairs
9 for the FortisBC Utilities, correct?
10 MR. DALL'ANTONIA: A: I am.
11 MR. GHIKAS: Q: And you hold a chartered financial
12 analyst designation?
13 MR. DALL'ANTONIA: A: Yes, I do.
14 MR. GHIKAS: Q: In response to question 7, you indicate
15 that you had overall responsibility for the
16 preparation of the company's evidence, correct?
17 MR. DALL'ANTONIA: A: Correct.
18 MR. GHIKAS: Q: And your role included drafting
19 portions of the evidence, and providing oversight and
20 guidance on the remainder of the company's evidence,
21 right?
22 MR. DALL'ANTONIA: A: That's correct.
23 **Proceeding Time 10:18 a.m. T16**
24 MR. GHIKAS: Q: Do you have any changes or corrections
25 you wish to make to the evidence filed by the
26 companies in this proceeding?

1 MR. DALL'ANTONIA: A: I do not.
2 MR. GHIKAS: Q: And do you adopt the evidence filed in
3 Exhibit B1-9 series, the company's responses to
4 Information Requests and the company's rebuttal
5 evidence at Exhibit B1-32 as your evidence in this
6 proceeding?
7 MR. DALL'ANTONIA: A: I do.
8 MR. GHIKAS: Q: I understand, Mr. Dall'Antonia, that
9 you have an opening statement that was pre-filed as
10 Exhibit B1-33.
11 MR. DALL'ANTONIA: A: Yes, I do.
12 MR. GHIKAS: Q: Would you care to read that into the
13 record?
14 MR. DALL'ANTONIA: A: Yes, thank you. Good morning,
15 Mr. Chairman and Commissioners. The FortisBC
16 Utilities are pleased to appear before you to address
17 the evidence that we have filed in this initial phase
18 of the Commission's generic cost of capital
19 proceeding.
20 The main subject of this initial phase is
21 to determine the return on equity and capital
22 structure of the benchmark utility, FortisBC Energy
23 Inc., for rate-making purposes. The Commission's
24 determinations in these matters are of fundamental
25 importance to the FortisBC Utilities. Operating a
26 large utility system is a capital-intensive business.

1 Significant long-term investments in infrastructure
2 are required to maintain safe and reliable service to
3 customers.
4 FEI's allowed ROE and capital structure
5 taken together should ensure that we can continue to
6 compete effectively for capital and maintain our
7 financial integrity and be treated fairly, relative to
8 other comparable entities.
9 The Commission initiated this generic cost
10 of capital proceeding in February of this year, noting
11 that since the issuance of the 2009 ROE decision,
12 changes have occurred in the financial markets. The
13 general market conditions today are, despite the
14 passage of time, similar to those in late 2009. FEI's
15 overall business is also similar.
16 In the last FortisBC Energy Utilities cost
17 of capital proceeding, the oral hearing concluded in
18 early October, 2009. The financial markets had
19 significantly improved by that time from the depths of
20 the crisis in the fall of 2008, but they are still
21 uncertain and volatile. The defining characteristics
22 of FEI's business risk in 2009 was a trend of
23 declining throughput among core residential and
24 commercial customers brought on by factors such as
25 improved appliance efficiency, the new prevalence of
26 smaller multi-family dwellings, changes in the way

1 people use natural gas, up-front capital costs
2 associated with natural gas equipment, and lower
3 capture rates in new housing.
4 How does that compare to today? Mr. Engen
5 can speak to capital markets. His view is that
6 capital market conditions remain similar to late 2009
7 and continue to be volatile. Our company evidence
8 recognizes that Shell Gas Development has changed the
9 North American supply situation and that we currently
10 find ourselves in a low price environment for natural
11 gas. Yet we still see the same trends in capture
12 rates, declining use rates, and declining throughput
13 on the system. The impact of new supply and lower
14 prices has been muted by the non-price factors
15 referenced in the Commission -- sorry, referenced by
16 the Commission in its 2009 decision. Commodity prices
17 are expected to move up again in response to market
18 forces.
19 The 2010 *Clean Energy Act* foreclosed the
20 opportunity that FEI had been pursuing at the time of
21 the 2009 hearing to promote residential fuel switching
22 from electricity to natural gas, leaving natural gas
23 for transportation as the best option of expanding
24 FEI's customer base to mitigate declines in other
25 markets. NGT is a good opportunity for FEI and can
26 benefit customers. However, at this point in time, it

1 has very little impact in terms of diversifying FEI's
2 business risk. The actual and expected NGT load is
3 very small relative to the total throughput on the
4 system, just as in 2009. FEI's business risk is
5 largely dictated by how successful we are at retaining
6 the core space and water heating load and market share
7 in the residential and commercial sectors. In that
8 regard, we continue to face challenges.
9 FEI has also seen little change in the way
10 it is regulated over the last number of years. In
11 particular since 2009. Rates are based on forecast
12 revenues and costs, and we exercise sound management
13 to manage within those requirements. We continue to
14 make use of the same types of deferral mechanisms that
15 have been in use prior to 2009, which provide a
16 similar level of protection against forecast error as
17 in past years. In short, the risk associated to
18 achieving our allowed return within a test period has
19 not fundamentally changed since the last time the
20 Commission reviewed FEI's business risk.
21 In total, we characterize FEI's business
22 risk as similar, no lower and perhaps somewhat higher
23 to where it stood in 2009. Our view is reflected in
24 our support for maintaining FEI's existing capital
25 structure.
26 Ms. McShane and Dr. Vander Weide have

1 estimated the fair return for FEI. They conclude that
2 the fair return standard is met by an ROE of 10.5
3 percent, based on FEI's existing capital structure.
4 Mr. Engen has expressed his view that the recommended
5 return for FEI is consistent with current capital
6 market conditions, and would be viewed by the
7 financial market as representative of FEI's true cost
8 of capital. Ms. McShane, Dr. Vander Weide and Mr.
9 Engen will speak to their evidence.
10 The company can speak to the fact that
11 FEI's credit metrics remain a challenge. The
12 Commission, in 2009, accepted that FEI should maintain
13 an A-3 ratings by Moody's. Yet despite the increase
14 in FEI's allowed ROE and capital structure in 2009,
15 Moody's continues to note that FEI's financial metrics
16 are materially weaker than those of its A-3 rated
17 global gas utility peers. Moody's key credit metrics
18 for FEI are below the level of FEI's current rating.
19 Moody's has stated that weak credit metrics are offset
20 by a supportive regulatory environment. However, in
21 2012 Moody's revised downwards its assessment of the
22 level of regulatory support afforded to FEI.
23 Reductions in ROE or the equity component of capital
24 structure of the nature suggested by the interveners'
25 experts who put pressure on already weak credit
26 metrics. They further bring into question the support

1 of regulatory environment and may adversely impact
2 credit ratings.
3 **Proceeding Time 10:23 a.m. T17**
4 We've expressed from the outset of this
5 proceeding our reluctance to return to an automatic
6 adjustment mechanism. We have instead supported
7 periodic reviews of the benchmark return. The
8 Commission eliminated the automatic adjustment
9 mechanism in 2009 because it wasn't working. B.C.'s
10 move away from an AAM in 2009 was consistent with the
11 trends seen in other jurisdictions. AAMs remain an
12 exception in North America. In our view the same
13 reasons that justified discontinuing the AAM in 2009
14 apply today. We urge the Commission to give weight to
15 the assessment of Mr. Coyne, Ms. McShane, and Dr.
16 Vander Weide in this regard. Tweaking the formula
17 only masks the fundamental problems with an AAM. In
18 our view it is preferable to set the fair return for
19 FEI based on evidence and then maintain it at that
20 level between reviews rather than relying on an
21 imperfect formulaic proxy to make ROE adjustments
22 between those reviews.
23 The primary thrust of the questions we have
24 fielded on this topic is that an AAM is more
25 efficient. That might be the case if the alternative
26 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 an AAM adopted. Simply put, our proposal is no more efficient and no less efficient than the alternative that is being put forward. A precondition for any AAM, whether efficient or not, is that the output must in all cases meet the fair return standard.

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.

MR. GHIKAS: Mr. Chairman, the panel is available for cross-examination.

THE CHAIRPERSON: Thank you, Mr. Ghikas.

MR. FULTON: Mr. Chairman, I have circulated an order of cross-examination for Witness Panel 1, and the cross-examination will commence with cross-examination by Mr. Wallace.

MR. WALLACE: Thank you, Mr. Chairman. You did mention you intended to take a break at some point in the morning. I hesitate to ask because we've had so many breaks already. But just for planning my cross, if

you could give me some guidance that would be of assistance.

THE CHAIRPERSON: I'd like to look at the court reporter. Can we go to 12? Okay. I don't think there's a necessity for one. We've had enough breaks.

MR. WALLACE: That's fine with me.

THE CHAIRPERSON: Thank you.

MR. WALLACE: I simply didn't want to be on the edge of trying to find a spot.

THE CHAIRPERSON: No, I was wondering, it's been in the back of my mind how am I going to deal with this, but you made it easy.

MR. WALLACE: Sure.

THE CHAIRPERSON: Thank you.

MR. WALLACE: That seems appropriate.

CROSS-EXAMINATION BY MR. WALLACE:

MR. WALLACE: Q: Panel, in the 2009 application the company sought an 11 percent return on equity, a 40 percent common equity ratio and that the BCUC abandoned its automatic adjustment mechanism?

MR. DALL'ANTONIA: A: Correct.

MR. WALLACE: Q: And in its decision the Commission awarded a 9 and a half percent return on equity, a 40 percent common equity ratio, and did abandon the automatic adjustment mechanism?

MR. DALL'ANTONIA: A: Correct.

1 MR. WALLACE: Q: And accordingly the company got two of
2 the three things that it had sought in the
3 application.
4 MR. DALL'ANTONIA: A: Correct.
5 MR. WALLACE: Q: Now, the return was a little lower but
6 Fortis did not appeal the decision or ask for a
7 reconsideration, did it?
8 MR. DALL'ANTONIA: A: No, we did not.
9 MR. WALLACE: Q: In 2009 there were a series of other
10 return on equity awards and I'm assuming, Mr.
11 Dall'Antonia, that you'd be familiar with those?
12 MR. DALL'ANTONIA: A: I'll try to answer.
13 MR. WALLACE: Q: Okay. The Ontario Energy Board
14 rebased its formula and allowed a return on equity of
15 9.75 percent?
16 MR. DALL'ANTONIA: A: I believe that's right.
17 MR. WALLACE: Q: The Regie Set Gas Metro's allowed
18 return at 9.2 percent, which it said was .25 percent
19 over what it regarded as a benchmark ROE of 8.95
20 percent at that time?
21 MR. DALL'ANTONIA: A: Subject to check. I'm not
22 familiar with that one but I accept it's right.
23 MR. WALLACE: Q: Thank you. And the Board of
24 Commissioners of Newfoundland and Labrador allowed a
25 fair return of 9 percent?
26 MR. DALL'ANTONIA: A: Correct.

1 MR. WALLACE: Q: The Alberta Utilities Commission
2 allowed a generic ROE of 9 percent?
3 MR. DALL'ANTONIA: A: Correct.
4 MR. WALLACE: Q: And so in 2009 the allowed ROE for a
5 benchmark of a generic ROE ran on those that I've
6 given you from 8.95 percent for the Regis to 9.75 for
7 the Ontario Board.
8 MR. DALL'ANTONIA: A: Again, just on the Regis, I
9 understood that you said they allowed a 9.2 but they
10 made a comment that it was .25 higher but that the
11 allowed was actually 9.2. So with that correction it
12 would have ranged from 9 percent to 9.75 percent.
13 **Proceeding Time 10:29 a.m. T18**
14 MR. WALLACE: Q: Okay, and I was referring to the
15 generic ROE.
16 MR. DALL'ANTONIA: A: Okay, fair enough.
17 MR. WALLACE: Q: Thank you. And in 2009 -- so, the
18 award by the BCUC was almost at the top of the range,
19 exceeded only by the Ontario Energy Board.
20 MR. DALL'ANTONIA: A: Correct.
21 MR. WALLACE: Q: And in 2009, the BCUC increased your
22 common equity ratio by 5 percent, and are you aware
23 that the Ontario Board did not change any of the
24 common equity ratios for the utilities it regulates?
25 MR. DALL'ANTONIA: A: Yeah, I believe that Ontario
26 maintained -- I'll clarify that if I'm wrong -- I

1 believe they maintained theirs at the previous. And
2 Alberta, I believe, increased the equity thickness.
3 MR. WALLACE: Q: I'll come back to Alberta later, I
4 think, I'm not sure. Union Gas recently had its 36
5 percent common equity ratio confirmed again?
6 MR. DALL'ANTONIA: A: Yes, it did.
7 MR. WALLACE: Q: Are you aware of any utility that got
8 a combination of higher common equity and higher ROE
9 that matched that awarded Fortis by the BCUC in 2009?
10 MR. DALL'ANTONIA: A: During the 2009 proceedings that
11 you referenced?
12 MR. WALLACE: Q: Well, during -- no. Are you -- sorry,
13 go ahead. Am I cutting you off?
14 MR. DALL'ANTONIA: A: No.
15 MR. WALLACE: Q: Okay. No, the question was are you
16 aware of any utility that got a combination of a
17 higher common equity ratio and higher ROE that matched
18 the levels that were awarded to Fortis by BCUC in that
19 2009 period, when all those decisions were coming
20 down?
21 MR. DALL'ANTONIA: A: I'm not quite sure how to respond
22 to that, because I know that Ontario had a higher ROE
23 but lower equity. We had the opposite. The
24 Newfoundland, I understood, for Newfoundland Power,
25 their ROE -- I'm sorry, their equity thickness was
26 higher than ours, but their ROE was lower. So I'm not

1 sure what you mean by "combination".
2 MR. WALLACE: Q: Well, you can deal with risk, as I
3 understand it, either by compensating it in the ROE or
4 by increasing the equity ratio, or doing a
5 combination.
6 MR. DALL'ANTONIA: A: Mm-hmm.
7 MR. WALLACE: Q: And what I am asking you is, are you
8 aware of any utility in that post-crisis time that got
9 a combination of increased equity and increased return
10 anywhere near the extent that Fortis did?
11 MR. DALL'ANTONIA: A: Again, I'm not sure. Again,
12 relative weights of how large an increase the ROE that
13 the Ontario Utilities got as an example versus their
14 ROE -- sorry, their capital structure versus the
15 situation in Alberta, I can't say definitively.
16 MR. WALLACE: Q: Okay. In any event, you can't point
17 me to any specific company that you would say stood
18 out.
19 MR. DALL'ANTONIA: A: No.
20 MR. WALLACE: Q: Thank you. In this application,
21 Fortis's experts are recommending an ROE of 10.5
22 percent on 40 percent common equity, or 50 basis
23 points less than in 2009?
24 MR. DALL'ANTONIA: A: Sorry, there -- did you say 40
25 percent common equity or 45? I misheard that.
26 MR. WALLACE: Q: I said 40.

1 MR. DALL'ANTONIA: A: Yes, certainly.
2 MR. WALLACE: Q: Or I meant to. If I misspoke, I
3 apologize.
4 MR. DALL'ANTONIA: A: They are recommending ten and a
5 half percent ROE on 40 percent equity.
6 MR. WALLACE: Q: Okay. And that is 50 basis points
7 less than they recommended in 2009.
8 MR. DALL'ANTONIA: A: Correct.
9 MR. WALLACE: Q: I take it, then, that Fortis judges
10 that a fair ROE has declined since 2009? That the
11 recommendations are at a lower level today than they
12 were then.
13 MR. DALL'ANTONIA: A: Based on what our experts have
14 put forth, their determination of a fair return is 50
15 basis points lower. We believe based on their
16 evidence that it should be higher than we currently
17 have. Which is 9 and a half percent.
18 MR. WALLACE: Q: And we'll be spending a lot of time
19 over the next few days on that.
20 MR. DALL'ANTONIA: A: I'm sure we will.
21 MR. WALLACE: Q: But right now what I'd like to focus
22 on is that difference of 50 basis points. Can you
23 indicate to me why the fair ROE has -- that Fortis is
24 seeking has declined from what it sought in 2009?
25 MR. DALL'ANTONIA: A: No, I think that that would
26 better be directed to our experts. They have run a

number of tests. They have arrived at the 10 and a half based on -- in Ms. McShane's case, I think she's run three different methodologies similar to Dr. Vander Weide. So, a specific question as to why they have gone down by 50 basis points would be better directed to them. I can't say specifically.

MR. WALLACE: Q: Well, I will talk to them, but in the end Fortis decides what to apply for, and I'd just like to go through a few of the criteria. It might be, and at least if you can tell me if that was in your minds.

MR. DALL'ANTONIA: A: Sure.

MR. WALLACE: Q: Because in the end, it is Fortis that decides what to apply for, isn't it?

MR. DALL'ANTONIA: A: It is, but again, we take the recommendation of our experts, because that's why we hire them. We are not cost of capital experts.

MR. WALLACE: Q: Okay. Was it a decline in long Canada bond yields that led to the difference? Or was it a factor?

Proceeding Time 10:34 a.m. T19

MR. DALL'ANTONIA: A: It may have in certain of the tests. Again, the stating point that was used in 2009 I'm not familiar with, versus what they assumed for long Canada in certain of their tests. So I can't say definitively but it may have.

1 MR. WALLACE: Q: And again, I'm going to the mind of
2 Fortis. I will get with them. Did it have anything
3 to do with an improvement in the equity markets?
4 MR. DALL'ANTONIA: A: Sorry, our perspective?
5 MR. WALLACE: Q: Yes, your company perspective?
6 MR. DALL'ANTONIA: A: Well, the way we arrived at the
7 recommendation is discussed with our experts. They
8 arrived at their recommendation based on their
9 methodology and we accepted that that would be the
10 fair return. We did not have a discussion and go
11 through how they arrived at their 10.5, we are just
12 not experts in that area.
13 MR. WALLACE: Q: Yes, but you are, I mean, pretty
14 sophisticated people, a CFA, a chartered accountant.
15 You do make your decisions on what to ask the
16 Commission for, don't you?
17 MR. DALL'ANTONIA: A: Yes, we do.
18 MR. WALLACE: Q: Okay, and in making that decision to
19 come down by 50 basis points from the request in 2009
20 -- I'll change it to here, but did it have anything to
21 do with the recovery from the short recession that
22 happened in 2008 - 2009?
23 MR. DALL'ANTONIA: A: I believe economic conditions
24 would factor into it, yes.
25 MR. WALLACE: Q: Now, if Fortis is asking for 50 basis
26 points less in 2009 than it asked for in -- or I'm

1 sorry, 50 basis points less today than it asked for in
2 2009, why shouldn't the Commission simply reduce the
3 fair return from 9 and a half that it gave in 2009 to
4 9 percent?
5 MR. DALL'ANTONIA: A: Well, the 9 and a half percent,
6 while we did not appeal as you noted, our experts not
7 meet the fair return standard, so we are applying for
8 10-and-a-half. I would note Dr. Booth, I believe his
9 recommendation is only 25 basis points lower so with
10 that logic you could argue why would not just go to 9-
11 and-a-quarter percent, but I think we put forth our
12 request based on our expert evidence. So in our view
13 it should increase.
14 MR. WALLACE: Q: Well, if the Commission got it right
15 at 9-and-a-half percent and it's looking -- 150 basis
16 points less than what you asked for, and it seems to
17 have worked, is there any reason why they shouldn't
18 simply reduce your return this time, or reduce what
19 they had allowed this time from 9-and-a-half to 9,
20 given the 50 basis point differential?
21 MR. DALL'ANTONIA: A: I believe that based on our
22 expert evidence, the breadth of our application that
23 the Commission is going to look at all factors. They
24 are not going to look solely at an incremental
25 analysis, and while we didn't get what we asked for in
26 2009, it was an improvement with what we were faced

with at the time, which was a 35 percent equity return and a sub 9 percent, potentially something in the low 8s. So when we look at the decision that came out, while we did not appeal it, it did not mean that we necessarily agreed with the outcome. It was an improvement and knowing that we'd likely be in front of the Commission again in due course, we put forth, at this time based upon the body of evidence, what we believe is the right cost of capital.

MR. WALLACE: Q: And it was one of the highest returns awarded in Canada, wasn't it?

MR. DALL'ANTONIA: A: In 2009?

MR. WALLACE: Q: Yes.

MR. DALL'ANTONIA: A: It was -- I can't say definitively but of the ones you've gone through, it was the second highest.

MR. WALLACE: Q: Thank you. I'd like to turn now just to business risk generally. Would Fortis accept the dictionary definition of risk, that is the probability of incurring harm?

MR. DALL'ANTONIA: A: Generally we would, yeah.

MR. WALLACE: Q: And in your case harm would be – and in finance generally – losing money?

MR. DALL'ANTONIA: A: Generally yes. In our instance we look at the fair return standard, and my understanding is that the Commission sets a fair

1 return and we are provided the opportunity to earn the
2 fair returns. So a loss in our mind is not earning
3 the fair return. Anything less than the allowed --
4 sorry, let me back up. Anything less than the allowed
5 ROE. If the ROE represents a fair return, in our
6 minds, would signal a loss.
7 MR. WALLACE: Q: And do you accept there is a short run
8 and a long run side to the risk?
9 MR. DALL'ANTONIA: A: I would.
10 **Proceeding Time 10:39 a.m. T20**
11 MR. WALLACE: Q: Dr. Booth refers to it as the
12 difference between the risk of return on capital
13 versus the risk of return of capital, the long run
14 stranded asset risk. Would you accept that as
15 appropriate?
16 MR. DALL'ANTONIA: A: I think that's a fair
17 characterization.
18 MR. WALLACE: Q: Okay. Here in the 2009 proceeding,
19 Fortis introduced two risks in particular, I think
20 were newer ones or -- focus of that hearing,
21 provincial climate change regulations and aboriginal
22 First Nations land claims.
23 MR. DALL'ANTONIA: A: Correct.
24 MR. WALLACE: Q: And those claims were in addition to
25 the long outstanding concerns over decreased average
26 natural gas use and deteriorating competitive position

of natural gas versus electricity alternate fuels.

MR. DALL'ANTONIA: A: Yes.

MR. WALLACE: Q: And in the 2009 decision, and you may want to get it before you, at page 36 the Commission noted that in 2006 it put the appropriate common equity ratio for Terasen as being in the range of 35 to 38 percent and actually set a common equity ratio of 35 percent due to deferral accounts?

MR. DALL'ANTONIA: A: Sorry, in the two thousand and --

MR. WALLACE: Q: Six -- or 2009 proceeding at page 36.

MR. DALL'ANTONIA: A: Yeah.

MR. WALLACE: Q: The Commission noted that in 2006 he had put the appropriate ratio for TGI as being in the range of 35 to 38 percent and set it at the bottom end of that range due to the extensive use of deferral accounts.

MR. DALL'ANTONIA: A: Correct.

MR. WALLACE: Q: And they stated at page 36 also:

> "As for the existing risks, the Commission Panel does not see how TGI's ability to earn a return on or of its capital has been adversely affected since 2005."

MR. DALL'ANTONIA: A: Yes.

MR. WALLACE: Q: And they also stated at the top of page 37:

> "As for the concerns about the risks posed

1 by First Nations, the Commission Panel
2 agrees with Terasen that the risks did not
3 exist in 2005 to the extent they are
4 currently perceived, and that they
5 constitute an increase in risk over natural
6 gas LDCs operating in other provinces. The
7 Commission Panel does not consider that the
8 risk presently casts doubt over TGI's
9 ability to earn a return on or of its
10 capital."
11 MR. DALL'ANTONIA: A: Yes.
12 MR. WALLACE: Q: So would it be fair to conclude that
13 the major change in business risk in 2009 from that in
14 2006 was the impact of climate control regulations?
15 MR. DALL'ANTONIA: A: No, I don't think so. I think
16 the Commission in their determination looked at all
17 the business risks compared to 2005 is their starting
18 point. In general there is an increase in business
19 risk. They've highlighted specifically the two risks
20 that we raised in 2009 that were different on an
21 incremental basis, and that combination justified the
22 increase from 35 to 40 percent. I don't believe the
23 Commission has said that that 5 percent increase is
24 solely because of climate change. I think it's a
25 function of the overall business risks that we've
26 presented in 2009.

1 MR. WALLACE: Q: Okay. I'm going to come back to the
2 major one. You will agree that the major one was
3 climate control regulation in 2009?
4 MR. DALL'ANTONIA: A: The major risk or the new risk?
5 MR. WALLACE: Q: The major new risk.
6 MR. DALL'ANTONIA: A: I would say it was one of two
7 risks that we identified that were new. I think both
8 had impact. The more immediate impact would have been
9 the climate change because of the introduction of
10 carbon tax and specific legislation that introduced
11 change for the company, but both were in our minds
12 significant.
13 MR. WALLACE: Q: And what significance do you give to
14 the statement I put to you earlier as for the existing
15 risks? And I take that to be the risks other than the
16 new risks. The Commission Panel does not see how
17 TGI's ability to earn a return on or of its capital
18 has been adversely affected since 2005.
19 **Proceeding Time 10:44 a.m. T21**
20 MR. DALL'ANTONIA: A: I think that the fact that the
21 risks itself have not manifested in the time period
22 does not change the fact that the long-term businesses
23 exist. The Commission has determined those business
24 risks are there and they've increased in sum total.
25 Having a near-term impact doesn't suggest long-term
26 risks don't exist.

1 MR. WALLACE: Q: No, and this didn't suggest it didn't
2 exist. The statement I read to you says:
3 "As for the existing risks, the Commission
4 Panel does not see how TGI's ability to earn
5 a return on or of its capital has been
6 adversely affected since 2005."
7 I suggest what they said was on the
8 existing risks there had been no change since 2005.
9 Do you disagree with that reading of that statement?
10 MR. DALL'ANTONIA: A: No, I agree with that.
11 MR. WALLACE: Q: Thank you. And we'll come back to
12 climate control later.
13 I'd like to turn now to supply risks and
14 first the commodity price, and you have acknowledged
15 and I think you acknowledged in your opening statement
16 that the current long-term market view of natural gas
17 prices reflect a significant shift downwards compared
18 to the price outlook in 2009. Is that correct?
19 MR. DALL'ANTONIA: A: Correct. I'm going to let Ms.
20 Des Brisay probably step in here as our gas supply
21 expert. I'm quickly getting out of my depth here.
22 MR. WALLACE: Q: That would be just fine. Fine with me
23 anyway.
24 MS. DES BRISAY: A: Yes, Mr. Wallace, I think that the
25 company agrees that the outlook for natural gas prices
26 is certainly lower than it was in 2009.

1 I would like to say, though, that in terms
2 of what our customers are actually experiencing today,
3 it is not very dissimilar, from a commodity price
4 perspective, than what we were seeing in 2009. In
5 late 2009 our market prices were around -- had come
6 off significantly from the highs that we had seen in
7 2008 and were around $4.50 to $5.00. Today prices
8 have come up significantly from the lows that we've
9 seen -- that we saw in the spring coming out of a very
10 warm winter, and we're now over $3.50. And during
11 that same period of time we've seen carbon tax
12 increase from 75 cents to $1.50.
13 So although we are in a different
14 environment today in terms of what we see the long-
15 term supply potential being in North America and what
16 that might mean for the long-term outlook for customer
17 prices, or for commodity prices, what our customers
18 are actually experiencing today is very similar to
19 what they were experiencing in 2009.
20 MR. WALLACE: Q: Okay, we'll come back to that. But
21 are you saying that in the same terms of December 2009
22 and December today?
23 MS. DES BRISAY: A: I would say it in the same terms of
24 the fourth quarter of 2009 for what we're seeing
25 today, that's correct.
26 MR. WALLACE: Q: Could you provide simply by way --

1 unless you know it, actually say November so that we
2 can simply go with a month, as this quarter isn't
3 finished, November 2009 and November 2012 prices?
4 MS. DES BRISAY: A: Yes. November 2009 versus November
5 2012 market prices.
6 MR. WALLACE: Q: Yes. And can we do that by
7 undertaking then? Or can you do it now? If you can
8 do it now --
9 MS. DES BRISAY: A: Oh, I'm sorry. I'm sorry, I
10 thought you were asking me to -- confirming that that
11 was the time period I'm talking about. What is it
12 you're asking me?
13 MR. WALLACE: Q: No, I'm asking you to provide actual
14 prices for November 2009, November 2012 on the same
15 basis.
16 MS. DES BRISAY: A: Yeah, I'm happy to do that.
17 MR. WALLACE: Q: Thank you.
18 MS. DES BRISAY: A: As a matter of fact I have a graph
19 right here that compares what the commodity prices
20 were doing 2005 at the time of the ROE, the capital
21 hearing, capital -- cost of capital hearing versus
22 2009 and what we're seeing today. And what you will
23 see is that where we saw significant drop in commodity
24 prices between 2005 and 2009, today we are actually in
25 a similar environment.
26 MR. WALLACE: Q: Okay.

MS. DES BRISAY: A: I'm happy to provide that.

MR. WALLACE: Q: So I was actually asking simply for a dollar number for November 2009 and a dollar number for today.

MS. DES BRISAY: A: We can provide that.

MR. WALLACE: Q: Thank you.

Information Request

MR. STOUT: A: So perhaps, Mr. Wallace, as Ms. Des Brisay mentioned, it's the perception of what the customer sees, and I think we have some evidence on -- we filed some evidence on that. And probably there's a graph that's kind of helpful in that. It's in our responses to the BCUC IR No. 1. That's in Exhibit B1-20 in Appendix H.

Proceeding Time 10:49 a.m. T22

MR. WALLACE: Q: The Exhibit number is?

MR. STOUT: A: B1-20.

MR. WALLACE: Q: B1-20.

MR. STOUT: A: It should be the BCUC IR1 responses. Or pardon me. Pardon me. It's B1-9-6. Sorry, it's appendix H.

MR. GHIKAS: And just for clarity, that's appendix H of the evidence filing, the original evidence filing.

MR. WALLACE: Q: Oh, okay. Good. Because I was going to go to appendix H. Thank you. And what page are you on?

1 MR. STOUT: A: That's on page 51 and it's Figure 34.
2 It's that bar chart at the top of the page. Yes,
3 there's a bar chart at the top of the page. Figure
4 34.
5 THE CHAIRPERSON: I've got it as Exhibit B1-9. I think
6 you said 6.
7 MR. STOUT: A: Oh, 1-9-6 is what I have in my --
8 sorry.
9 THE CHAIRPERSON: There's got to be a better way to do
10 this.
11 MR. WALLACE: Q: Sorry, sir, we're there, yes.
12 MR. STOUT: A: So if you take a look at that graph, the
13 second bar from the left is July 2009 and the rate the
14 customers were seeing, all costs in of commodity,
15 delivery, carbon tax, midstream charges, et cetera, is
16 $11.07 per gigajoule, and that's based on about a 95
17 gigajoule average use rate.
18 If we go to July 2012, the current day, we
19 are at $10.70 per gigajoule. We've seen an increase
20 in some of the delivery charges, the midstream charge.
21 We've seen an increase in the carbon tax of a dollar.
22 So from a customer perspective, the commodity price is
23 one piece of what the customer is seeing. And what
24 the customer is a price that is approximately the same
25 as what they were seeing in 2009.
26 MR. WALLACE: Q: And so when you say they are

1 approximately the same, that's including the carbon
2 tax?
3 MR. STOUT: A: Including all costs the customer is
4 required to pay, yes.
5 MR. WALLACE: Q: And just to look at those numbers,
6 because I think this is a helpful graph and it may do
7 away with what Ms. Des Brisay was going to provide me,
8 can you tell me – because mine isn't in colour,
9 unfortunately.
10 MR. STOUT: A: Okay.
11 MR. WALLACE: Q: So it's a little hard to follow the
12 index, what the commodity price for gas was in 2009
13 and in 2012 and what the carbon tax was in each of
14 those years?
15 MR. STOUT: A: So the commodity charge was $5.96, I
16 believe it is, in 2009, and the carbon tax shows 74
17 and a half cents. We see a commodity price of $2.08
18 and a carbon tax of $1.49. What you also have to
19 take into account in looking at those is the midstream
20 cost recovery, which is about 7 cents in 2009 and then
21 there's $1.36, because they are all part and parcel of
22 delivering the commodity to our customers.
23 MR. WALLACE: Q: Sorry, did you say there was something
24 that had gone from 7 cents to a 1.36?
25 MR. STOUT: A: That's the midstream charge. That's the
26 --

MR. WALLACE: Q: What is a midstream charge?

MR. STOUT: A: The midstream charge is the cost of the -- Ms. Des Brisay can probably describe that better, since she's the expert there.

MS. DES BRISAY: A: So under our essential services model under which we procure our commodity, as well as the other resources in our gas portfolio, we recover our base load commodity costs through our commodity rate, and that is what the company provides on behalf -- what it procures on behalf -- what we procure on behalf of our customers, and the other commodity coming from the marketers, for the customers that are served off the marketers. The midstream rate are all the costs that are associated with how we shape that portfolio. So that would include our third party pipe, our storage resources, as well as the resources that we would buy -- the actual gas supply that we buy to help to shape the portfolio as it's required.

And it's really when we look at -- it's the overall costs of our gas delivered to our customers is really those two numbers combined.

Proceeding Time 10:54 a.m. T23

So, and I think the other point, when we look at this, is when you're just looking at the commodity charge, that's, you know, reflective of our quarterly review process. And it includes the return

of, or recovery of any balance that would be in a deferral account, where we're always trying to catch up so that we can be flowing through the market -- our actual costs to the customer from procuring that portfolio. And so you're -- you know, you're always having to catch up a little bit. What we started to see in 2009 is the commodity prices coming up significantly, and that commodity price already coming down significantly from where it had been at the peak in 2008. And certainly a lot lower than it had been in 2005 at the time of the previous proceeding.

What we're seeing today in the commodity price, as you will -- would be aware, from our most recent quarterly price filing, is that our commodity price is actually reflective of still returning to customers a surplus in the deferral account, and is actually only reflective of about 85 percent of what our actual cost to purchase gas is today.

So the numbers that I was discussing with Mr. Wallace -- the comparison before was actually looking at what is our prospective cost of having to procure the portfolio over the 12 months as opposed to what our actual commodity rate is. And in terms of what price environment we are in today relative to 2009.

MR. WALLACE: Q: So when you talk commodity price,

you're talking a combination of the midstream recovery charge, the government carbon tax, and the gas purchase cost?

MS. DES BRISAY: A: When I talk commodity price, I generally am talking the market price. When I talk commodity rates, I generally am talking about what it is that we're actually charging customers in today's environment. It's what Mr. Stout has pointed out is that in terms of the actual cost of procuring the gas supply for our customers, also includes the midstream costs. All of those costs are costs that are passed through what it -- a pass-through cost to our customers. They're not costs that the company recovers that it earns on. And on top of that, in terms of how -- what the customer is seeing in terms of a variable rate, is the carbon tax. So, it's really a combination of the carbon tax, the midstream rate and the commodity rate.

MR. WALLACE: Q: Okay. And when I look at this Figure 34, it seems to me that in spite of a carbon tax going up by roughly 75 cents, and a midstream cost going up by $1.25, you've been able to keep your rates at a level that are lower than they were in 2009, or any of the intervening years. Is that a fair conclusion?

MR. STOUT: A: They're 30 cents per gigajoule on about an $11 total cost to customers.

MR. WALLACE: Q: And that's in spite of very substantial increases in the carbon tax, and in the midstream cost.

MR. STOUT: A: I wouldn't say "in spite of". I think it's just a fact of the play of the various factors at play here. That's what customers are seeing when they purchase gas at the end of the system to use in their hot water heater, their furnace, that sort of thing.

MR. WALLACE: Q: Okay. But those other items put increasing cost pressures on, don't they?

MR. STOUT: A: Yes, I think they -- you know, the carbon tax is an outcome of the climate policies you talked about earlier that the government has enacted in B.C., and continues to support. So there are, as we said, a variety of factors that come into play, and in the cost of gas, that customers see at the end use.

MR. WALLACE: Q: Now, do you -- I note that the midstream cost was in the $1.30 range in 2008. Seven-cent range in 2009. $1 -- and it's hard to read on this copy, but somewhere in the $1.30 range through the other years. Do you expect it to stay in that $1.30 range going forward?

MS. DES BRISAY: A: I don't have what their current midstream rate is, but I know that for January 1st, we have actually -- are flowing through a decrease in the midstream rate. I believe it's around $1.10 for --

subject to check. Those -- although a big portion of those costs are fixed costs related to -- and those, you know, those fixed costs that we have seen increase, some significant increases in, in term of holding pipe in storage, they also have a commodity portion to it, which is the gas that we are buying to shape the portfolio. So that's where the variability goes. And one of the things that we've -- because we saw quite a bit of volatility in the midstream charge, that's why we proposed a change to amortizing any balance in that account from one year to three years, because that is really - the volatility is subject to how much -- what the load is on the system, rather than just purely commodity price. It has two influences.

Proceeding Time 9:05 a.m. T2

So the answer, the short -- that's the long answer, Mr. Wallace. The short answer to the question is we do expect it to stay in that range where the pressure is, take commodity price out, is going to be in increasing demand charges we see related to the third party pipe and storage resources that we're holding, and we are seeing considerable upward pressure on that. But that's more of a steady increase rather than volatility.

MR. WALLACE: Q: Okay, and so I take it from that that

1 the 7 cents in July 2009 was the anomaly. The 130 is
2 the more normal range.
3 MS. DES BRISAY: A: Yeah, I would say, yes, the 7 cents
4 was more -- was an anomaly and it was as a result of
5 the amortization of the balances in the other years.
6 As when we look at the same thing happens with the
7 commodity rates as well. So that's why when we're
8 looking, we tend to more look at what is it that we're
9 seeing in the marketplace and what does that mean for
10 our ability to manage the costs for our customers on
11 an ongoing basis.
12 MR. WALLACE: Q: Thank you. Could you now turn to
13 Figure 8 of that same evidence, that's Exhibit B1-9-6,
14 your Appendix H, and it's on page 16 of Appendix H.
15 And you have there a graph of the natural gas
16 commodity prices with annotations showing some of the
17 factors that impact the natural gas commodity prices?
18 MS. DES BRISAY: A: That's correct.
19 MR. WALLACE: Q: And would you agree with me that it
20 shows in July 2012 that we're in price levels that
21 haven't been seen since 2001-2002?
22 MS. DES BRISAY: A: Yes, I do, and I would like to say
23 that we have seen significant strengthening of those
24 prices. If we were to update this graph to show what
25 prices are showing today, we would see this probably
26 be between 40 and 50 cents higher. So we did come out

of last winter with a significant -- it was one of the warmest winters on record in North America, not here in B.C. by the way, but certainly in the main part where the main loads are in the U.S. We came out with storage at record levels, and what we saw happening in that point is prices really tanking coming out of the winter and over the summer.

What we saw happening during the summer as a result of that is significant increase in demand related to coal to natural gas -- switching to natural gas for power generation in North American, significant increases in demand. And what that did was it helped to draw the storage levels down much more significantly than we expected and allowed us to enter into this winter with the storage levels closer to where we had been on a historical average.

And what we've seen happen as we come into the winter and start to see the weather impacts, is that price now strengthening because the risk of the storage constraints has gone down. There is so many different factors that factor into the pricing.

MR. WALLACE: Q: And that's the point of this graph, isn't it, that there are a lot of factors that come in and that there are regular and -- or irregular fluctuations that are unpredictable.

MS. DES BRISAY: A: I would tend to agree with Mr.

1 Wallace that that is one of the business risks that we
2 need to continue to deal with on a go-forward basis,
3 is the volatility in natural gas prices and what that
4 means for how our customers perceive the value of
5 natural gas as their primary fuel.
6 MR. WALLACE: Q: We will agree, though, that volatility
7 might be better if there's up and down rather than
8 straight up in some other commodities?
9 MS. DES BRISAY: A: You know, we have -- I'm not sure
10 which straight up we're talking about, but --
11 MR. WALLACE: Q: How about electricity? It seems to be
12 not on a volatile tangent. It's simply going up. And
13 wouldn't you agree with me that it's better to be a
14 little volatile than to head straight up?
15 **Proceeding Time 11:04 a.m. T25&26**
16 MS. DES BRISAY: A: I would agree with you that it is
17 probably better, but I don't agree that that's how our
18 customers necessarily see it. I think that customers
19 don't like volatility. They see volatility as being
20 risk and they see it as not knowing what they can plan
21 on. It doesn't matter that prices are lower today
22 than they were in 2009 or even more significantly in
23 2008. They are looking at what am I paying today and
24 why is my bill going up and down. So from the
25 customer's perspective -- and that has been recognized
26 by the Commission as well, in the review of our price

1 risk management plan, is that volatility continues to
2 be a significant factor in terms of how we have to
3 think about managing our portfolio and about how our
4 customers look at the value of natural gas.
5 I don't know if Mr. Stout wants to add to
6 that?
7 MR. STOUT: A: No, I don't.
8 MR. WALLACE: Q: I am pretty sure you probably put out
9 some brochures that tell customers how to look and the
10 price advantages?
11 MR. STOUT: A: Yes, we do. We are trying to encourage
12 --
13 MR. WALLACE: Q: And are they part of the material
14 filed in this application?
15 MR. STOUT: A: I don't believe so.
16 MR. WALLACE: Q: I'm going to come back to it, but I
17 would ask that as an undertaking you file any
18 brochures that Fortis might be putting out that
19 explain the improving situation — and I'll come to
20 that improving situation — with respect to gas versus
21 electricity competition.
22 MR. STOUT: A: Well, I think, Mr. Wallace, I can
23 probably speak to that actually. We do provide
24 information to customers about the gas market. We
25 tend not to forecast for them because we are -- you
26 know, that's not what we do, but we provide

information. We recently put out on our website a calculator, an energy calculator that people can use when they are doing analysis of whether they are using space heating, water heating to go in and look at different energy types, different equipment, different technologies and do a calculation for them of, you know, what is going to most effective for them going forward when they are making the change, either retrofitting appliances or looking at the new appliance opportunities. So we do provide that type of information. And we provide links to the, you know, ability for them to look in the marketplace at what outlooks for natural gas prices are into the future.

I think if you look at most forecasts that are out there, all forecasts, we are looking to see gas prices coming up from where they are today. As Ms. Des Brisay said, we've seen a significant increase in the spring. I think most people are looking towards something in the range of a $3.00 increase over the next few years in North American gas prices from the lows we are at this spring. So up around $6.00 on the futures market and the consultants' forecasts.

MR. WALLACE: Q: We'll come back to that. I can hold that undertaking because I am going to get into

comparative prices and maybe we can handle it better there, but I will be asking you for your bill stuffers and things like that. Thank you.

I'd like you to turn to Figure 9 on the next page of Exhibit B1-9-6. And that Figure is entitled comparison of Natural Gas Price Forecasts.

MS. DES BRISAY: A: Yes.

MR. WALLACE: Q: And you have three forecasts there in April 2009 which obviously never came to be. And that was a high forecast.

MS. DES BRISAY: A: That was the fourth -- just to be clear, and I'm sorry that the source reference isn't showing there. It got misplaced somewhere, but it came from the GLJ forecast that they issue every quarter. And what we were showing here is the forecast that they issued on April 1st, 2009 was when we were starting to see the prices coming off of the -- starting to see the prices come off of the high, but the expectation was -- and starting to see the influence of the increase production from the shale gas developments. The expectation at that time was for the potential of those shale gas developments to be realized, that you were going to need to see prices increased. And that's what was really incorporated in the forecast.

What we've seen happen since that time is

1 the cost of producing the shale gas have come down
2 overall, and in particular in areas like the
3 Marcellas, which are much closer to the large centres
4 of U.S. demand. And that's really what we've actually
5 seen on this curve on a go-forward basis, is the
6 expectation of how much supply is coming from what
7 resources and what are those resources going to cost.
8 Now, there is still lots of uncertainty
9 around where that's going to go, and Mr. Wallace may
10 give me an opportunity to talk about that. But we'll
11 see.
12 **Proceeding Time 11:10 a.m. T27**
13 MR. WALLACE: Q: Well, I don't know. We'll see. But
14 that -- I mean, that clearly was a high -- a much
15 higher cost than has come to be, not only in the short
16 run but compared to your future forecasts. You have a
17 high of -- it looks like about $9 on that forecast,
18 don't you?
19 MS. DES BRISAY: A: Yes. I think the difference --
20 know what? I agree with you. At that time, although
21 we were seeing lower prices the outlook -- and we were
22 starting to -- and just starting to understand the
23 full -- the potential of the shale gas development.
24 The expectation was that we were going to need to see
25 higher prices for that shale to be developed. And as
26 -- from 2009 to now, we have seen -- starting to --

1 the market, much fuller understanding of the
2 opportunity and the potential of the shale gas
3 development, and that's really where you're seeing the
4 forecasts have been pushed out.
5 I think that at 2009 -- by 2020, it was
6 expected you were going to need to see prices around
7 $9 to realize that potential, and now by 2020 we're
8 talking about $6. That is about, for the outlook, we
9 are seeing an expectation that prices are lower.
10 There is lots of risk associated with that.
11 MR. WALLACE: Q: Well, of course there is. And if you
12 look at the next line, the blue line, you can see some
13 of the risk is downside. And that once again there
14 was a projection in October, 2010, and by the way you
15 don't need to be embarrassed about these projections.
16 I bought natural shares about this point.
17 MS. DES BRISAY: A: Me too.
18 MR. WALLACE: Q: It was wrong again, wasn't it? It was
19 lower, and people thought they were adjusting because
20 they knew more, and the gas prices projected out to
21 2018 are about $8.
22 MS. DES BRISAY: A: Yeah. No, I agree.
23 MR. WALLACE: Q: Okay. And --
24 MS. DES BRISAY: A: And I just have to say that almost
25 every forecast is -- ultimately ends up wrong. It's
26 based on the best information that you have at the

1 time. This is what the market believed. I mean, it's
2 representative of what the market believed it was
3 going to cost.
4 MR. WALLACE: Q: But they're not just wrong. They're
5 significantly wrong, aren't they? They turned out
6 different. I don't care whether we say "right" or
7 "wrong". It just turned out very different.
8 MS. DES BRISAY: A: Yes. I think if you have to pick a
9 year to say what's turned out different, first of all,
10 we're not in 2020 yet. We don't know what the actual
11 cost is going to be, Mr. Wallace. The company agrees
12 that the supply potential that we're seeing that's
13 coming out of the development of the shale resources
14 is huge. And it has been a major shift in the market.
15 And we agree also that that is resulting in a lower
16 outlook for natural gas prices in the future. I think
17 that if you actually look at the forecast, what it's
18 done is, it's shifted the curve out as we start to see
19 that there are some huge developments that are
20 relatively low-cost. Unfortunately, those aren't
21 necessarily in British Columbia. We have shale gas
22 developments here but they're not the lowest cost.
23 They are finding it difficult to compete with other
24 shale gas developments like the Marcellus in the
25 northeast. And that will create uncertainty here in
26 British Columbia for us for the development of our

1 potential, unless we start to see prices recover or
2 unless those producers are able to find opportunity to
3 access different and greater markets like LNG export.
4 Those are all creating uncertainty in terms of where
5 we think prices are going to go. But I agree with Mr.
6 Wallace. Where we think prices will be in 2020 today
7 is lower, and significantly lower, where we thought
8 prices in 2020 would have been when we were looking
9 out in 2009.
10 There is still lots of uncertainty in terms
11 of what that's going to mean for our ability to
12 continue to access natural gas at competitive, or at
13 fair market prices. And what is that market price
14 going to be in 2009? Lots and lots of uncertainty.
15 And I actually think that this graph shows
16 how much it can change, because if we actually went
17 back and did a similar type of graph where we were
18 looking forward from 2002, what you would have seen
19 happening every quarter is that curve actually going
20 up every quarter as people change their expectations
21 about what it was going to cost in the future. And so
22 that -- it's a point in time, based on the information
23 that you have. And then you have to -- but what
24 actually happened, you know is going to be different
25 **Proceeding Time 11:15 a.m. T28**
26 MR. WALLACE: Q: I think my question was a lot shorter

than that though. I can't even remember what it was at this stage. But what I am going to suggest to you and then I'm going to move on because I think the point is clearly made, that we do -- if we look today in 2012, we do know where we are and we do know what the prices are, and this graph would have said -- the red line would have said it would be $8.00 and it's nowhere near that, is it?

MS. DES BRISAY: A: No.

MR. WALLACE: Q: And that was a projection made in 2009.

MS. DES BRISAY: A: That was the projection in this forecast, yes.

MR. WALLACE: Q: And that April 2009. Thank you, I'd like to --

MR. STOUT: A: And I think, Mr. Wallace, just for clarity, that represents a component of the total rates that we talked about in the previous discussion on the other table, what customers see at the end of the day and what they're paying in overall costs.

MR. WALLACE: Q: We can only deal with these in bits. It's the natural gas price. I think everybody understands that's what I've been asking about.

MR. STOUT: A: That's right, but the customer deals with the whole bill rather than just bits.

MR. WALLACE: Q: And we'll get to the whole bill, sir,

I can assure you. I promise.

Now, if you'd turn to Figure 11, the natural gas price forecast for NYMEX Henry Hub, and you have four forecasts that you project there?

MS. DES BRISAY: A: Yes, what -- we actually have updated this graph with more recent information in Exhibit B1-20, the response to BCUC IR 1-104.1.

MR. WALLACE: Q: Now, is it materially -- I can look, maybe I can look at it in a break and come back unless you can tell me that it's materially different.

MS. DES BRISAY: A: So the second piece just in this graph, what we did is we compared the long-term outlooks of different forecasters, and then also included the NYMEX forward curve at that time. And I think that for this same curve that it's been updated, you would actually see the prices slightly higher.

The third thing is that this -- I just wanted to make sure that it's understood that this graph is showing real 2012 prices, not nominal prices. It's constant 2012. And so looking at the numbers directly you would have to apply an inflation factor in order to determine what nominal prices are we expecting.

MR. WALLACE: Q: And is that the same for Figure 9? Was that in going out nominal or was that real?

MS. DES BRISAY: A: Those are real -- sorry, nominal.

1 MR. WALLACE: Q: Okay.
2 MS. DES BRISAY: A: Figure 9 are nominal prices.
3 MR. WALLACE: Q: Okay, and then if we can simply look
4 -- well, actually I'll take a look at the updated
5 graph rather than deal with this. I'm going to be
6 going after lunch and I will come back.
7 MS. DES BRISAY: A: Okay. We also provided an updated
8 graph to the first one that you took me to in the
9 responses to the IRs as well, Mr. Wallace, into Figure
10 9.
11 MR. WALLACE: Q: Oh, an updated Figure 8?
12 MS. DES BRISAY: A: Figure 9 was updated in the
13 response to BCUC IR 102.1.
14 MR. WALLACE: Q: And do you have the exhibit number for
15 that?
16 MS. DES BRISAY: A: So it's Exhibit B1-20, page 245.
17 MR. WALLACE: Q: Okay. That doesn't change what's
18 here. You added something, presumably?
19 MS. DES BRISAY: A: We were asked to provide the most
20 recent information, and so what was added to that
21 graph was the July 2012 quarterly forecasts, and also
22 an explanation was in the response to 101-2.2, to the
23 second one, of what the basis of the forecast
24 fundamentals that GLJ looks at when they developed
25 these forecasts. And since that time there's also
26 been a third forecast, October 2012. We haven't

provided that at this point.

Proceeding Time 11:19 a.m. T29

MR. WALLACE: Q: Okay. I guess for completeness, can I ask you to do that graph and add the October 2012 forecast.

MS. DES BRISAY: A: Certainly.

Information Request

MR. WALLACE: Q: I'm sure you'd be happy to do that. Yes, I'll come back on markets.

Okay, now you suggest that commodity price volatility presents a higher risk now than in 2009?

MS. DES BRISAY: A: Yes. And -- yes.

MR. WALLACE: Q: Okay, thank you. And is that -- I was surprised because you have -- or you have referred quite often to a report by the American Gas Association called "Squeezing Every BTU, Natural Gas Direct Use Opportunities and Challenges" by Richard Meyer from January 2012, and it states at page 7:

> "The abundance of North American shale gas bolsters domestic natural gas supplies which stabilizes prices and is good for consumers."

MS. DES BRISAY: A: I think that we are -- that one of the shifts from really before 2009, a significant shift from before 2009, that we really started to see in 2008, has been a shift from the belief that North

1 America was going to have to rely on importing natural
2 gas in order to meet its long-term requirements, and
3 that shift -- and that that was going to do a number
4 of things. One is drive prices up, potentially
5 decrease demand or have people shift what they were
6 using for their fuel, and also create -- take natural
7 gas prices from being a North American based or
8 regional price on the North American basis to being
9 connected to global prices, and a view that that would
10 create volatility from that perspective.
11 And that -- we started to see that shift,
12 and had that discussion during the 2009 proceeding, is
13 that we had already seen that we were now -- from
14 thinking that we were going to have to import natural
15 gas, that we had this immense potential here in North
16 America in terms of natural gas supply and since then,
17 we have even a better understanding of it.
18 And I think what Mr. Wallace was talking
19 about when talking about in terms of the ATA
20 information, is that we now see that we have this
21 immense potential in North American and how we develop
22 it, what the cost of it is going to be, do we have a
23 social licence to actual develop this resource at
24 rates -- at lower costs for our customers given the
25 big push back there is on hydraulic fracturing and
26 horizontal drilling. And what is that going to mean

1 for final costs.
2 But what we do know is that we have a lot
3 of natural gas in North America, and that changes it
4 from being -- looking for it in the future where you
5 were having to -- you didn't know where the gas was
6 going to come from, is to a future now was: How can
7 we best develop this resource for us? That creates a
8 different kind of volatility. The volatility instead
9 of being up here is maybe down here. I don't know
10 whether that's going to show up on the -- how that
11 shows up in the transcripts.
12 But volatility in itself is the change from
13 period to period over a trend or over what a forecast
14 is expected to be. So we expect to see continued
15 volatility and for lots of different reasons, which
16 I'm happy to go into. And one of the main reasons why
17 we have said that we see volatility from 2009 greater
18 today in terms of a business risk for us, is that the
19 tools that the company has to try to manage that
20 volatility have been reduced. And that's -- you know,
21 one of the main reasons for that was the denial of our
22 price risk management plan or our proposal to use
23 hedging as one of the strategies to manage price
24 volatility.
25 I know there was a shorter answer, Mr.
26 Wallace.

Proceeding Time 11:25 a.m. T30

MR. WALLACE: Q: I'm hoping we can work toward them. But, Ms. Des Brisay, it seems to me that to use your expression, volatility down here, where it's all our own resource and it's cheaper, is a lot better than volatility up there at a higher price with a foreign resource.

MS. DES BRISAY: A: Yes. And so let me be clear what the company has said. The company has said, "We believe that our risk is lower in terms of availability of supply, that the company's risk is lower in terms of the long-term outlook for price." We have said, though, that we believe the company risk is increased with respect to price volatility. And so I don't think that what I'm saying is inconsistent with what Mr. Wallace is -- at the point that Mr. Wallace appears to be trying to make.

MR. WALLACE: Q: Well, don't worry about the point I'm trying to make, just answer the question if you can, please. What I'm saying to you, to use your language, is that volatility down here at a lower price is less harmful than volatility up here with higher prices and foreign resources and restrained resources.

MS. DES BRISAY: A: I don't think that that's a logical question, Mr. Wallace. What I have said is, lower prices and more supply is a good thing. Volatility is

a separate issue, and as we explained earlier, the customers see volatility as being a disadvantage of natural gas.

MR. WALLACE: Q: Well, I --

MS. DES BRISAY: A: I'm sorry, Mr. Wallace, it doesn't make sense to group them together. They are two separate issues, and we have said that we agree we are in a lower price environment. The outlook for gas is at a lower price, and the availability, the potential for gas supply, is much better than it was in 2009.

Volatility is still significant, and that's a significant business risk for your customers -- for us.

MR. WALLACE: Q: I would suggest to you that if we had constrained resources, imported gas, and had -- we would have greater volatility during peaks than we're going to have in a much greater supply environment we face in the future. And I suggest to you that's what the article was referring to.

MS. DES BRISAY: A: So, now, Mr. Wallace, I think I will go into what I think the risks are around what natural gas prices are going to be for us here in British Columbia, given that you're insisting on that. And so the first thing is that we --

MR. WALLACE: Q: Can you answer my question first? And then give the speech?

MS. DES BRISAY: A: I'm not sure what the question is, because I think I answered the question.

MR. WALLACE: Q: I don't -- I think you were jumping right in, and -- rather than that, I am suggesting to you that an environment with large gas supplies, going forward, is likely to raise -- result in less volatility than an environment going forward with constrained gas supplies, imports and competing on the world market. And I'd like you to answer that, and then you can say whatever you'd like.

MS. DES BRISAY: A: I don't agree.

MR. WALLACE: Q: Okay. And now you can explain why.

MS. DES BRISAY: A: No.

MR. WALLACE: Q: It's not funny. You're allowed to disagree.

MS. DES BRISAY: A: I'm sorry, I can't help myself. But I am -- I think I answered the question. So, let me try again. We agree we're in a better environment. Here in British Columbia, there is lots of -- there are a lot of risks in terms of what the volatility is going to be for us, and are different than a North American -- from a North American market on average. So --

MR. WALLACE: Q: Well, I don't think you and I are going any further on this. I'll move on, Mr. Chairman.

MR. STOUT: A: Sorry, I think, though, Mr. Wallace, from a customer's viewpoint, and I think we've all been through this, whether it's the gas pumps or wherever, when prices shift we tend to adapt to whatever that norm is. So prices are high or low for different products we buy, then we get used to that. When we see change in that, that's what drives us to change our behaviour again. Short-term versus long-term.

So, in the short term, you can quit driving, for example, if you're in your car, those kind of things. In the longer term, you can buy a more fuel-efficient vehicle to mitigate those. But again, you adjust your spending around your income, and disposable income, and changes to what you think is the norm. It's around that relative change that drives people's behaviour to shift. So you still have the risk of shifting behaviours, and what else is happening in the market for other alternatives to mitigate people's behaviour as well.

MR. WALLACE: Q: Okay. I'm going to move on. Unless you had something you wanted --

MS. DES BRISAY: A: The only other point I wanted to make is that what you didn't ask us to comment on, but is really -- is what is in Figure 13, which is in this Appendix H on page 22.

1 MR. WALLACE: Q: Well, yeah. I'm not used to having
2 witnesses say I want to answer what you didn't ask on
3 in this way, but if it's not relevant to an answer of
4 something I did ask you --
5 MS. DES BRISAY: A: No. I think that all I wanted to
6 point out is that this really is an indication of what
7 -- how volatile prices could be in the future, in
8 terms of what the market's expectation is of where
9 prices could possibly end up. And that's what that
10 measure of implied volatility is, in that Figure 13.
11 MR. WALLACE: Q: Figure 13. I'm sorry, let's --
12 **Proceeding Time 11:30 a.m. T31**
13 MS. DES BRISAY: A: Page 22. I would also say that it
14 is really the limited tools that we have to manage
15 volatility is one of the reasons too that we had
16 increased our -- we believe this is an increased risk.
17 MR. WALLACE: Q: Okay, I will move forward. I think
18 out of everything you've said and if I can boil it
19 down, the supply risk in terms of availability of
20 supply is lower now than in 2009. Am I right on that?
21 Can you say yes?
22 MS. DES BRISAY: A: Yes.
23 MR. WALLACE: Q: Thank you. And that's because of the
24 shale gas discoveries in northeast B.C., the Western
25 Canadian Sedimentary Basin and elsewhere in North
26 America.

1 MS. DES BRISAY: A: Yes, I would say that largely
2 because of North American shale gas developments.
3 There are some risks associated with the development
4 of the shale gas in northeast B.C. in terms of the
5 availability of supply for us.
6 MR. WALLACE: Q: But the north -- I'm not even going to
7 go there. You guys can find risks everywhere.
8 In his report Dr. Booth notes that share
9 gas was not a factor at the time of the 2009 hearing.
10 Do you agree with that?
11 MS. DES BRISAY: A: No, I don't.
12 MR. WALLACE: Q: You think it was a factor. What sort
13 of factor was it and how far was it on the scene at
14 the time?
15 MS. DES BRISAY: A: It was significant. I think that
16 we -- that's the time that we started to see the price
17 decline. It was, you know, combined, we saw
18 production increases starting to come on as a result
19 of the shale gas developments in North America. At
20 the same time in a demand, you know, we were coming
21 out of some economic turmoil, so there was, you know,
22 what it was really going to mean in terms of supply
23 and demand balance would still remain to be seen,
24 which was why you see some of the price forecasts that
25 were there at the time. But certainly, and the 2009
26 is when we started to realize that we had this

1 enormous -- sorry, potential for natural to be self-
2 sufficient in natural gas supply and that the need for
3 LNG to actually be counting on LNG imports to meet
4 North American future demand was diminishing.
5 So I would -- 2009 is really when people
6 started to wake up and say, "Wow, we have this
7 resource right here on our back doorstep," across
8 North America.
9 MR. WALLACE: Q: Okay, and there was a lot of
10 uncertainty, wasn't there, and then April -- and
11 Figure 9 shows a forecast made in April 2009 of what
12 would be happening to prices.
13 MS. DES BRISAY: A: Yes, and as I said that there was
14 -- at that time we started to see this development.
15 What was not fully understood is how low the cost
16 could be in terms of how we produced that resource,
17 and that's really where we've seen the shifting in the
18 curve has been as we have a better understanding of
19 the economic feasibility of the development of the
20 shale gas reserves in different parts of North
21 America. You know, and that's gone up and down since
22 that time, and today -- from 2009 to today, we've
23 actually seen the production levels increase somewhat
24 but have now remained relatively flat.
25 In northeastern B.C. we've actually seen
26 production stop -- production growth stop altogether

1 and we're at risk of production growth coming down
2 because we have a resource in northeastern B.C. that
3 is not one of the cheaper shale gas developments, and
4 we have infrastructure -- and a lack of infrastructure
5 to help to develop that resource.
6 So we're -- you know, if we start looking
7 on a regional perspective, there's actually a whole
8 bunch more risks that create volatility for the
9 markets that we are dependent on to access gas.
10 MR. WALLACE: Q: Okay. The whole western Canada
11 sedimentary basin is to some extent becoming stranded
12 economically in that you've seen huge declines in the
13 amount of gas moving to Ontario and the east?
14 **Proceeding Time 11:35 a.m. T32**
15 MS. DES BRISAY: A: That's true, and that is a risk.
16 MR. WALLACE: Q: And if it is stranded, it's there and
17 it's available from a supply point of view for us in
18 the future.
19 MS. DES BRISAY: A: If it's stranded, it's going to
20 stay in the ground. It is not going to be produced at
21 discounted prices for the markets that are on that.
22 You're --
23 MR. WALLACE: Q: And it will be there when we need it,
24 won't it? When we pay the price 20-30 years from now.
25 The supply is better, isn't it?
26 MS. DES BRISAY: A: And I said that.

1 MR. WALLACE: Q: Well. But you keep finding risks
2 around that supply. I would have thought it was such
3 good --
4 MS. DES BRISAY: A: So Mr. Wallace, I said that the
5 supply potential is much better, so we've seen a
6 significant shift. I think that if we go to -- when
7 we talk about the security of supply and what does it
8 mean for our ability to access supply and the cost for
9 it to access the supply, there are still some
10 significant risks. The supply potential is good.
11 MR. WALLACE: Q: And putting aside the timing of the
12 2009 hearing, the words "game changer", would that be
13 right for shale gas?
14 MS. DES BRISAY: A: Yes, I would agree.
15 MR. WALLACE: Q: Thank you. And I'm going to read you
16 another excerpt from the American Gas Association
17 report that I discussed earlier, "Squeezing Every BTU"
18 --
19 MR. STOUT: A: So, Mr. Wallace, do you have that as a
20 reference somewhere in the --
21 MR. WALLACE: Q: It's a document you've referred to a
22 number of times. I'm not sure if it's an exhibit in
23 this proceeding. It is referred to in your evidence.
24 MR. GHIKAS: I'm just not sure. Is my friend referring
25 to the part that was referred to in our evidence or --
26 MR. WALLACE: Q: It's in -- well, I'm referring to a

1 report you referred to in Appendix H. I'm referring
2 different pages, probably.
3 MR. STOUT: A: Could you give reference?
4 MR. WALLACE: Q: I don't know if the report is
5 attached.
6 MR. STOUT: A: I don't believe it is, but could you
7 give a reference in Appendix H that you are --
8 MR. WALLACE: Q: I'm sorry, I can't. I don't have
9 that. We can look at the break and provide it, but
10 you won't get the report in -- I'm not familiar that
11 the report is in Appendix H. We had a look at it. I
12 can check on that and come back to this.
13 Okay. Reference is footnote 18 of Appendix
14 H.
15 MR. STOUT: A: On page?
16 MR. WALLACE: Q: Page 23.
17 MR. STOUT: A: Yes, I see that.
18 MR. WALLACE: Q: Okay, so you see you've referred to
19 the report.
20 MR. STOUT: A: Mm-hmm.
21 MR. WALLACE: Q: We are referring to the same report.
22 I don't have a copy of it with me. Somebody in your
23 shop is more likely to know if it is those masses of
24 paper than I am, I'm afraid.
25 MR. STOUT: A: I believe that that quotation refers to
26 the discussion on that page, around those issues.

1 MR. WALLACE: Q: Yes, but once you put the report in,
2 I'm asking you -- you've taken that as a report that
3 you seem to think is useful and authoritative, and you
4 haven't even given me a chance yet, but I'm going to
5 quote to you from report.
6 MR. STOUT: A: No, no, I just wanted to get clarity,
7 that's all.
8 MR. GHIKAS: I would ask, Mr. Chairman, that if we are
9 going to be putting the quote to him, that the witness
10 be able to see the text immediately before the quote
11 and immediately after, which I think would be --
12 MR. WALLACE: Yes, and if that's necessary.
13 Q: I would have thought this might be easier than
14 that. Let me ask the question. If you can agree with
15 it, then fine; if you can't we'll get the document and
16 we'll come back after lunch and we'll do it then.
17 MR. STOUT: A: It is a very lengthy report. I've read.
18 Not recently, but I have read it.
19 MR. WALLACE: Q: Okay. Is that an acceptable way to
20 proceed.
21 MR. STOUT: A: I'll wait and hear the question.
22 MR. WALLACE: Q: Thank you. I think that would be
23 helpful. I don't think it is terribly controversial,
24 but I've been surprised before.
25 At page 24 of that report, if you also want
26 to look at it at lunch:

1 "The exploration and production of natural
2 gas has accelerated rapidly over the last
3 five years and the recoverable gas resource
4 base has grown tremendously. Approved
5 domestic reserves are now at highest levels
6 in 40 years and outlook suggests more than
7 100 years of available natural gas supply at
8 today's production levels."
9 Does that statement accurately summarize your
10 understanding of the situation?
11 MS. DES BRISAY: A: Yes.
12 MR. WALLACE: Q: Thank you. That was easy.
13 I'd like now to talk about security of
14 supply and I think what you are talking here is just
15 the ability of the infrastructure to deliver?
16 **Proceeding Time 11:39 a.m. T33**
17 MS. DES BRISAY: A: No, the -- no.
18 MR. WALLACE: Q: Oh.
19 MS. DES BRISAY: A: Perhaps you could clarify what you
20 mean by "the infrastructure".
21 MR. WALLACE: Q: Well, the Westcoast Pipeline has to
22 get it to your facilities. It has to come from
23 wherever it's being produced, whether that happens to
24 be in Alberta, in northern B.C., or potentially
25 reversed lines.
26 MS. DES BRISAY: A: Yeah. So yes, but -- yes, I'm

1 sorry, I thought you mean our own infrastructure.
2 MR. WALLACE: Q: No.
3 MS. DES BRISAY: A: Which is more of an operating risk
4 issue. The security supply is -- for us is not just
5 about -- is two components. It's not just about the
6 ability of the infrastructure that serves us to
7 continue to ensure that we get reliable supply, but
8 also in terms of how -- where the resources, where the
9 natural gas resources that we need -- that we access
10 our supply from are being developed and what
11 infrastructure is being developed to support those
12 resources, and what that could mean to our market that
13 we are dependent on. And a good example of that would
14 be the Station 2 market, where we access approximately
15 85 percent of our total supply. And right now
16 Westcoast is competing significantly with other
17 pipelines that are being built into northeastern B.C.,
18 predominantly by TransCanada, that is directly
19 connecting to that supply potential and pulling the
20 gas into Alberta.
21 The risks that we see that we could face
22 under those types of scenarios is that the gas could
23 bypass the Station 2 marketplace altogether and that
24 we would actually see that we would start to be seeing
25 price disconnects at Station 2, and perhaps even the
26 -- you know, that physical availability of gas may be

1 constrained. And for that -- so in a way if that
2 happens, it doesn't matter how much gas is being
3 produced in British Columbia. If we don't have access
4 to it, it can impact the security and reliability of
5 supply for us.
6 So there's two components. One is the
7 dependence on a single pipeline, or a large dependence
8 on a single pipeline. The third thing is how -- or
9 the second thing is how that resource in British
10 Columbia is being developed and how can we ensure that
11 it doesn't reduce our flexibility to be able to
12 continue to access natural gas at fair market prices?
13 So, and those are some of the things that we have to
14 be very proactive about trying to make sure that our
15 interests are being considered in terms of how that
16 resource and how that infrastructure is being
17 developed up north.
18 MR. WALLACE: Q: Okay, and in terms of dependence on
19 the Westcoast Pipeline, that hasn't changed since
20 2009.
21 MS. DES BRISAY: A: Yeah, and that is true that the
22 infrastructure that we use today to access our gas
23 supplies is the same as what it was in 2009. What's
24 changing and what's happening upstream of that
25 infrastructure and what that might mean for how we
26 access our gas or whether we need to build

infrastructure or whether our costs on those pipes will go up because we'll start to see reduced utilization on them or those other things. And those will have to all be very proactively managed. We can't just sit back and assume all the gas is going to show up at Station 2.

MR. WALLACE: Q: You currently pay fair market value and you will continue to have to pay fair market value?

MS. DES BRISAY: A: Well, it depends on what you think fair market value is. For me, fair market value is making sure that there is good liquidity at the markets that we access gas at, and that we avoid -- we do what we need to do to ensure that we are not facing price disconnects, where our customers are having to pay higher prices just because of the way the infrastructure has been developed and that we don't have the same kind of access to the gas supplies. So it really is ensuring that if we are going to develop the resource in northeastern B.C., that our customers have the ability to access it at fair market prices.

Proceeding Time 11:44 a.m. T34

MR. WALLACE: Q: I think that --

MS. DES BRISAY: A: And that's not a given.

MR. WALLACE: Q: I think that paying fair market value now and in the future is a given?

1 MS. DES BRISAY: A: Is a goal. It is not a given.
2 MR. WALLACE: Q: Why would you think you'd have to pay
3 more than fair market value?
4 MS. DES BRISAY: A: Okay. I think I just said it, but
5 maybe I need to say it again.
6 MR. WALLACE: Q: No. Seriously. If the price goes up
7 because they're exports, we pay the higher price.
8 MS. DES BRISAY: A: No, no, so --
9 MR. WALLACE: Q: It's fair market value, isn't it?
10 MS. DES BRISAY: A: Yes, yes. If price goes up because
11 of our exports, and we have the ability to compete for
12 that supply, I agree that that's fair market value. I
13 agree with you, Mr. Wallace.
14 MR. WALLACE: Q: Thank you.
15 MS. DES BRISAY: A: And that's not what I was talking
16 about. What I was talking about was the risk that we
17 wouldn't have access, and we wouldn't have the ability
18 to continue to compete for that supply. And that
19 would mean that we would be paying -- having to pay
20 premiums, or you would see these price disconnects
21 from the markets that could impact the costs that
22 we're paying our customers. I believe -- and that is
23 a risk, and that is why we are actively intervening in
24 NEB hearings, in terms of infrastructure that's being
25 developed up north to ensure that our customers'
26 interests are being considered in terms of the way new

infrastructure is being built, in terms of the way it's being told, and in terms -- and our real objective is to assure we have continued liquidity, and to hopefully increase the liquidity at Station 2, so that we can access fair market prices.

MR. WALLACE: Q: I'm going to leave it at that and turn to market risk. And to price advantage first. And if you could turn to Exhibit B1-11, IR No. 1 to the B.C. utility customers, and it's -- which is IR No. 1, and specifically IR 4.2, which is on paper page 31. With the computer, I tend to look at PDF numbers more, but -- it's Figure 1, Lower Mainland residential customer space heating margins.

THE CHAIRPERSON: That was be page 32?

MR. WALLACE: It's page 31, I think. It's a graph that's blue and red, and quite picturesque.

MR. DALL'ANTONIA: A: Which IR was it, Mr. Wallace?

MR. WALLACE: Q: Pardon?

MR. DALL'ANTONIA: A: Which IR was it?

MR. WALLACE: Q: This is IR 4.2.

THE CHAIRPERSON: Oh, it's not page 31. This is BCUC?

MR. WALLACE: No, it's the B.C. Utility Customers. Sorry. Exhibit B1-11.

I'm just waiting to be sure others have it too. Exhibit B1-11.

Well, that's two of you that have it. Two

1 don't. It's quite an important graph, so I wouldn't
2 mind if we could have everybody locate it.
3 MR. GHIKAS: Just for clarity, the first -- the questions
4 were broken out by Mr. Wallace's clients. They broke
5 out their sets separately, so that there is a set for
6 each of the experts and a set for the company. And so
7 this is the set that went to the company, B1-11.
8 MR. WALLACE: The number I have is page 31 for it, it's
9 Figure 1. Yes. And it looks like you have the right
10 colours in front of you. Thank you.
11 **Proceeding Time 11:49 a.m. T35**
12 MR. WALLACE: Q: Well, good, we got three out four and
13 with a little sharing I think we can proceed. I am
14 happy to do that.
15 You have Figure 1 before you, "Lower
16 Mainland Residential Customer Space Heating"?
17 MR. STOUT: A: Yes.
18 MR. WALLACE: Q: And that shows that in 2005 natural gas
19 had a 12 percent cost benefit over electricity?
20 MR. STOUT: A: That's right. For that particular
21 application with the 90 percent efficiency.
22 MR. WALLACE: Q: Yes. For space heating.
23 MR. STOUT: A: For space heating, yeah.
24 MR. WALLACE: Q: Yeah, and in 2009 that had increased
25 to 28 percent?
26 MR. STOUT: A: Yes.

1 MR. WALLACE: Q: And in 2012 it's 45 percent.
2 MR. STOUT: A: That's right. That's today for an
3 existing customer with the furnace already in their
4 home or their establishment. So that's operating cost
5 only.
6 MR. WALLACE: Q: Yes. And have you looked at where
7 B.C. Hydro rates are going and tried to project them
8 in the future?
9 MR. STOUT: A: No, we haven't done -- I haven't done a
10 particular look at that. I think there's been
11 actually a lot of discussion in the past two years
12 about B.C. Hydro rates and where they were going and I
13 think the prognosis was, a couple of years ago people
14 were looking at 5 to 10 percent increases compounding.
15 I believe it was in the spring of 2011 that the
16 government undertook a review of B.C. Hydro through
17 their auditor and subsequently made some policy
18 changes to B.C. Hydro that pushed towards more cost
19 reductions and efficiencies to mitigate rates for
20 customers, changed self-sufficiency guidelines to
21 reduce the amount of capacity that needed to be built,
22 and subsequent to that, I've think we've seen rate
23 increases in the 3 to 4 percent range, 3 percent
24 range.
25 MR. WALLACE: Q: Sir, could you give me the basis for
26 that? The three-year projection and the 3 to 4

1 percent range?
2 MR. STOUT: A: Sure.
3 MR. WALLACE: Q: Or could you take it by undertaking?
4 Simply, what were the increases that were granted to
5 B.C. Hydro on it's most recent rate application?
6 MR. STOUT: A: Well, I could give you that. Because I
7 think for fiscal 2012 it was 8 percent, 3.9 percent in
8 2013 and 3.9 percent in 2014. That was revised by the
9 government. Then the Special Direction which was in
10 May of 2012 cut short the revenue requirement process
11 that was underway and it approved the 8 percent
12 increases for 2012 and 3.9 for 2013 and 1.44 for 2014.
13 So we have seen that political push from
14 government to reduce rates, and that followed on their
15 review of B.C. Hydro by the auditor general as well as
16 the review by a panel of ADMs and deputy ministers of
17 the government to look for cost efficiencies and
18 changes to B.C. Hydro. And since then, the long-term
19 resource plan has been -- what do you call it -- set
20 aside or to be tabled in the summer of next year as to
21 what the outlook is going to be and how things are
22 going to play out. But we've seen the cost reductions
23 are ongoing at B.C. Hydro and a direction by
24 government that they are looking to see much more
25 efficiency and a reduction in costs from where they
26 thought things were going.

1 MR. WALLACE: Q: And have you followed what's happening
2 to its deferral accounts? Have you made any effort to
3 determine whether those rates would be sustainable
4 independently or not?
5 MR. STOUT: A: Well, I think the -- no, we haven't
6 undertaking an independent review of that. I think
7 the government is doing that through the resource plan
8 and I think there was discussion of those deferral
9 accounts and how those would unfold out in the future.
10 MR. WALLACE: Q: And have you followed how they are
11 unfolding?
12 MR. STOUT: A: I don't think things have been in front
13 of the Commission to look at how that's going to be
14 dealt with in the last little while.
15 MR. WALLACE: Q: The question was "have you". It's a
16 simple no, if you haven't followed how it's --
17 MR. STOUT: A: We aren't poring through Hydro's books
18 on a daily basis, no.
19 MR. WALLACE: Q: Okay. Now, going back to Figure 1,
20 the gap that we see there, the advantage for gas now
21 is about four times the advantage you had in 2005?
22 MR. STOUT: A: On a percentage basis, that's correct.
23 MR. WALLACE: Q: And that's very good news, isn't it?
24 **Proceeding Time 11:53 a.m. T36**
25 MR. STOUT: A: It's very good news for -- well, this is
26 for an existing customer. So it's good news for an

existing customer, I guess, more relative to where our rates were, that it's costing them, as I said earlier, about the same today as it was in 2009 to heat their home.

MR. WALLACE: Q: Sure, that's probably good news, isn't it?

MR. STOUT: A: That's good news.

MR. WALLACE: Q: And especially when you think the carbon taxes have been included in there?

MR. STOUT: A: Carbon tax is Step 2 rates, but this also doesn't -- this is an existing customer, as I said, that's already a customer on our system.

MR. WALLACE: Q: You're anticipating where I'm going.

MR. STOUT: A: Well, no, I'm just clarifying.

MR. WALLACE: Q: Is for an existing customer. I got the qualification.

MR. STOUT: A: Exactly.

MR. WALLACE: Q: This is good news and it's good news not just for the customer, it's good news for the company because there is a good margin of benefit there.

MR. STOUT: A: Could you define what you mean by margin of benefit?

MR. WALLACE: Q: Well, 45 percent is what I mean by margin of benefit.

MR. STOUT: A: Well, that's a margin. Again, if

1 somebody already has a gas appliance in, that's a
2 notional benefit in that they're already burning gas
3 so they have a lower bill, and we'll still see the
4 throughput is going through the system. So that's
5 good for everyone.
6 MR. WALLACE: Q: Yeah. That's what I would have
7 thought.
8 MR. STOUT: A: It's good for customers.
9 MR. WALLACE: Q: And the risk of them trying to find
10 another alternative is lower when there's a nice
11 cushion margin like that.
12 MR. STOUT: A: Well, this is, I said, for a customer
13 that has a 90 percent efficient furnace.
14 MR. WALLACE: Q: Yeah.
15 MR. STOUT: A: If you're to look at a big component,
16 about 350,000 of the customers in B.C. have 60 to 70
17 percent efficient furnaces. That gap narrows
18 considerably. And when they are looking to replace a
19 furnace, they then have to go forward and put in a 90
20 percent plus efficient furnace by regulation, and
21 we've provided some information along that line that
22 shows that you need about $10 a gigajoule different
23 long term in electric and gas prices to make that
24 change.
25 So there is still risk there as people
26 replace their furnaces and water heaters, and water

1 heaters are on the next page, a different story.
2 Replace the furnaces, that's a risk. If you look at--
3 MR. WALLACE: Q: You keep getting ahead of me. Let's
4 talk about space heating and Figure 9 -- Figure 1.
5 MR. STOUT: A: Well, I'm talking -- and I'm talking
6 about space heating because Figure 1 gives you a
7 snippet of the information.
8 MR. WALLACE: Q: Yes, we'll be a lot faster if you can
9 answer the question and not get to all the other
10 things you'd love to talk about. It's up to me to ask
11 the question and you to answer it.
12 MR. STOUT: A: That's right.
13 MR. WALLACE: Q: And I'd appreciate it if you would.
14 Okay.
15 Now, that 45 percent is a dramatically
16 different position where you were in 2005.
17 MR. STOUT: A: Where customers were in 2005, yes.
18 MR. WALLACE: Q: Okay. And where the company is
19 because you, I would have thought, would feel good
20 when your customers feel good.
21 MR. STOUT: A: Yes, we feel good when our customers
22 feel good, and this is --
23 MR. WALLACE: Q: And you feel bad when they feel bad or
24 are going to leave.
25 MR. STOUT: A: Yes, and as I said, this is a 90 percent
26 customer who has a high efficiency furnace already in

place. It's not the average or the customer in the system.

MR. WALLACE: Q: No, but if it's a customer that -- it's one of the customers you're going to keep him, when you -- I suspect you put this information out to your customers to tell them they should feel good. Do you?

MR. STOUT: A: We put the 90 percent. As I said, we have an energy calculator that allows people to go in and do the math themselves given each particular situation, because they are different for each company.

MR. WALLACE: Q: Yes, and do you do bill stuffers or brochures that explain to your customers or potential customers the benefit of using natural gas for space heating?

MR. STOUT: A: Yes, we do.

MR. WALLACE: Q: And could you provide copies of those by way of undertaking, for the last year? Anything you put out in the last year, by way of undertaking.

MR. STOUT: A: We'll undertake that, yes.

Information Request

MR. WALLACE: Q: Thank you.

And if we could look at Figure 4 of the same exhibit, it's Vancouver Island Residential Customer Space Heating. I am assuming it's 90 percent

also efficiency. Is that correct?

MR. STOUT: A: That's correct.

MR. WALLACE: Q: And there you have gone from 1 percent in 2009 to a cost/benefit or a gap of 19 percent in 2012, and that includes the carbon tax having come into effect.

MR. STOUT: A: That's correct. Same basis of analysis.

MR. WALLACE: Q: Okay. And water heating, which I told you I'd get there.

MR. STOUT: A: Mm-hmm.

MR. WALLACE: Q: Figure 2. You have gone from a net down, a disadvantage in 2005 to a 16 percent -- to a 5 percent advantage -- or a disadvantage in 2009 to a 16 percent -- I'm sorry, I've got it the wrong way around there. You were at a disadvantage in 2005 and an advantage of 5 percent in 2009 and at an advantage of 16 percent in 2012.

Proceeding Time 11:58 a.m. T37

MR. STOUT: A: That's right, Mr. Wallace, for an existing customer with a 60 percent efficient water heater. So that subset of the market, yes.

MR. WALLACE: Q: And again, that includes the carbon tax having been put in there.

MR. STOUT: A: Yes, it does.

MR. WALLACE: Q: Now, I just want to make sure -- I think it's a graph -- oh, I'm going to come to it yet.

1 Well, maybe just to look at it -- no, that's okay. I
2 will move to the new topic of customer additions and
3 energy use. And I assume, Mr. Stout, that's probably
4 you still.
5 MR. STOUT: A: Yes, it is.
6 MR. WALLACE: Q: In your submissions, you've
7 highlighted several risks, and in the answers you've
8 been giving to me with regard to customer additions,
9 with respect to technology and customers going to
10 other matters. But you still are seeing growth in the
11 size of your total customer base, aren't you?
12 MR. STOUT: A: I'd say we're seeing some nominal
13 customer growth.
14 MR. WALLACE: Q: Well, I'm not quite sure what you
15 would call nominal. But you are increasing. You're
16 not falling.
17 MR. STOUT: A: No, we're not losing customers today,
18 not residential customers, anyway.
19 MR. WALLACE: Q: Okay. And 2009, your total
20 residential -- from 2009 to 2011 your total
21 residential customers have gone from 846,231 to
22 862,000 and a few.
23 MR. STOUT: A: Could you give me your reference, just
24 where you're at?
25 MR. WALLACE: Q: Sure. I didn't want to send everybody
26 on another search, but I think this may be -- this

1 will probably be in the same group. It's B1-11,
2 Utility Customer IR 4.4, and it's page 42. It's a
3 table that's there, and I do believe it's in the same
4 section of the IR responses.
5 MR. STOUT: A: And it's 4.4?
6 MR. WALLACE: Q: Response to 4.4, yes.
7 MR. STOUT: A: Page 42? Of that document?
8 MR. WALLACE: Q: Yes. And it is a table showing your
9 residential, commercial, industrial and grand total of
10 customers.
11 MR. STOUT: A: Yes.
12 MR. WALLACE: Q: And as I was pointing out from 2009
13 you went from 846,000 customers to two years later
14 862,000-some-odd customers.
15 MR. STOUT: A: So from -- which is that? Again, you're
16 talking 2009?
17 MR. WALLACE: Q: I was talking 2009 to 2011.
18 MR. STOUT: A: '09 -- oh, you're talking residential,
19 846 to 862.
20 MR. WALLACE: Q: Yes.
21 MR. STOUT: A: That's a total of about 16,000
22 customers.
23 MR. WALLACE: Q: Yeah. It's not a decline, is it?
24 MR. STOUT: A: Not in customers. But I think --
25 MR. WALLACE: Q: We'll get to volumes.
26 MR. STOUT: A: -- in volumes, we -- well, just if you'd

1 let me answer the question, thank you.
2 MR. GHIKAS: Just before he does, that table has totals.
3 I think you're referring to numbers and totals for all
4 of the issues -- all of the companies.
5 MR. WALLACE: All of the companies, I agree. If you want
6 to deal simply with Mainland, that's fine too.
7 MR. STOUT: A: I seem to have spilled my water on
8 myself, Mr. Wallace. So bear with me for one moment.
9 MR. WALLACE: Q: It's usually the role of counsel to do
10 that.
11 MR. STOUT: A: Oh, don't worry. There we go.
12 MS. DES BRISAY: A: At least it's limited to in front
13 of him.
14 MR. STOUT: A: There we go. Okay.
15 MR. WALLACE: Q: Okay. So, can we agree the number of
16 customers is growing, following Mr. Ghikas's
17 suggestion, we can look at Mainland. That would be
18 from 2009, 753,735 to 765,550.
19 MR. STOUT: A: Yes, that's about 12,000 customers over
20 that time frame.
21 MR. WALLACE: Q: Yes. That's growth, isn't it?
22 MR. STOUT: A: As I said, a very nominal growth. And a
23 couple of things on that, Mr. Wallace. And you
24 mentioned volumes, you'd get to that. But I think if
25 you go to Appendix H, where we talked about customer
26 loads and volumes, that's on page 9 of Appendix H,

which is in B1-9-6.

MR. WALLACE: Q: Sorry, what page?

MR. STOUT: A: Page 9.

Proceeding Time 12:03 a.m. T38

MR. WALLACE: Q: I have that, yes.

MR. STOUT: A: And that shows the total customers going up, and it shows our throughput over the last number of years has been declining and that's a result of, while we are still adding customers, we are not seeing the same use per customer.

MR. WALLACE: Q: I'm sorry, but if I look at -- you're at Figure 4, are you? On page 9?

MR. STOUT: A: I am.

MR. WALLACE: Q: And if I look at the throughput which I understand it the bars?

MR. STOUT: A: That's the total throughput, and it has gone up slightly from 2009 due to some --

MR. WALLACE: Q: Yes, it's gone up for each of the last two years.

MR. STOUT: A: With some industrial customer use. It has gone down since 2003 and is still well below where we were in the earlier years.

MR. WALLACE: Q: Well, it's close to where you were in 2006.

MR. STOUT: A: That's right. And the other point, Mr. Wallace, if you go in that same document to page 34,

and we talked about those new customers that were added to the system, you were talking about the residential customers, we are also seeing a significant change over the past four or five years.

MR. WALLACE: Q: Sir, you are getting ahead of me. My question was your number of customers. You are now telling me the whole story. I would like you to confine your answer to the question.

MR. STOUT: A: Well, I think, Mr. Wallace, I'd like to point this out because it is relevant to the question.

MR. WALLACE: Well, Mr. Chairman, I ask simple questions about the number of questions and we go for fifteen minutes. We will be there and -- but it is going to take much longer this way.

THE CHAIRPERSON: I think Mr. Wallace is pretty organized in his approach to things and if something gets missed out, maybe at the end of the questions you can bring it up.

MR. STOUT: A: Okay, that would be fair.

MR. WALLACE: Q: Thank you. Before I leave this one, this graph, on your throughput, you are familiar with the -- maybe it's Ms. Des Peray.

MS. DES BRISAY: A: Des Brisay.

MR. WALLACE: Q: Brisay, sorry. You are familiar with what's happening on the TransCanada system?

MS. DES BRISAY: A: Yes, I am.

1 MR. WALLACE: Q: And you are familiar with the fact
2 that its volumes have declined from the 6 BCF a day to
3 under 3 BCF a day problem?
4 MS. DES BRISAY: A: And they are forecasting it to
5 continue to go down.
6 MR. WALLACE: Q: Yes. And that is a throughput
7 problem, isn't it?
8 MS. DES BRISAY: A: It is certainly a problem for
9 TransCanada.
10 MR. WALLACE: Q: And your problem is nothing like
11 TransCanada's, is it?
12 MS. DES BRISAY: A: And I would say that our business
13 is nothing like TransCanada's either.
14 MR. WALLACE: Q: We'll leave it at that.
15 This is a good time to break. Thank you
16 very much.
17 THE CHAIRPERSON: Thank you, Mr. Wallace, and the panel.
18 Let's adjourn until 1:30 this afternoon. Thank you.
19 **(PROCEEDINGS ADJOURNED AT 12:06 P.M.)**
20 **(PROCEEDINGS RESUMED AT 1:34 P.M.)** **T1A**
21 THE CHAIRPERSON: Please be seated.
22 Mr. Ghikas.
23 MR. GHIKAS: Mr. Chairman, before my friend Mr. Wallace
24 resumes, there are a couple of corrections from this
25 morning that I thought we'd just deal with right away
26 if it's all right with you.

1 THE CHAIRPERSON: That's fine.
2 MR. GHIKAS: Thank you, okay.
3 MR. GHIKAS: Q: Ms. Des Brisay, first of all, at
4 approximately 10:55 this morning you indicated subject
5 to check that the MICRA rate would decrease to
6 approximately $1.10 as of January 1st, 2013 as a result
7 of the Q4 gas cost filing. Do you recall that?
8 MS. DES BRISAY: A: Yes.
9 MR. GHIKAS: Q: Okay, and I understand that you've had
10 the opportunity to check the $1.10 figure that you
11 provided and that you have a correction to make.
12 MS. DES BRISAY: A: On January 1st the MICRA will
13 decrease to $1.19.
14 THE CHAIRPERSON: $1.19?
15 MR. GHIKAS: Q: Thank you. Now, the second one relates
16 to Mr. Stout. Earlier this morning, Mr. Stout, you
17 and Mr. Wallace were discussing Figure 34 from
18 Appendix H in the evidence, page 51, which shows for
19 everybody's reference it shows the components of a
20 residential bill in the vertical columns. And over
21 the lunch break I gather you identified an error in
22 that figure, Mr. Stout. Could you just elaborate on
23 that, please?
24 MR. STOUT: A: Yes, and it's in reference to the July
25 of '09 bar graph, and the midstream rate there is
26 shown as 0.073 cents. That in fact is the midstream

rider, so there was an error in that graph. The midstream rate was a combination of the rider, the 0.073 cents plus 94.2 cents, so should be a total of 1.015, and that makes the total rate, instead of 11.070, become 12.012 per gigajoule.

MR. GHIKAS: And just for the Panel's benefit, Mr. Chairman, we were unable to get it done for the start here but we are just re-preparing that graph with the proper data in it and we'll file it as soon as it's ready if Mr. Wallace wishes, or at the afternoon break, whichever is convenient to my friend.

MR. WALLACE: I'm optimistic, I don't want to get false hopes up here, but optimistic that I might finish before the afternoon break. So if that point arrives, if they could bring it forward then I could deal with it before I finish.

MR. GHIKAS: Thank you.

THE CHAIRPERSON: Thank you.

MR. WALLACE: Thank you.

CROSS-EXAMINATION BY MR. WALLACE (Continued):

MR. WALLACE: Q: Thank you. I had a bit of homework over the break also, and you told me that you had updated Figures 9 and Figures 11 that are found in your evidence. If you could go to Figure 9 first, the comparison of natural gas price forecasts. And I think it's you, Ms. Des Brisay.

MS. DES BRISAY: A: Yes.
MR. GHIKAS: Q: And I took a look and it appears that the only update was that you added a July 2012 forecast which was very similar to your April 2012 forecast?
MS. DES BRISAY: A: That's correct.
MR. GHIKAS: Q: Okay, and similarly with respect to Figure 11, the natural gas price forecasts for NYMEX, you added an updated curve for September -- NYMEX forward curve for September 2012 which was essentially very similar to your April 2012 forward curve.
MS. DES BRISAY: A: I believe that's correct. I have to go back now and see which one, but we've also then subsequently updated all of the curves, yes.
MR. GHIKAS: Q: Well, when you say updated, you've added more recent curves. But at least the two I looked at were very similar to your most recent curves. They were updated but they didn't result in dramatic changes in any way.
MS. DES BRISAY: A: No, not in the long-term forecast.
MR. GHIKAS: Q: Thank you. Now, we were just -- when we were finishing off we were on, I believe, Figure 4 of your evidence, the total throughout, Mr. Stout, is that roughly where we were?
MR. STOUT: A: Yes, I think so.
MR. GHIKAS: Q: And my point in discussing that with

1 you was that it appeared to me you have a steady trend
2 there, both of accounts and throughput in the last
3 three years since 2009, it's upward on both accounts.
4 **Proceeding Time 1:39 p.m. T02**
5 MR. STOUT: A: Yes, we have an upward number of
6 customers, and volume increases. For various reasons.
7 MR. WALLACE: Q: Yeah. Now, I would like you to turn
8 to Figure 7, and you have the outlook for residential
9 throughput levels there?
10 MR. STOUT: A: Yes, that's right.
11 MR. WALLACE: Q: And it shows a decline, as I read it
12 from about 68 pJs down to 60 pJs from 2010 to 2030?
13 MR. STOUT: A: Yeah, but I'd say 69 to 61, but in the
14 same -- oh, about 8 petajoules difference. That's
15 right.
16 MR. WALLACE: Q: Okay. And so -- I mean, over the next
17 20 years, that's a decline of about 12 to 15 percent,
18 would it be?
19 MR. STOUT: A: Twelve percent, yes.
20 MR. WALLACE: Q: Okay. And given the context I was
21 mentioning earlier, TransCanada, 12 percent decline
22 over 20 years sounds like more sensible conservation
23 to me than anything to be terribly worried about.
24 MR. STOUT: A: Well I think, as Ms. Des Brisay pointed
25 out, we're not -- we're a different business than
26 TransCanada. But I think what's important is what's

1 underlying this as one scenario, is that the new
2 customers we're adding are at about a use rate that's
3 about 50 to 60 percent of what the average customers
4 are today. So from around the 90 range down in the 55
5 range, so we're seeing less customer ads.
6 We also have one other risk that's not
7 built into this scenario, but it's the ongoing trend
8 in appliance efficiencies, and the government of
9 Canada is pushing towards 80 percent efficiencies for
10 water heaters. That's relevant, because existing
11 water heaters are around 60 percent efficient, and
12 there isn't a gas-fired water heater that meets those
13 standards. And so when you look at that, about 20
14 percent of our throughput is related to water heating.
15 So that's another one that's out there. We're hopeful
16 that the industry will be able to overcome that, but
17 we haven't seen any movement in that direction yet,
18 and we're seeing the city of Vancouver push to an
19 earlier date, in the 2013/14 time frame, to mandate
20 those water heaters. So there is other components
21 that will come into play that haven't been put into
22 this scenario.
23 MR. WALLACE: Q: Sir, again, it's my turn to ask
24 questions. You have put a lot of material in. I want
25 to ask about certain parts of it.
26 MR. STOUT: A: Mm-hmm.

1 MR. WALLACE: Q: It would help me if you could respond
2 and help me make that break, to be finished.
3 The point is that I asked you, and I'd like
4 you to respond to it, that a -- well, no, I'll change.
5 I'll move forward.
6 The 15 percent decline, or a decline in
7 throughput, where that becomes a risk for a
8 shareholder is if it causes rates to go up in a
9 significant way and become non-competitive, and you
10 therefore lose customers and then you get into the
11 death spiral scenario? Because your unit cost goes
12 up, and then that causes more customers to fall off,
13 and --
14 MR. STOUT: A: That's a risk. I'd put that in the
15 extreme risk scenario, versus just a more general risk
16 scenario.
17 MR. WALLACE: Q: Well, what's the general risk? I
18 mean, what's the harm, if you are nowhere near that?
19 MR. STOUT: A: Well, I think the harm is we're seeing
20 continued declines in the residential commercial
21 customers. We have a system that we know needs
22 ongoing maintenance and safety upgrades, that sort of
23 thing, for the infrastructure and the grounds. When
24 you couple declining throughputs and a need to invest
25 capital to keep the system safe and reliable, that has
26 a rate impact on customers, that leads to probably

1 undesirable outcomes for customers.
2 MR. WALLACE: Q: Yeah. But it may be an undesirable
3 outcome for the customer, but as long as the rates are
4 sustainable and as long as you don't get into the
5 death spiral, the utility shareholder is fine.
6 MR. STOUT: A: I think it depends. There is a variety
7 of other factors at play, so --
8 MR. WALLACE: Q: Well, tell me about it. Where is the
9 harm that comes to the shareholder as long as you can
10 charge the rates you need to charge and have them paid
11 and have a figure like this? A throughput level like
12 this? Where is the harm?
13 MR. STOUT: A: I don't -- I think I'm not understanding
14 what you're meaning by "Where is the harm?"
15 MR. WALLACE: Q: To the shareholder. How does the --
16 if your rates are sustainable, and you're telling me
17 this isn't a death spiral, if your rates are
18 sustainable, where is the harm to the shareholder from
19 a declining throughput? Isn't conservation good?
20 Aren't we trying to do it everywhere?
21 MR. STOUT: A: Yes, we're trying to pursue
22 conservation. But there is still, as we look across
23 the system, it's the short-term and long-term risks,
24 and the change in throughput. So it depends on where
25 the fair return standard lies, or a variety of things
26 that you have to look at before I can say what's the

harm to shareholders.

Proceeding Time 1:44 p.m. T3A

MR. WALLACE: Q: Sir, help me. When we started out there was agreement, as I understood it, that risk meant a possibility of harm. I now want to know where the harm from a gradual throughput decline of 12 to 15 percent over 20 years, what it poses a risk of harm to the shareholder.

MR. STOUT: A: We've seen declining throughputs if you go back 10 years on the prior graph we looked at. That's just an ongoing trend that we've seen over the last 10 or so years. It's a continuing downward trend in throughout.

MR. WALLACE: Q: And that's what conservation is about. But where's the risk of harm? If you can't tell me, that's fine.

MR. STOUT: A: I guess I'm missing your point on the risk of harm.

MR. WALLACE: Q: How does it translate into harm to the shareholder if you're not into a death spiral, if your rates don't become non-competitive?

MR. DALL'ANTONIA: A: I guess I'll step in on that point. I think, Mr. Wallace, we'd agree that the immediate impact of the decrease in throughput has not caused us to not earn our ROE, if that's what you're

1 getting at, and we agree with that.
2 I think our point on what Mr. Stout is
3 referring to is should the trend continue and you end
4 up having a lower use per customer and increasing
5 rate, you start creating a situation where the rates
6 will get incrementally higher and higher. And not to
7 -- we're not TransCanada but just to go back to your
8 example, that's effectively what's happening there
9 where the loss of throughput is now manifesting itself
10 in a significant issue where I believe, subject to
11 check, I think they're asking for an ROE 13 and a
12 half, 14 and a half percent to reflect the business
13 risks that had been seen out there and now is coming
14 home to roost, and now that it's coming more immediate
15 they're asking for a much higher ROE. So if that
16 helps, I'm not sure if that's what you're trying to
17 get at.
18 MR. WALLACE: Q: Well, but do you see in this gradual
19 15 percent decline over 20 years any more risk than
20 you would see for conservation normally? I mean that
21 isn't -- what's Hydro's -- well, they're a different
22 situation. We'll leave it. Stick with yours. Do you
23 see -- I'm going to leave it. I'm going to move on.
24 It's okay. I think it's obvious.
25 How much would your throughput -- let's put
26 it this way. I understand from the evidence, your

1 throughput would have to decrease by 76 percent to put
2 your residential natural gas rates above Step 2 rates.
3 Is that correct?
4 MR. STOUT: A: Could you give me a reference for that,
5 Mr. Wallace?
6 MR. WALLACE: Q: Sure. B1-20.
7 MR. STOUT: A: Pardon, it's BC --
8 MR. WALLACE: A: B1-20, BCUC IR No. 1, page 3, and
9 there's a Table 1 there and I think it would be useful
10 to see. If you go -- sorry, I have -- no. Have you
11 got Table 1? And before you go to Table 1 I'll read
12 from the paragraph above it.
13 I'm sorry, are people finding that all
14 right?
15 MR. DALL'ANTONIA: A: Which IR was it, Mr. Wallace?
16 MR. WALLACE: Q: It's B1-20, BCUC IR 1, and it's page
17 3. I don't --
18 MR. STOUT: A: It's 1.2.1.1.
19 MR. WALLACE: Q: 1.2.1.1.
20 THE CHAIRPERSON: I've got it, yes.
21 MR. WALLACE: Okay.
22 THE CHAIRPERSON: At least I think I do. I've got page 3
23 with the tables.
24 MR. WALLACE: There's a Table 1, Throughput Decrease
25 Required to Increase FEI's Distribution Margin? Okay,
26 we have a few still looking.

MR. DALL'ANTONIA: A: Mr. Stout has it. I'll find it soon presumably.

MR. WALLACE: Q: Okay.

MR. DALL'ANTONIA: A: As long as you're asking him the question, not me.

MR. WALLACE: Q: I am and I think the majority of the Commission have it now. The paragraph above the table says:

> "The following table shows that FEI's natural gas throughput would have to decrease by 76 percent based on 2009 natural gas and Step 2 electricity rates, and by 83 percent on today's natural gas and Step 2 electricity rates."

And I take it that those are the decreases that would be necessary to put you into a death spiral.

Proceeding Time 1:49 p.m. T04A

MR. STOUT: A: Well, I think those are the -- in this example, and I point out one thing here. The carbon tax is not included in these rates, so that changes it slightly and more equalizes the percent of --

MR. WALLACE: Q: Sorry, the rates that you're using, the actual -- what would happen to your retail rates?

MR. STOUT: A: I don't believe it has the carbon tax in these ones, Mr. Wallace. That's -- but anyway, the point being, it does do this calculation. And that's

1 -- I don't know about that being the death spiral,
2 that you have to lose 75 to 80 percent of throughput
3 to be in a death spiral. So I think this is an
4 interesting calculation.
5 MR. WALLACE: Q: Well, forget death spiral for a
6 minute. For your rates to reach parity with Hydro,
7 you would have to lose 76 percent of throughout.
8 MR. STOUT: A: At the snapshot of commodity prices, and
9 the snapshot point in time, that's the math.
10 MR. WALLACE: Q: Okay. And right now you expect to
11 lose 15 percent of throughput over the next 20 years.
12 MR. STOUT: A: We've put a scenario that's in our
13 residential customers, in that one customer group, in
14 one scenario. And I pointed out the risk of the water
15 heat load, which is about 20 percent of total
16 throughput, which would add another 20 or 30
17 petajoules to that number, if that -- depending how
18 that evolves.
19 MR. WALLACE: Q: Sir, when you -- in Figure 7, your
20 outlook of residential throughput levels is your best
21 estimate at this time, isn't it?
22 MR. STOUT: A: As I put it, that's an estimate. We did
23 --
24 MR. WALLACE: Q: Yeah. It's your best estimate, isn't
25 it? Knowing everything you know?
26 MR. STOUT: A: We put in an estimate, a scenario, as it

1 says there. And we pointed out at the risk factors
2 that are out there that we haven't built in, because
3 we're hopeful we can -- the industry can overcome
4 those. But they are risk factors, and they are
5 significant when you look at the total volumes
6 involved in that marketplace.
7 MR. WALLACE: Q: But, sir, Figure 7 -- let's be clear
8 about this, because if I don't know what I can count
9 on in your evidence, it makes it very difficult.
10 Figure 7 is your best estimate of the outlook of
11 residential throughput levels over the next 20 years.
12 MR. STOUT: A: Yes. And we put that in our -- that was
13 from our conservation potential review in that. And
14 I'm just pointing out there are other factors around
15 that scenario that can come into play. Other risks
16 that can come into play.
17 MR. WALLACE: Q: Of course there could be other
18 scenarios. But this is your best one at this time,
19 knowing what you know today.
20 MR. STOUT: A: Yes. In a certain set of assumptions.
21 MR. WALLACE: Q: Thank you. Now, I'd like to turn to
22 your residential use figure -- your annual use per
23 customer. And again, go to Appendix 8. So your
24 evidence, Exhibit B1-9-6, page 31. And you state
25 there that the use per customer has declined 15
26 percent since 2002?

1 MR. STOUT: A: Sorry, that's on page 31?
2 MR. WALLACE: Q: Yes.
3 MR. STOUT: A: Yes. Fifteen percent.
4 MR. WALLACE: Q: And if we look at the graph --
5 MR. STOUT: A: That's in the -- below changes in energy
6 use, the second sentence on that page, right?
7 MR. WALLACE: Q: And if we look at the graph, Figure
8 21, over on page 32, we see the normalized use per
9 customer for existing customers.
10 MR. STOUT: A: Mm-hmm.
11 MR. WALLACE: Q: And that shows 2002 was really the
12 peak, wasn't it?
13 MR. STOUT: A: On this graph, yes.
14 MR. WALLACE: Q: And if you look at 2005 through, there
15 has been a slight decline, but it's essentially level.
16 MR. STOUT: A: No, I don't think that's quite correct.
17 MR. WALLACE: Q: Well, what would you say it goes from
18 --
19 MR. STOUT: A: Well, I'd say it's gone from around 98
20 to 90, so about half --
21 MR. WALLACE: Q: Well, no -- oh, wait, I'm sorry, I'm
22 reading the wrong figure. I was looking at -- mine is
23 pretty vague. I was going to say from 2008 to 2011,
24 it has gone from about 92 to 90.
25 MR. STOUT: A: From which period?
26 MR. WALLACE: Q: 2008 --

1 MR. STOUT: A: That's right. I think what's germane is
2 that's a pretty straight-line graph when you look at
3 it, from 2002 through to 2011, in a decline
4 perspective.
5 MR. WALLACE: Q: Yeah. But it has -- it seems to have
6 flattened a little, but 2008 and over? Actually went
7 up in 2009, even on 2010 and down a little on 2011.
8 MR. STOUT: A: Slight fluctuations. I think in these
9 things, Mr. Wallace, the year by year, it's the trend
10 line that's really important over the longer run in
11 these things.
12 MR. WALLACE: Q: Okay. And I suggest to you that the
13 trend from 2002 to 2008 is at a steeper decline than
14 from 2008 to 2011, which is essentially flat.
15 MR. STOUT: A: I wouldn't call it flat, but I -- you
16 know, when you talk about use per customer, that's for
17 the whole customer base.
18 **Proceeding Time 1:54 a.m. T5A**
19 MR. WALLACE: Q: Yes.
20 MR. STOUT: A: And we talked about adding new
21 customers, that sort of thing.
22 I think what's important too, what's
23 worthwhile looking at, if you looked at Figure 23,
24 which is on page 34 of that same document, and that's
25 showing the trend to new customers that we're adding
26 over the last couple of years. And what you see in

1 that graph, it's a bar graph, the red distribution
2 curve is kind of the average of existing customers on
3 the system around that 85 to 90 gigajoules range. The
4 blue chart shows new customers added over the last two
5 to three years, and what we're seeing is the movement
6 left or to lower average use rates for new customers
7 being added to the system overall.
8 MR. WALLACE: Q: Turning to Figure 25, the commercial
9 use for customer, and that -- and if you want to look
10 at the trend line this time I'm happy to, from 2005 to
11 2011 is an upward trend line.
12 MR. STOUT: A: That's right. We've seen it bounce
13 around over the last ten years. It's a very -- it's
14 not a very homogeneous customer mix, so it does tend
15 to bounce around.
16 MR. WALLACE: Q: Okay. And the industrial customers
17 are found in Figure 26, and since the last hearing in
18 2009 the trend line is significantly uphill since
19 then.
20 MR. STOUT: A: Past use per customer, I think you'd
21 have to -- I don't have it here but the total
22 throughput, but it's the total throughput on the
23 system, the amalgam of all the different customer
24 types, so you don't have customer count on these laid
25 out here.
26 MR. WALLACE: Q: No, I think your industrial customers

has probably declined, but the use per customer has gone up.

MR. STOUT: A: It's come up but that doesn't mean total industrial volumes have come up.

MR. WALLACE: Q: I didn't say it was.

MR. STOUT: A: Yeah, no, I'm just pointing that out.

MR. WALLACE: Q: Thank you.

I'd like to turn to regulatory risk, and you continue to employ Commission approved deferral accounts?

MS. LEENERS: A: We do.

MR. WALLACE: Q: And why does Fortis come and ask the Commission for deferral accounts?

MS. LEENERS: A: I believe deferral accounts actually are pretty standard across a lot of utilities in North America. The deferral accounts that we've had in place are primarily unchanged from year 2000. There's been some nuance changes over that time between 2000 and 2012, but why do we come forth and ask for deferral accounts? I believe the answer is what we're trying to do is avoid windfall gains and losses to customers as well as to the company, and we're also trying to make sure that the appropriate costs are borne by the customers or the company, so that the allocation of costs is appropriate.

MR. DALL'ANTONIA: A: And one other utilization, Mr.

1 Wallace, is also a timing issue. Some costs would be
2 incurred in the period, but they're more appropriately
3 recovered over a period of time. So deferral accounts
4 will also allow for that to occur.
5 MR. WALLACE: Q: You add 13 -- and deferral accounts,
6 though, do assure that if you find out something's
7 more expensive than you expected, that you will
8 recover the -- well, I won't say expensive. That if
9 an item that's in a deferral account results in a
10 greater expenditure than anticipated, that it will end
11 up being paid by the customers rather than absorbed as
12 a loss by the utility.
13 MS. LEENERS: A: I think I'd like to make it clear,
14 deferral accounts take overruns as well as underruns
15 on costs. So if it's in a deferral account, what we
16 would do is we would put it in that deferral account.
17 We would come forth either -- probably in a subsequent
18 period and ask for recovery through our next revenue
19 requirements application.
20 MR. WALLACE: Q: Okay. Well, my familiarity with
21 estimates generally is they can be within a range of
22 10 percent down or 35 percent up, and doesn't that put
23 the risk higher on the utility than on the customer if
24 you have that sort of situation?
25 MS. LEENERS: Well, I think, and Ms. Des Brisay spoke
26 about this this morning, some of our commodity

1 deferral accounts, actually we have returned I would
2 suggest some significant amounts of money back to
3 customers just due to commodity prices being
4 different. As to your parameter of 10 percent and 35
5 percent, if that's your experience, then I guess --
6 MR. WALLACE: Q: No, I'm talking more about projects
7 where obviously you put in what you know and it
8 doesn't go away and it's the unexpected that drives it
9 up. And in those situations a deferral accounts a
10 degree of certainty you wouldn't have otherwise of
11 recovery.
12 **Proceeding Time 1:59 p.m. T06A**
13 MS. LEENERS: I don't think having a deferral account in
14 place -- it may mitigate risk in the short term but it
15 won't mitigate risk in the long term. There is always
16 the risk deferral accounts may be changed. They may
17 not continue past the current test period. So, I
18 think once again they may mitigate risk in the short
19 term, but not the long term. And I believe in the
20 cost of capital decision, the Commission came to the
21 same conclusion is that deferral accounts are good for
22 mitigating short-term risk, but not long-term risk.
23 And the risks that we've spoken to for most of today
24 in Appendix H, they don't mitigate those long-term
25 type risks.
26 MR. WALLACE: Q: You have -- you had 13 deferral

1 accounts in 2000?
2 MS. LEENERS: A: We did.
3 MR. WALLACE: Q: And 17 in 2009?
4 MS. LEENERS: A: Subject to me counting them, but --
5 MR. WALLACE: Q: Okay. I mean, I could point you to a
6 reference and 2012 -- your rebuttal evidence,
7 actually, page 6. 2012, the number has grown to 24.
8 MS. LEENERS: A: That's correct. And just to clarify,
9 it's Exhibit B1-11, and it's IR 3.1. I can confirm
10 that in 2000 we did have 13, and in 2012 we did have
11 24. But what I'd also like to take this opportunity
12 to do is if you look at the margin-related accounts,
13 basically the GCRA accounts were just replaced by more
14 current accounts due to changes in the operations.
15 Energy policy are consistent since 2000. Non-
16 controllable, two new accounts were introduced since
17 2000, the insurance and BCUC levies, various.
18 Depreciation expense was new in 2012, and
19 then a majority of the differences, I'm going to say
20 six of the differences between the 13 and the 24, are
21 purely accounting changes.
22 A little bit of history here. We were
23 proposing to go to IFRS in 2010, and during that time
24 frame what we tried to do was line up the accounting
25 -- our regulatory accounting with our external
26 financial reporting. So what that did was, it was a

1 reclassification on the balance sheet. No impact on
2 risk. It was just a reclassification between
3 property, plant, and equipment down to deferral
4 accounts. So reclass on the balance sheet. And that
5 would make a majority of the differences.
6 I would also like to take this opportunity
7 that the deferral accounts and the mechanisms are
8 largely the same and we have said that in Appendix H
9 in our evidence -- largely the same as what was in
10 place in 2009, and minimal changes since 2000.
11 MR. WALLACE: Q: Thank you. I will -- I'm just about
12 to move to a new area. Before I do, a revised
13 exhibit, Exhibit H, page 31, Figure 34, has been
14 provided to me.
15 MR. GHIKAS: No one else has it yet, Mr. Wallace.
16 MR. WALLACE: Okay, it might be a good time to introduce
17 it. I'll deal with that.
18 MR. GHIKAS: So this would be -- this is the revised
19 figure 34 that I referred to earlier. This should be
20 B1-35, as I understand it.
21 THE HEARING OFFICER: B1-35.
22 **(COLOURED BAR GRAPH ENTITLED "REVISED: EXHIBIT B1-9-**
23 **6, APPENDIX H, PAGE 31, FIGURE 34", MARKED EXHIBIT B1-**
24 **35).**
25 THE CHAIRPERSON: And the primary difference is the
26 MICRA?

1 MR. GHIKAS: The only difference, Mr. Chairman, is in the
2 July, 2009 bar, the -- correct. So that -- the red
3 line. Midstream cost recovery charge.
4 Oh, and -- well, and the total. And the
5 total in that bar as well.
6 THE CHAIRPERSON: Okay.
7 MR. WALLACE: Did that have an exhibit number?
8 MR. GHIKAS: B1-35.
9 MR. WALLACE: Q: Okay. And I think that's been
10 sufficiently clarified that I don't need to ask any
11 further questions on that.
12 I'd like to turn to regulatory uncertainty
13 and lag. And I just -- I guess the nature of
14 regulatory risks is that there is a risk that the
15 government or the Commission will do something that
16 will unreasonably cause Fortis to fail to earn a
17 return on or of capital. What -- are you concerned
18 the Commission will make such a move? I mean, you
19 have a very -- we talked earlier about how well your
20 equity and return compare to other utilities.
21 MR. DALL'ANTONIA: A: Well, I won't -- on regulatory
22 risk, no, we cannot believe the Commission is going to
23 make an egregious decision against us. I think we, in
24 the past, have had a reasonable approach to
25 regulation. I think, you know, we have not suggested
26 that we're expecting that kind of decision. Or any

kind of decision like that.

MR. WALLACE: Q: No. You expect the Commission will listen to the evidence and make a decision on what's just and reasonable on all your applications.

MR. DALL'ANTONIA: A: Yes, that's correct.

Proceeding Time 2:04 p.m. T7A

MR. WALLACE: Q: Thank you. And Commission can't work on any other basis, can it?

MR. DALL'ANTONIA: A: I hope not.

MR. WALLACE: Q: Thank you.

Administrative penalties, you did raise the introduction of administrative penalties. They're really only -- penalties are only a risk if you do something you shouldn't and it's sanctioned by way of a penalty.

MS. LEENERS: Q: That is correct. The reason we put administrative penalties in this application, and we are showing it as higher, somewhat higher than 2009 as a risk, is administrative penalties are new. They were only brought out -- the amendment to the *Act* was only brought out in May. Our original understanding of the penalties was that it was going to cover off gas marketers and mandatory liability standards.

What came out in May was much much broader and it covered off any contravention of the *Act, Regulations, Commission Rule* or an order. And where

1 our concern arises or our uncertainty arises is some
2 of the areas in the *Act* may be subject to
3 interpretation, and by that what I mean is the company
4 may think they're acting in the best interests in
5 responding to an IR, a decision, et cetera, or any
6 part of the *Act.* However, the Commission may disagree
7 due to a different interpretation of what was asked
8 for. So that's where our concern comes from and our
9 uncertainty comes from.
10 And because they're brand new, I mean the
11 dollar values only got released, I believe, in
12 November, there's the uncertainty as to how the
13 Commission is going to apply these administrative
14 penalties. And once again there's just some
15 uncertainty as to if there is a difference of
16 interpretation, how that would be resolved.
17 MR. WALLACE: Q: Okay, and you have no reason to expect
18 that the Commission would impose a penalty that
19 wouldn't be proportionate to the misconduct?
20 MS. LEENERS: A: We have no reason to believe.
21 MR. WALLACE: Q: Thank you. I'd like to turn now to an
22 information response. It's in response to B.C.
23 Utility Customers IR 71 and it's in Exhibit B1-11.
24 MR. DALL'ANTONIA: A: 71 or 7.1?
25 MR. WALLACE: Q: I would think 7.1, yes, thank you.
26 I'm missing a period but that makes sense. I know we

1 didn't ask that many questions. And it's page 54 and
2 again that's B1-11 of -- page 54, and if there's
3 sections in that exhibit in paper it would be I think
4 the first section. The topic is pension funding,
5 question 7.1.
6 THE CHAIRPERSON: I'm going to have to start rehearsing
7 looking for these.
8 MR. WALLACE: Well, there's so much paper and the
9 numbering is not easy. I sympathize and thank you for
10 persisting and following. Have people got it now?
11 Good.
12 MR. WALLACE: Q: Okay, question 7.1, the question is:
13 "Please provide the latest forecasts of the
14 expected rate of return on the defined
15 benefit pension plan assets of the FortisBC
16 subsidiaries and the actuarial firm that
17 provided the forecasts. These forecasts
18 should include the overall expected rate of
19 return and the rates of return on the
20 following NASAC groups where appropriate:
21 Canadian equities, U.S. equities, non-North
22 American equities, bonds, and cash."
23 And the response is,
24 "The latest forecasts expected rate of
25 returns which are consistent with the
26 forecasts used for the 2011 year end on

1 defined benefit assets of FortisBC
2 subsidiaries is as follows: Canadian
3 equities, 7 percent; U.S. equities, 7.4
4 percent; non-North American equities, 7.4
5 percent; real estate, 6.5 percent; bonds,
6 3.4 percent; and cash 0. The above forecast
7 returns have been provided by FortisBC's
8 subsidiaries' actuary Towers Watson."
9 Now, the purpose of these forecasts, I take
10 it, is to ensure that realistic projections are made
11 of future returns on pension plans in order to ensure
12 the pensions aren't underfunded?
13 MS. LEENERS: A: That is correct. Towers provided this
14 response to this IR, but the underlying premise is
15 these asset returns are provided to management in a
16 blended rate so that we can assess the funding, the
17 future funding obligations, the pension expense, and
18 just basically the reasonableness, yes, of pension
19 assets.
20 **Proceeding Time 2:09 p.m. T08A**
21 MR. WALLACE: Q: Okay. And you raised that, and you
22 said you only had access to the overall expected rate
23 of return, not the individual asset group returns.
24 MS. LEENERS: A: To clarify, we had access when we met
25 with Towers in late 2011. We had access to a blended
26 return. And what that blended return would do is,

1 Towers would take all the information that -- they
2 take our asset mix, the weighting, our interline
3 investment policies, and they run it through a very
4 complex modeling system and they come up with a
5 blended return. So, when we sit down with Towers once
6 a year to come up with the obligation, the funding
7 requirements and the expense for pensions, we're
8 provided with a range of blended returns. We select
9 generally within that range about the average of the
10 median. And we can say that because we look at
11 benchmarking across all other -- across a bunch of
12 other companies in Canada that have defined benefit
13 plans as well.
14 So, just to clarify, it's Towers provided
15 the numbers or the returns in 7.1. We as management
16 agreed to review it and accepted a blended return. We
17 did not see the numbers broken down as they are in
18 7.1.
19 MR. WALLACE: Q: Okay. Now, and you approved the
20 average, I take it.
21 MS. LEENERS: A: We approved a blended rate, correct.
22 MR. WALLACE: Q: You approved the blended rate. Now,
23 are there -- I guess I want to ask you if you could
24 identify any of the -- or now that you've seen the
25 asset returns broken out here, do you accept them? Or
26 do you take issue with individual ones, bearing in

1 mind that if you have accepted the average, if you
2 don't accept it, there should be at least two things
3 that would change.
4 MS. LEENERS: A: I can't comment on the individual
5 rates, because once again our process is, we get a
6 blended rate and to put it in the context, the blended
7 rate was 6.75, that we used at the end of 2011. But
8 once again, that blended rate included all the line
9 items here. So, you've got Canadian equities, all the
10 way down to cash, which probably has, as stated here,
11 a very minimal rate of return.
12 So, what we do is, in order to assess
13 whether or not what we have accepted is reasonable, we
14 benchmark across a bunch of other companies that also
15 have defined benefit pension plans. And we try to
16 come up with an average rate. So we're not an
17 outlier, be it too high or too low.
18 Once again, Towers is the expert here. We
19 hire them as our advisor to come up with this rate.
20 What's also important to note with
21 pensions, to come up with your obligation, your
22 funding requirements and your expense each year, this
23 is but one assumption. There is many assumptions that
24 go into your pension evaluation. Another item -- and
25 they all have a material impact. So we would look at
26 all of the assumptions in a presentation from Towers,

weight them all, benchmark them to other companies, and that's how we come up with a reasonable estimate as to what we use for pensions. But once again, a blended return.

MR. WALLACE: Q: Okay. But you accepted the Towers blended 6.75 percent.

MS. LEENERS: A: I accepted that we -- yes, yes, as part of a range.

MR. WALLACE: Q: Okay. And what I am asking you is, now that you've seen the figures that underlie that, are there any exceptions you take to it, or are you simply saying, "Hey, it's up to Towers"?

MS. LEENERS: A: I am saying they are probably not out of line for the purposes of valuing pension obligations, funding, and expense. Towers did not put these numbers together for the purposes of determining a fair return for FEI or any of the other companies out there. This was purely for the purposes of pension funding. So do I accept the numbers that underlie? They don't seem out of line.

MR. WALLACE: Q: Okay. And the purposes -- and what -- but you don't dispute that these are the expected rate of returns that they would think you could get in these different categories.

MS. LEENERS: A: Once again, this is Towers, and it runs through a complex modeling system to come up with

these numbers. What it does -- what you have to appreciate also is, they look across all different types of investments to underlie Canadian equities, U.S. equities, et cetera. I'm not an expert on what a reasonable rate of return is, especially in light of not understanding in some cases what the underlying investments are.

MR. WALLACE: Q: I understand that. But you do understand that these are expected returns, and that they're for the purpose of helping you decide whether you can reasonably expect to earn the return on the pension assets that you hope to.

MS. LEENERS: A: I think that's fair.

MR. WALLACE: Q: Thank you. And how does that purpose differ from the purpose on an ROE hearing of looking at expected returns?

Proceeding Time 2:14 p.m. T9A

MS. LEENERS: A: I would have to defer that question to our experts.

MR. WALLACE: Q: Okay, thank you.

Now, you also, and this is where I am going to touch on what I don't believe is confidential information, but if it is and counsel stands up, I will be quiet very quickly.

In addition to the report from Towers Watson, my understanding is you had three other

reports of actuaries that have been filed confidentially in this proceeding?

MR. DALL'ANTONIA: A: Yes, that is correct.

MR. WALLACE: Q: And I don't want to ask about the contents of those reports at this time. I'll follow that with Ms. McShane. But I would like to identify them by name and ask you what their purpose is and how you use them, and I'd like to do that on the record if I can.

MR. DALL'ANTONIA: A: Sure.

MR. WALLACE: Q: Okay. The first report is the Mercer 2012 Fearless Forecast, which was an interesting title and I'll get you to explain that too, but a survey of Canadian and global capital markets and industry trends. You can confirm that you do get that report and can you explain why you get that report?

MR. DALL'ANTONIA: A: Yeah, I can, if you will, I'll try to explain all three.

MR. WALLACE: Q: Okay.

MR. DALL'ANTONIA: A: And then they're on the record so if you want to name them by name you can, but --

MR. WALLACE: Q: Thank you.

MR. DALL'ANTONIA: A: With regard to these three reports, in Exhibit -- the minimum filing requirements, I think it was in Exhibit A-6 of the Commission that laid out the minimum filing

1 requirements, there is the company-specific
2 information, there was -- then I think in Section B
3 was the other requirements. And one of the
4 requirements, I think it was number 9 or 10, asked for
5 pension plan forecasts, or forecasts of pension plan
6 and economists of expected return on equity.
7 So this was provided purely to satisfy and
8 be responsive to the Commission's directive. These
9 are not reports that we get on any regular basis. We
10 never look -- we don't see these. These are acquired
11 purely for the purpose of trying to be responsive to
12 the question. These are not reports that we get on a
13 regular basis. They're not reports that factor into
14 any of our analysis. I had not seen them until we
15 actually made the request, again to be responsive, if
16 that's helpful.
17 MR. WALLACE: Q: Okay. It probably is. I'd just like
18 to go through them individual then, just to make sure.
19 MR. DALL'ANTONIA: A: Sure.
20 MR. WALLACE: Q: The Mercer 2012 Fearless Forecast is a
21 report that you don't regularly subscribe to?
22 MR. DALL'ANTONIA: A: That is correct.
23 MR. WALLACE: Q: And the same with the Mercer Capital
24 Market Outlook, January 2012?
25 MR. DALL'ANTONIA: A: That is correct. The Capital
26 Market Outlook I believe is the U.S. forecast, if I

1 remember which one it is. I think it's the U.S.
2 outlook, not the Canadian, just to clarify.
3 MR. WALLACE: Q: And the Aon Hewitt Ltd. Capital Market
4 Report, you don't subscribe to either?
5 MR. DALL'ANTONIA: A: I don't believe we do. I will
6 confirm that. The only reason I hesitate is Aon, I
7 believe in one or two of our pension plans, is an
8 administrator and they report on the performance of
9 certain of our fund managers, but I don't believe we
10 subscribe to their -- but I will confirm that.
11 MR. WALLACE: Q: Okay, and just to be clear, the
12 purpose you purchased, and I assume these reports
13 don't come free, purchased these reports was solely to
14 provide them in this proceeding in response to a
15 Commission information request.
16 MR. DALL'ANTONIA: A: Correct.
17 MR. WALLACE: Q: Thank you.
18 I'd like now to turn to greenhouse gases,
19 which was of course a major subject at the time of the
20 last hearing, and I'd like you to turn to the
21 Commission decision and I'm going to read part of it.
22 MR. STOUT: A: Could you give us a reference for that,
23 Mr. Wallace?
24 MR. WALLACE: Q: Yes, I'm sorry. I'm not sure if the
25 decision, the 2009 decision is an exhibit, but I'm
26 assuming everybody has one.

1 MR. DALL'ANTONIA: A: We have a copy here.
2 MR. WALLACE: Q: Yes, thank you.
3 The Commission has copies of their
4 decision, I presume?
5 THE CHAIRPERSON: I think they're sharing, but yes.
6 MR. WALLACE: Okay, thank you. It's fine.
7 Q: I'd ask you to turn to page 20 and there's a
8 discussion of the climate change policies which were
9 quite timely and quite, I guess, subject to a
10 discussion at the last hearing. Under Provincial
11 Climate Change Policies there's a statement halfway
12 through that first paragraph:
13 "Since the publication of the B.C. Energy
14 Plan, a vision for clean energy leadership,
15 2007 Energy Plan, in February 2007, the
16 provincial government has taken a leadership
17 role in the fight against climate
18 change/global warming, and in the spring of
19 2008 Legislative session introduced the
20 following bills: Bill 15, the *Utilities*
21 *Commission Act;* Bill 16, *Greenhouse*
22 *Reduction, Renewable and Low Carbon Fuels*
23 *Requirements Act;* Bill 18, *Greenhouse Gas*
24 *Reduction Cap and Trade Act;* Bill 31,
25 *Greenhouse Gas Reduction Emission Standards*
26 *Statutes Amendment Act;* Bill 27, the *Local*

1 *Government Green Community Statutes*
2 *Amendment Act 2008* and the *Carbon Tax Act."*
3 So just prior to going into the 2009
4 hearing, there had been a real rash of legislative
5 initiatives on greenhouse gases?
6 **Proceeding Time 2:20 p.m. T10A**
7 MR. STOUT: A: There were a number, and others
8 subsequent to that as well.
9 MR. WALLACE: Q: Well, I'm going to suggest to you that
10 the majority of the action happened before the 2009
11 hearing, and that there have not been major
12 initiatives of this sort since the 2009 hearing.
13 MR. STOUT: A: Well, I wouldn't -- I will agree there
14 were a number of them before. The *Clean Energy Act*
15 was passed in 2010 and brought into legislation. And
16 as we have noted in the evidence, that was -- went to
17 further kind of strengthen the whole environmental
18 standards. And one issue that was addressed in there
19 was a change to policies regarding demand-side
20 measures. And that one explicitly dealt with
21 switching from electricity to natural gas. And we had
22 proposed at times prior that natural gas could be a
23 demand-side measure for the electric side of the
24 energy equation. And that was taken away in the *Clean*
25 *Energy Act* as one example of ongoing kind of
26 structures around natural gas versus electricity,

1 competitive position.
2 MR. WALLACE: Q: Okay, and around the same time,
3 weren't there -- or around all these introductions,
4 weren't there suggestions of electrification, and
5 moving from gas as a fuel, preferred fuel, for heat,
6 space heating, to electricity?
7 MR. STOUT: A: Yes, there was talk of electrification,
8 that's right.
9 MR. WALLACE: Q: And that hasn't happened, has it? In
10 the sense of moving -- there is no preferred fuel for
11 space heating -- official preferred fuel for space
12 heating in British Columbia.
13 MR. STOUT: A: There is not an official preferred fuel.
14 I think when you go through the pecking orders of
15 things, that gets back, then, to the discussions we
16 had earlier around the cost competitives of gas and
17 installation costs. So other factors come into play
18 besides just the greenhouse gas and clean energy
19 regulations.
20 MR. WALLACE: Q: Understood. But the government has
21 not taken a position on a preferred fuel, gas or
22 electricity, for space heating.
23 MR. STOUT: A: No.
24 MR. WALLACE: Q: It's up to consumers.
25 MR. STOUT: A: Well, it's up to consumers, builders,
26 developers, and municipal governments have taken some

1 actions as well, so it varies.
2 MR. WALLACE: Q: Okay, and on page 21, and I hope I've
3 got the right page here -- or, I'm sorry, on page 22
4 there is a discussion of carbon tax. And it says
5 "A Terasen witness testified, and there are
6 calls from certain academics and others that
7 say in order for government to get the
8 consumption of GHGs down, it's going to have
9 to move to $300. So that's $15 a gigajoule.
10 Not $1.50 on top of the commodity and
11 delivery rates. $300 is per tonne, or is
12 also the carbon tax assumed by 2026 in the
13 Nybor report discussed later in this
14 section.
15 Terasen submits that the carbon tax
16 reduces natural gas competitiveness relative
17 to alternative energy sources that are not
18 subject to the carbon tax and will help to
19 sensitize customers to the level of GHG
20 emissions they generate by sending them
21 price signals. The provincial carbon tax
22 increases the business risks of TGI."
23 And I think you said that the carbon tax today is
24 $1.49 per gigajoule?
25 MR. STOUT: A: $1.49, something. $1.50.
26 MR. WALLACE: Q: $1.50 will do.

MR. STOUT: A: $30 per tonne.
MR. WALLACE: Q: And it -- there does not appear to be any current plan to move it beyond the $1.50 a gigajoule?
MR. STOUT: A: I have not heard of anything to move it further upwards or to reduce it.
MR. WALLACE: Q: Yeah. And we're not hearing of rumours of going to $15 a gigajoule these days?
MR. STOUT: A: No. No. And we've stated that. That was $1.50 was what was there at the time.
MR. WALLACE: Q: Emissions trading has gone from being a very active issue to a semi-dormant one here and throughout North America?
MR. STOUT: A: The emissions trading -- the overall within the *Greenhouse Gas Act*, various *Acts* and *Clean Energy Acts*, the target of 33 percent reduction in GHG emissions, and activities along that line has not changed, though, in B.C. and B.C.'s policies. And does not appear to be changing.
MR. WALLACE: Q: Okay, and the Western Climate Initiative has collapsed?
MR. STOUT: A: It's not proceeding, no.
MR. WALLACE: Q: And I would suggest to you that the view of natural gas is much more positive today than it was in 2009.
MR. STOUT: A: I would say the view of natural gas in

B.C. is much more positive viewed as an export opportunity. Obviously with the LNG projects and the government's targeting those. The government has talked about natural gas from the transportation sector. Again driving economic and greenhouse gas reductions.

Proceeding Time 2:25 p.m. T11A

So I'd say on that side of things, things have changed. In the other downstream end uses, residential, commercial applications, policies have not changed. They're more favourable towards natural gas in that segment.

MR. WALLACE: Q: And just to give you an idea -- well, we've talked about it earlier but it turns out it is an exhibit -- is not an exhibit, you're familiar with British Columbia's natural gas strategy document?

MR. STOUT: A: Yes.

MR. WALLACE: Q: And it's entitled Fuelling B.C. Economy for the Next Decade and Beyond?

MR. STOUT: A: Yes.

MR. WALLACE: And, Mr. Chairman, I'd like to introduce that as an exhibit. I have some copies which I'll hand up and I'll file an electronic copy with the Hearing Officer.

THE HEARING OFFICER: Marked Exhibit C6-17.

("BRITISH COLUMBIA'S NATURAL GAS STRATEGY, FUELING

B.C.'S ECONOMY FOR THE NEXT DECADE AND BEYOND", MINISTRY OF ENERGY AND MINES, MARKED EXHIBIT C6-17)

MR. WALLACE: Q: Mr. Stout, I suggest to you that Document C6-17, the Natural Gas Strategy, would have been unthinkable in 2009

MR. STOUT: A: I don't know if unthinkable is the word, but unlikely perhaps at that time.

MR. WALLACE: Q: That's sufficient. If you want to add, go ahead, but --

MR. STOUT: A: Well, I think as I pointed out that the natural gas strategy, as I said, is focused to the greatest extent on the upstream industry and the export of natural gas for the public good in British Columbia. It does target the downstream sector in the transportation side of things, which is a very nascent market. It also speaks to ongoing push for natural gas efficiency and commercial and industrial applications and being more efficient and cost-effective, going through that side of things. So it does favour natural gas. As I said, it's more in an upstream context and a broader provincial economic context than in a traditional customer mix context.

MR. WALLACE: Q: Thank you, and I understand the emphasis, and I guess the main point is that natural gas isn't looking like the villain it was in 2009, is it?

MR. STOUT: A: Again, I don't think that's a characterization I would made at that time either.

MR. WALLACE: Q: We can leave it at that and move on to allowed versus actual ROE is my next topic. And you, I think, would agree that Terasen and Fortis, Terasen previously and Fortis now have, generally speaking, earned an ROE above the allowed ROE over the last 15 years?

MS. LEENERS: A: I believe over the last 15 years -- actually I'd like to clarify. In 1994, '98 and 2010 we earned below the allowed ROE and there's some years where we're just slightly over or -- so in the majority of the years we probably were over the amount.

MR. WALLACE: Q: Well, way beyond the majority. From back to '94, which is 18 years ago, you missed earning the ROE twice or three times.

MS. LEENERS: A: Three times.

MR. WALLACE: Q: Three times.

MS. LEENERS: A: During that time frame, though, we were in a PBR environment and there was two PBR environments. I believe one was 1998 to 2001, subject to check. The other one definitely was 2004 to 2009. And 2004, the first year of the PBR, and this PBR environment was negotiated through the regulatory process and approved by the Commission, but in 2004

1 the overearn was very very minor. But in 2005 through
2 2009, the overearn was on average higher than any
3 other time in the 15 years. And during the PBR, the
4 PBR mechanism was put in place to incent management of
5 the company to achieve savings and efficiencies such
6 that they could share it with customers and embed
7 those savings and efficiencies in reductions in future
8 rates.
9 **Proceeding Time 2:30 p.m. T12A**
10 And I think 2005 through 2009, the
11 company's management was successful in doing that, and
12 it shows through the savings. The savings were
13 primarily driven by O&M and by -- I believe it was
14 depreciation savings. And both those parameters,
15 during the PBR mechanism, were driven by formula. And
16 so once again we were successful in achieving savings
17 for customers.
18 MR. WALLACE: Q: Okay. Can we turn to the graph I
19 think you're referring to, which I think is in the
20 rebuttal evidence at page 3? The rebuttal evidence
21 being Exhibit B1-32.
22 And that graph shows graphically,
23 obviously, the situation. In '94, you miss. In '98,
24 Terasen missed, or Fortis/Terasen, missed by a little
25 bit. And in 2010, it's almost impossible to tell
26 whether you went below the ROE or not.

1 MS. LEENERS: A: We were below the ROE allowed.
2 MR. WALLACE: Q: But it was obviously a very minimal
3 amount.
4 MS. LEENERS: A: We were below the ROE.
5 MR. WALLACE: Q: You won't agree with me that according
6 -- I'm looking at the graph. It looks like you were
7 very close to the ROE.
8 MS. LEENERS: A: There is an IR that responds to that.
9 I believe we were below by $1.2 million.
10 MR. WALLACE: Q: Okay. On how many? What's your
11 allowed ROE?
12 MS. LEENERS: A: The allowed was $96 million.
13 MR. WALLACE: Q: Thank you. And would you agree with
14 me that this graph shows that the risk of Terasen
15 missing its allowed ROE is minimal, over the last 15
16 years?
17 MS. LEENERS: A: I don't think you can look at risk at
18 hindsight. Risk is a look forward analysis. We did
19 achieve earnings above our allowed, or ROE
20 historically. But I don't think over-earning in the
21 past reduces the risk of over-earning in -- or reduces
22 the risk of not achieving our allowed ROE in the
23 future. It doesn't contribute or provide a future
24 allowed -- or over-earnings.
25 MR. WALLACE: Q: Well, it shows that you're in a
26 business and a regulatory environment that is pretty

1 predictable and stable, doesn't it?
2 MR. DALL'ANTONIA: A: I'd agree with that.
3 MR. WALLACE: Thank you. That completes my questions.
4 Thank you.
5 THE CHAIRPERSON: Thank you, Mr. Wallace.
6 MR. FULTON: Mr. Chairman, it's been pointed out to me
7 that Exhibit B1-35, the page references on the
8 document is page 31, but it should be page 51.
9 THE CHAIRPERSON: Yes.
10 MR. FULTON: British Columbia Pensioners' and Seniors'
11 Organizations.
12 **CROSS-EXAMINATION BY MR. KUNG:**
13 MR. KUNG: Q: Good afternoon, Panel, witness panel. I
14 won't be too long. Mr. Wallace covered much of what
15 we had intended to cover. But I will ask a few
16 questions, following up on some of what he said, and
17 what's on the record.
18 I'm going to start by asking the panel
19 whether you are familiar with your 2011 corporate
20 report.
21 MR. STOUT: A: Not by --
22 MR. KUNG: Q: You are aware that it exists, and --
23 MR. STOUT: A: We are -- yes.
24 MR. KUNG: Q: Right, okay. I'm just going to read out
25 a very short quote from Mr. Walker's introduction. I
26 don't think there is a need to introduce the document,

1 but if you would prefer that, then I'm happy to
2 produce that.
3 **Proceeding Time 2:35 p.m. T13A**
4 In the introductory remarks Mr. Walker, CEO
5 of FortisBC, says:
6 "With $139.1 million in regulated earnings
7 from our gas operations and $47.5 million
8 from our electric operations, 2011 was a
9 record year."
10 Is that something that you are familiar with?
11 MR. DALL'ANTONIA: A: Yes.
12 MR. KUNG: Q: And can you explain to me please what
13 that means, a record year?
14 MR. DALL'ANTONIA: A: I believe it's referring to
15 earnings compared to past years.
16 MR. KUNG: Q: And it was the most earnings compared to
17 past years.
18 MR. DALL'ANTONIA: A: Yes, it'll be driven by the fact
19 that our rate base increases year over year, so that
20 just by the simple math of achieving your allowed ROE,
21 you would expect your earnings to increase year over
22 year based on the growth of your rate base.
23 MR. KUNG: Q: And so you would expect if that trend
24 continues for 2013 to be a new record.
25 MR. DALL'ANTONIA: A: We have increased rate base
26 growth and assuming that this interim ROE decision

1 isn't vastly different than what we currently have,
2 that would be the case given that our rates are
3 interim.
4 MR. KUNG: Q: Thanks. I'm going to turn now to --
5 mostly to Appendix H of B1-9-6. That's the company's
6 evidence around business risk. I'll give you a moment
7 to pull that up.
8 MR. DALL'ANTONIA: A: Do you have a page, Mr. Kung?
9 MR. KUNG: Q: I'm going to start -- the stuff around
10 throughput has been covered, so I'm going to start on
11 page 14, which is business risk and economic
12 conditions. And in the -- is everyone with me here?
13 MR. DALL'ANTONIA: A: Yes, we're there.
14 MR. KUNG: Q: So it's the second last sentence of the
15 final paragraph that says:
16 "Lower projected economic growth and lower
17 housing starts can be expected to make it
18 more difficult for FEI to add new customers
19 in throughput."
20 Do you see that?
21 MR. DALL'ANTONIA: A: Yes.
22 MR. KUNG: Q: Would you agree with me that those
23 factors equally impact B.C. Hydro, lower economic
24 growth and lower housing starts?
25 MR. STOUT: A: Not in the same way. And if you look --
26 well, in electric utility, if you're building a new

building today and you're not going off grid, then you will connect to the electric provider in the area, so the electric provider will capture approximately 100 percent of that market, which is not the case when you start looking at gas and other alternatives.

MR. KUNG: Q: But when it comes to just adding new customers, the two factors that are listed there, lower projected economic growth and lower housing starts, those impact B.C. Hydro as well, would you agree with that?

MR. STOUT: A: Again it's -- they don't necessarily track the same way. So there are other risks facing adding gas customers than there are to adding electric customers.

MR. KUNG: Q: I understand, but they would also have, you know, directionally the same impact, right?

MR. STOUT: A: They would have less than the prior year, that's right, yes.

MR. KUNG: Q: Okay, thank you. Moving ahead to electricity prices and page 20, Figure 12, this is a comparison between residential operating cost differences between natural gas and electricity across four provinces, is that correct?

MR. STOUT: A: Yes, that's right.

MR. KUNG: Q: And that confirms the 45 percent price advantage that had been referred to in your previous

1 conversation with Mr. Wallace?
2 MR. STOUT: A: Yes, that's subject to the notes below
3 on the conditions there, yeah, but they're done on the
4 same comparative basis. Lower than what we see in
5 Alberta and Ontario.
6 MR. KUNG: Q: And just over the page there's a -- I
7 think the second sentence -- or the first full
8 sentence that starts at "Although B.C. Hydro must
9 invest new generation facilities and transmission
10 infrastructure to meet growing demand," it says:
11 "…it is uncertain how the cost of the future
12 investment will impact B.C. Hydro rates,
13 given the government policy of maintaining
14 low electricity prices in the province."
15 Do you see that?
16 MR. DALL'ANTONIA: A: Yes.
17 MR. KUNG: Q: Can you agree with that, at least
18 directionally, that the impacts of these investments
19 is up, the rates will go up?
20 MR. STOUT: A: All else equally you'd expect, but I
21 think we discussed with Mr. Wallace there are a number
22 of government policies and factors coming into play
23 that seem to be changing that outlook or what the
24 impacts may be, and maybe one of the largest is the
25 whole self-sufficiency standard, which really impacts
26 the need to build that new generation and transmission

1 going forward. So that needs to unfold a bit yet.
2 **Proceeding Time 2:40 p.m. T14A**
3 MR. DALL'ANTONIA: A: And there also may be a timing
4 issue, whether they increase the use of the deferral
5 accounts to push the -- any increases, or reflect the
6 increased capital may not happen in the current time
7 frame, and then you push that further out.
8 MR. KUNG: Q: Certainly. But directionally there is
9 really only one way these are going, these investments
10 will impact rates.
11 MR. DALL'ANTONIA: A: To the extent that they're
12 increasing capital and they're recovering it from B.C.
13 Hydro customers, yes, rates would go up.
14 MR. STOUT: A: As we've shown, I think we expect the
15 same thing on gas rates, given where they are today.
16 Most people do.
17 MR. KUNG: Q: It comes back to the conversation you had
18 with Mr. Wallace around volatility being preferential
19 to just constant increase.
20 I want to turn to the political risk. And
21 you have already had a bit of a conversation about
22 this. And you'd identified government policy as a
23 risk. In Appendix H you have identified that risk as
24 the same as 2009. Is that correct? It's your table
25 on --
26 MR. DALL'ANTONIA: A: Yes, that's correct.

1 MR. STOUT: A: Yes.
2 MR. DALL'ANTONIA: A: On page 5. We -- and at Table 2,
3 page 5, we did the comparison of 2009 and we ranked
4 political as the same.
5 MR. KUNG: Q: And you've already been through, you
6 know, the sequence of various legislation and
7 government policy, so I don't repeat that. But would
8 it -- is it fair to say that the FortisBC Utilities
9 have been active in advancing their interests before
10 the provincial government?
11 MR. STOUT: A: Could you maybe give me --
12 MR. KUNG: Q: It's my understanding, and subject to
13 your confirmation, that you've met and worked with the
14 Ministry of Energy and Mines and indeed at the
15 Premier's level to put forward your company's
16 interests. Is that fair?
17 MR. STOUT: A: Well, I think we've worked to put
18 forward -- I wouldn't say just our company's interest,
19 but the interests of our customers as well. So maybe
20 pick one example is the initiatives around the
21 *Greenhouse Gas Reduction Act*, and Section 18, to
22 promote the use of natural gas for transportation.
23 MR. KUNG: Q: Mm-hmm.
24 MR. STOUT: A: And we're taking a lead in that because
25 we see that as one of the opportunities to mitigate
26 the -- or help to mitigate some of the declines we're

1 seeing in the throughput on the rest of the system.
2 It's early stages, and still to be played out, but
3 we're trying to be proactive in those fashions to
4 manage -- help manage the risk to our customers.
5 MR. KUNG: Q: And I'm sure you will all be looking
6 forward to reading our subs on that this Friday. But
7 would it be fair to say that legislation like the
8 *Greenhouse Gas Reduction Act* is the result of your
9 conversations with this government?
10 MR. STOUT: A: Well, ours or other participants such as
11 Westport Innovations, who make the engines, and IMW
12 industries. But it's a variety of things, and I think
13 there is also a look from the government with
14 promoting LNG exports, and looking at those things of
15 how to balance the overall impacts of the -- and still
16 try to meet the greenhouse gas targets that are still
17 in place.
18 MR. KUNG: Q: And would you agree that those provide a
19 benefit to Fortis as a business?
20 MR. STOUT: A: I think they provide a benefit --
21 MR. KUNG: Q: They are advantageous.
22 MR. STOUT: A: -- overall, and to the extent that we
23 are able to be in debt throughput of the system, that
24 should help everyone.
25 MR. KUNG: Q: Mm-hmm. And those are programs that did
26 not exist in 2009. Or rather policies.

1 MR. STOUT: A: Those policies -- well, in the -- I
2 believe in 2007 there was mention in the *Acts* at that
3 time of promoting natural gas as a transportation
4 fuel. We first put forward the concept in our long-
5 term resource plan in 2008, and in our revenue
6 requirement in 2009 proposed a transportation program.
7 That wasn't approved, so it's been a three- or four-
8 year journey here to work through that. But it's
9 something we were thinking about at that time, and had
10 actually talked about in our resource plan in 2008.
11 MR. KUNG: Q: And just for those who may not be as
12 familiar with a particular greenhouse gas regulation,
13 one of the elements of that is for ratepayers,
14 essentially, to provide an incentive to the tune of
15 around $60 million to incent carriers to buy the
16 natural gas vehicles. Is that correct?
17 MR. STOUT: A: That's correct. It's some $62 million
18 available for incentives through spring of 2017.
19 MR. KUNG: Q: And the program is going fairly well?
20 **Proceeding Time 2:45 p.m. T15**
21 MR. STOUT: A: We have run the first round, so we've
22 had -- we think what we'd call good success. More
23 than what we thought we might have the first year.
24 There is a limited capacity to update that program.
25 We've laid out in our evidence here the volumes we see
26 to 2017. Those would be around 2.5 to 2.8 petajoules

1 of gas, providing we can have enough LNG supply, and
2 in context, as we talked with Mr. Wallace on 180
3 petajoules of total throughput, 170 to 180, it's still
4 a very small volume over the next five years. We'll
5 see how the world unfolds.
6 MR. KUNG: Q: But in a context where since 2009 you've
7 seen your total throughput increase, this will also
8 increase throughput. Is that fair?
9 MR. STOUT: A: We've seen some throughout increase in
10 the industrial sector for things like cement plants
11 switching back to natural gas in the short term.
12 Those, as we have experienced over time, are -- they
13 can be fleeting depending on the market is doing in
14 those particular industries and the relative prices of
15 commodities. We look at this more as the balance
16 around the residential commercial sector where we're
17 losing the throughput on the residential sector to a
18 large degree.
19 MR. KUNG: Q: Do you see the amendments that were made
20 to the demand-side regulation as being favourable to
21 Fortis? I'm speaking in specific about those that set
22 the cost effectiveness test.
23 MR. STOUT: A: So the modified cost test?
24 MR. KUNG: Q: The modified TRC.
25 MR. STOUT: A: I think it's beneficial to customers and
26 it allows us to offer more programs for customers and

more diverse programs, and so in that regard I think it works to the customer's benefit, is how they're designed. The program is designed that way.

MR. KUNG: Q: And that came in part from your communications with the Ministry about the difficulties that those programs were having? Is that fair to say?

MR. STOUT: A: Both ourselves and customer groups were involved in those discussions with the Ministry to try to come up with ways that would make more cost-effective programs available to customers, yes. But again, I guess that goes towards the drive for efficiency and cost-effectiveness is what the government is trying to achieve, as well as GHG reductions.

MR. KUNG: Q: And likewise the natural gas strategy that we just had circulated was something that you were in discussions with the province about?

MR. STOUT: A: We talked with -- we talked with the government on a couple of components, the transportation and the bio-gas pieces, not the upstream strategy and some of the other issues addressed in there. So we had some input, like I said, along with others in those areas.

MR. KUNG: Q: So would you agree that relative to 2009, things are looking better as far as the policies of

this government towards natural gas?

MR. STOUT: A: I think they've -- I'd say they've taken a step in a helpful direction. But as we've seen with the LNG projects for example in the north and all of these things, and kind of the slowness, it still takes some time for these to play out. And you know, we're talking LNG projects that everyone's saying 2018, 2020 more likely is when we'll know where we're at, and I think we're seeing the same thing with the transportation section. It's going to take some time to build and catch hold. So steps in the right direction in these things, but they are still a ways out and uncertain as to where they're going to land and what total impact they'll have.

MR. DALL'ANTONIA: A: And I'd just like to add to what Mr. Stout is saying there. I think Mr. Stout is right. To Mr. Kung, your point about our policies improving, I think the introduction of the natural gas strategy is really a reflection of the fact that we are sitting on this resource, and that if the government doesn't take action and help develop markets for it, it's going to sit there. So they see an opportunity that's available to them now.

So the policies that have come out have been for LNG export and even the use of transportation. It's not because they want to use

natural gas. They want to reduce greenhouse gas emissions. So it's a greenhouse gas reductions regulation, which is the ones Mr. Kung is referring to. So again, it's done in the context of how you get -- reduce greenhouse gas emissions.

And if you go back to the *Clean Energy Act* as the single most important piece of legislation in this area since 2009, we haven't really spoken to it specifically but it has that impact on how gas is viewed in the context of space and hot water heating, and I'm actually just going to point to a decision of the Commission on the Price Risk Management Plan, where they accepted that one of our objectives as a company was to be competitive with electricity in our Price Risk Management Plan, and that objective was somewhat brought into question because it wasn't viewed potentially as consistent with the *Clean Energy Act,* which one of the objectives in the *Clean Energy Act* is to reduce greenhouse gas emissions, therefore should electricity be used at the margin instead of natural gas.

So I think it is a changing energy environment, policy environment. I think natural gas, because of the resource we have, can now be used within B.C. in different application that will be beneficial to the economy to the extent that it

1 produced costs for transportation with the added
2 benefit of reducing greenhouse gas emission.
3 **Proceeding Time 2:50 p.m. T16A**
4 But to the direct application which most of
5 our customers use, which is space and hot water
6 heating, there hasn't been a policy that would suggest
7 the government has changed in their view that
8 greenhouse gas reductions still need to be achieved.
9 And if you look at the situation in Alberta versus
10 Ontario, I believe our self-sufficient targets are at
11 the higher end, and if you look at their overall
12 envelope of emissions, they had different levers to
13 pull. We are generally a hydro driven province, so
14 most of our electricity is considered clean. To get
15 those efficiency reductions you've got to look at
16 transportation, and I think you also have to look at
17 the use of natural gas in the space and hot water
18 heating, which is why we feel that the policies are
19 still trending to a more negative position for our
20 core markets.
21 MR. KUNG: Q: As compared to 2009?
22 MR. DALL'ANTONIA: A: Yes.
23 MR. KUNG: Q: You've mentioned throughout and we've had
24 some conversation about the impact of the carbon tax
25 as adding to the cost that your customers are paying
26 and which therefore are a business risk. Is that

1 correct? Is my understanding correct?
2 MR. STOUT: A: A business risk in that it increases the
3 effective price of natural gas compared to other --
4 compared to electricity and other clean energy forms
5 that don't pay the carbon tax.
6 MR. KUNG: Q: Is Fortis opposed to the carbon tax?
7 MR. STOUT: A: No, we haven't said we're opposed to the
8 carbon tax. I think that's one of those -- again,
9 back to the public policy issues where the government
10 is going, it's a fact of life, and you look to manage
11 your business within those constructs and constraints.
12 MR. KUNG: Q: Have you had conversations in the context
13 of your broader meetings with the province around the
14 carbon tax?
15 MR. STOUT: A: We talked about when carbon tax was
16 brought it and cap and the cap and grade was
17 discussed, we had some discussions. And discussions
18 lately with both the current government and the
19 opposition. We don't see a lot of change coming
20 there. I don't think there's an appetite to increase
21 the carbon tax that we've seen yet from anyone, nor is
22 there an appetite or fiscal reality of being able to
23 reduce the carbon tax by the sounds of it. So we
24 don't see that going down in the future.
25 MR. KUNG: Q: And you don't have a position on it
26 anyways, so it's --

1 MR. STOUT: A: Well, we can have a position but then it
2 is -- as I said, then you move on to where the world
3 is and what you do about it.
4 MR. KUNG: Q: Thank you. I'd like to turn to the risk
5 you've identified of aboriginal rights and title. I
6 don't have a reference in Section 8. I wanted to
7 speak about it generally. You've identified the
8 constitutional duty to consult and accommodate First
9 Nations when they are affected, and have stated that
10 British Columbia is different from other provinces
11 because of two reasons. One is the number of First
12 Nations and two is the difference in treaty status.
13 Is that correct?
14 MR. STOUT: A: Yes, that's right.
15 MR. KUNG: Q: Now, similar to my question earlier about
16 economic risk and the kind of global challenges faced
17 by other utilities, would you agree with me that B.C.
18 Hydro faces the same risks as Terasen in terms of
19 Aboriginal rights?
20 MR. STOUT: A: I think they face the same risks within
21 the province, they have to deal with the same issues
22 on a going forward basis.
23 MR. KUNG: Q: Isn't it also true that their obligation
24 is much higher than yours because they are a Crown
25 corporation.
26 MR. STOUT: A: I think their obligation to consult and

accommodate, and they get swept up in the accommodation -- the Crown duty to accommodate which doesn't lie with the business. However, the practical nature of things is that as a business we end up having to accommodate with a small "a" perhaps, we have to consult and understand the issues and accommodate in that regard. So I think the practicalities are that we all get caught up in dealing with those issues no matter what project we're trying to build.

MR. KUNG: Q: But you would agree that relative to B.C. Hydro the impact of this duty is significantly less.

MR. STOUT: A: The impact may be less in that if they are required or are accommodating on behalf of the Crown through costs paid in electric rates that maybe should have been through taxes and Crown accommodation, that may have an impact.

MR. KUNG: Q: My understanding -- sorry, go ahead.

MR. STOUT: A: That may have an impact that's different.

MR. KUNG: Q: My understanding of the jurisprudence around this question is that it's the duty of the -- I see my friend standing and I -- I will rephrase this question.

Proceeding Time 2:55 p.m. T17A

The difference from not being a Crown corporation, which Fortis clearly is not, is that they

1 don't have to uphold the honour of the Crown. Is that
2 -- I didn't rephrase it well enough.
3 MR. GHIKAS: I have to stand. I think we're -- I think
4 my friend gets the point.
5 MR. KUNG: I'll move on.
6 Q: So, I just want to return to the act of
7 consultation and accommodation, and the scope. It
8 would be fair to say that for B.C. Hydro that is a
9 much more significant part of their development
10 process?
11 MR. STOUT: A: I wouldn't say that. I think there is
12 an ongoing -- I think there is an ongoing need to
13 communicate with First Nations and work with them,
14 because we have -- we deal with about 90 First Nations
15 across the province, with our operations, on an
16 ongoing basis. So there is the ongoing relationship
17 part. I think we've seen in the province no matter
18 who you are and what you try to build, there is
19 definitely a great -- a large component of dealing
20 with First Nations and being able to build -- whether
21 it's an electric transmission line, a pipeline, a dam,
22 an LNG plant, what have you, that comes into play. So
23 I think the issue of dealing with First Nations is at
24 a very high level for everyone in B.C. compared to
25 other areas.
26 MR. DALL'ANTONIA: A: And I think I'd also argue from a

First Nations' perspective, I'm not so sure they would think that we -- they would treat us differently than B.C. Hydro. I think they would see the fact that infrastructure is being built, or maintained, on their traditional lands and they would view that whether you're B.C. Hydro, an agent -- and the Crown corp, or FortisBC as an investor-owned utility. They're not going to make that distinction. They're going to approach it for the protection of their rights, and what their demands would be in an accommodation consultation. Who they're dealing with might be a bit different, and how they deal with that situation, but their expectations aren't going to vary, I don't believe.

MR. KUNG: Q: And you have raised -- you know, you raised my follow-up question. How they deal with it is different because of the different nature of your ownership. The avenues -- the options available to them, legal options available to them.

MR. DALL'ANTONIA: A: I can't speak to the legal options. I do know that in the situations where we have tried to build infrastructure, we have built infrastructure. The amount of effort that goes into First Nations consultation is quite significant. Quite significant.

MR. KUNG: Q: Thanks. I'm going to move on to the

1 automatic adjustment mechanism and largely this
2 information is at B1-9. You don't need to turn to
3 that, but just for the record.
4 My understanding is that Fortis's main
5 concerns about the use of an automatic adjustment
6 mechanism formula are that (a) the market is complex,
7 and a formula that's based on a couple of variables
8 may not yield a fair ROE, and (b) that the efficiency
9 of that formula is illusory, in that it needs to be
10 frequently reset. Is that fair?
11 MR. DALL'ANTONIA: A: I think that's a fair
12 characterization.
13 MR. KUNG: Q: And you've suggested a periodic reset or
14 review of every three to five years?
15 MR. DALL'ANTONIA: A: Correct.
16 MR. KUNG: Q: Is there -- can you be more specific
17 within that three to five years? What is kind of an
18 optimal time frame? I'm just trying to book my
19 vacations.
20 MR. DALL'ANTONIA: A: It depends on our view of the
21 fair ROE and the Commission's view of the fair ROE.
22 No, there -- that position really comes from the fact
23 that if you go back to 1994, and I may have the dates
24 slightly off, but I believe that there was '94 and I
25 think '99, or thereabouts, was one review. And then
26 again we were in front of the Commission in 2005 and

again in 2009, and again here in 2012. So in a 15-year period where there was a formula in play, there still needed to be a regular review. And when there was a review, the formula was never adopted as it was. There was always a tweak or a material amendment to it. And the ROE was typically set at a higher rate than the previous period when the review occurred.

So, based on our own experience, we would see a formula which got some efficiency over an annual review, potentially, but you still had to go in with a review and address concerns.

So, our position is that we're no less efficient, or more efficient. We think it's just best to leave it to a periodic review, as opposed to being in a situation where you're maybe thinking you get efficiency with an AEM, but that AEM may have inadvertently end up with an ROE that is quite lower than we would expect, and that's what happened between the 2006 review where the formula was adjusted slightly to 2009.

You think the formula was working but all of a sudden it's quite off. So from our perspective it's just a simpler way to ensure that we are not negatively affected by a formula.

Proceeding Time 3:00 p.m. T18A

MR. KUNG: Q: And you would agree that risk of using a

1 formula to adjust would also apply for the ROE being
2 too high. It's possible.
3 MR. DALL'ANTONIA: A: Yeah. Yeah. I'd agree with
4 that.
5 MR. KUNG: Q: On page 28 it suggests, seems to suggest
6 that the ROE value would not be truly fixed for the
7 entire term because you would have an opportunity, the
8 utility would have an opportunity to seek adjustment.
9 In your view, should there be some form of threshold
10 used to determine whether an earlier reconsideration
11 is warranted in the absence of an AAM?
12 MR. DALL'ANTONIA: A: I think that -- assuming that the
13 ROE that was deemed by the Commission, or was ordered
14 by the Commission was fair, I think you could develop
15 a deadband. But the situation would be that at any
16 point in time situations could change that you may
17 find yourself out of that trigger, or near that, that
18 you should have the ability to bring it forth if you
19 felt the fair return was not being met. And that
20 would, I think, hold for all stakeholders. I think a
21 decision would be made whether or not there was an
22 agreed -- you know, you were significantly off the
23 fair return standard or not, but I think you can't --
24 you shouldn't put a band around it. It should be a
25 determination at the time. If you feel the fair
26 return is not being met you can bring forth an

1 application.
2 MR. KUNG: Q: So as you stated, the possibility of
3 reviewing an ROE if it got into the range of being
4 unfair in the parties, it would be open to
5 stakeholders as well as utilities.
6 MR. DALL'ANTONIA: A: I believe that's correct.
7 MR. KUNG: Q: On a practical -- in practical terms, are
8 you aware of any stakeholders other than the utilities
9 who could put together that type of application, given
10 --
11 MR. DALL'ANTONIA: A: Put forth an application or
12 simply -- or just request that the Commission look at
13 it based on a set of facts? I'm not sure the
14 intervener would have to put forth an application. I
15 think a request could be made. I wouldn't expect
16 interveners to put forth a full-fledged application if
17 that's what you're asking.
18 MR. KUNG: Q: That's a relief. But you would agree
19 with me that as far as resources and the ability to
20 put together a review should a party feel that the ROE
21 as straight and to becoming unfair, that utilities
22 have much more resources to approach that.
23 MR. DALL'ANTONIA: A: I would agree we have more
24 resources for that.
25 MR. KUNG: Q: Okay. I believe those are all my
26 questions. Thank you.

1 THE CHAIRPERSON: Thank you, Mr. Kung. Well, just
2 perfectly timed, I might say, at 3:00. Why don't we
3 break for 15 minutes?
4 **(PROCEEDINGS ADJOURNED AT 3:00 P.M.)**
5 **(PROCEEDINGS RESUMED AT 3:20 P.M.) T19A/20A**
6 THE CHAIRPERSON: Please be seated.
7 MR. HOBBS: Mr. Chair, Commissioners, I believe I am the
8 next to have the opportunity to ask this panel some
9 questions.
10 **CROSS-EXAMINATION BY MR. HOBBS:**
11 MR. HOBBS: Q: And I'd like to begin by simply asking
12 you, if you can, to compare your business risks to the
13 business risks of other utilities in Canada, and I'm
14 going to be asking you about the Alberta utilities,
15 ATCO Gas and AltaGas, GazMetro, and then the Ontario
16 utility Enbridge. And I'm really not sure how
17 definitive you're going to be able to be and no need
18 for you to go beyond that, but of those four utilities
19 that I've mentioned, and I can mention them again.
20 MR. DALL'ANTONIA: A: Oh, yes, please.
21 MR. HOBBS: Q: AltaGas, ATCO Gas, Enbridge and Gaz
22 Metro, which one of them would you see yourself, in
23 terms of business risk, as being the most similar to?
24 MR. DALL'ANTONIA: A: Of those four utilities, and I
25 can't be that specific. I think Ms. McShane is in a
26 better position, when you get a chance to question her

evidence, she's actually looked more closely at the various utilities. We were put a question similar to this in BCUC IR 2, round 2, 180, which I believe was in Exhibit B1-24.

And once you get there, it's not quite directly responsive, but it helps me explain why we -- where we think we rank on some high level perspectives.

MR. HOBBS: Q: I think you want to take me to B1-20, BCUC 1.4.1?

MR. DALL'ANTONIA: A: I was referring to Exhibit B -- sorry, thank you. B1-24 is where the IR I was referring to was in, is it?

THE CHAIRPERSON: That's 1, not 2.

MR. DALL'ANTONIA: A: Yes. So Exhibit B1-24 is the second round of BCUC IRs.

MR. HOBBS: Q: Please proceed.

MR. DALL'ANTONIA: A: So it's the response to -- it's on page 67, the response to 180.1.

"Please explain why FBC you consider FEI be higher risk that Enbridge Gas or Union Gas."

THE CHAIRPERSON: I had it.

MR. DALL'ANTONIA: A: Sorry.

THE CHAIRPERSON: It's okay, I've got it well marked, so. Here we are. @@@

MR. DALL'ANTONIA: A: So Mr. Hobbs, your question, if

1 we look at compro natural gas utilities, I think from
2 a regulatory point of view we would view ourselves
3 very similarly to other of the major utilities in
4 Canada. They tend to make use of deferral accounts.
5 They tend to all achieve their allowed ROE. They make
6 use of similar deferral accounts.
7 Where we see differences is really in the
8 competitiveness of our product versus the
9 competitiveness of the natural gas in Alberta and
10 Ontario. And in there Mr. Stoke pointed to a graph
11 where we have a much more competitive alternative in
12 electricity in B.C. than either Alberta utilities or
13 Ontario utilities face.
14 **Proceeding Time 3:25 p.m. T21A**
15 We also see a more aggressive GHG -- sorry,
16 climate energy policy environment, if I could say, in
17 B.C., where we do have the carbon tax, we do have some
18 fairly strong self-sufficiency targets. We do have
19 municipalities that are promoting alternative energy
20 use.
21 So, you take the lower offering cost -- or,
22 sorry, the more competitive position of electricity
23 versus natural gas. You take the greenhouse gas
24 legislation. We've also seen more of a move in B.C.
25 to multi-family dwellings, relative to those other
26 jurisdictions. We also see, I think, a slightly

higher operating risk to the context that we have more of a First Nations challenge than we do with other jurisdictions. So, broadly speaking, we see ourselves with a higher business risk than those utilities.

So back to the specific three or four that you mentioned, Mr. Hobbs, I would argue that we're higher business risks than ATCO and EGD, and we'd see Union Gas and EGD similarly. GazMet, I haven't examined them closely. I'd say we're probably similar risk to GazMet. And AltaGas, for the most part, I would consider them similar to ATCO, though I do note they are a smaller utility. So there is a size advantage that we would have over them.

MR. HOBBS: Q: So you may be lower than the two Alberta utilities?

MR. DALL'ANTONIA: A: Us being lower? No, no. We -- I would argue we're higher than ATCO Gas.

MR. HOBBS: Q: Higher than ATCO, higher than Enbridge and similar to GazMetro.

MR. DALL'ANTONIA: A: Yeah.

MR. HOBBS: Q: Okay. Okay. I'd like to take you to B1-20. BCUC 1.101.2.

MR. STOUT: A: And that's on page 243, Mr. Hobbs?

MR. HOBBS: Q: I'm -- yes, 243 and 244.

MR. STOUT: A: Okay.

MR. HOBBS: Q: And I think we can look at either 75 GJs

1 or 100 GJs. If you have a preference, then I'll go
2 with your preference. If not, let's look at the graph
3 for 100 GJs.
4 MR. STOUT: A: Sure.
5 MR. HOBBS: Q: Given that your price advantage is
6 greater in B.C. than it is in Quebec, would that
7 change your answer with respect to GazMetro?
8 MR. DALL'ANTONIA: A: On a purely -- on the basis
9 purely of the comparison with electricity, Hydro-
10 Quebec has lower rates than we do. So GazMet has a
11 better price competitiveness situation than we do.
12 MR. HOBBS: Q: GazMetro has a better price?
13 MR. DALL'ANTONIA: A: Sorry. Sorry. The price
14 competitive situation, we have more of a positive
15 differential, our rates versus B.C. Hydro's than
16 GazMet has compared to Hydro-Quebec.
17 MR. HOBBS: Q: Thank you.
18 MR. DALL'ANTONIA: A: I said that correctly.
19 MR. HOBBS: Q: Thank you. And does that suggest that
20 your risk is lower than that of GazMetro? Or would
21 you still identify yourself as being similar to
22 GazMetro?
23 MR. DALL'ANTONIA: A: Again, on the specific
24 comparison, I -- this machine is more familiar, so I
25 couch my comments a little bit in just our discussion
26 generally of the various elements that go into

1 competitiveness. And we have talked about perception
2 of electricity versus gas, and price, and there Hydro-
3 Quebec or GazMet has similar if not more challenges.
4 But we also look at some of the other situations that
5 we face. So total, I would say it's similar.
6 Probably tend to be a bit lower. But again, I haven't
7 looked at it specifically from that perspective.
8 MR. HOBBS: Q: Thank you. I'm going to jump around in
9 topics, but in materials. If you flip to 1.98.1 in
10 the same exhibit, so Exhibit B-20, BCUC 1.98.1, on
11 page 231. Now, you can confirm for me, but I believe
12 that you're showing actuals to 2011, and then
13 forecasts beyond 2011 for customer accounts and
14 throughput on that graph.
15 **Proceeding Time 3:30 p.m. T22**
16 MR. STOUT: A: That's correct, yes.
17 MR. HOBBS: Q: Are you anticipating that 2012 on
18 throughput will be more or less than 2011, given the
19 advantage you now have of almost concluding the year?
20 MR. STOUT: A: I think we're going to see a little bit
21 of uptake in the industrial markets over that time,
22 but it's caught within the same range.
23 MR. HOBBS: Q: Okay.
24 MR. STOUT: A: There's a bright line that one petajoule
25 tips one way or the other in the scheme of things, but
26 -- we're not saying upward changes in the residential

commercial markets at all, and there's a bit of an uptake in the industrial markets.

MR. HOBBS: Q: Right. And my next question to you is, by -- when at the beginning of the year do you have the final numbers, you have the actuals for 2012?

MR. STOUT: A: We would have actuals up till the end of the third quarter.

MR. HOBBS: Q: You'd have those now.

MR. STOUT: A: Yes, to two thousand --

MR. HOBBS: Q: Let's do that, then. If one was to compare the first three quarters of 2011 to the first three quarters of 2012, how do the numbers compare?

MR. STOUT: A: I'll have to get that for you. I don't have that.

Information Request

MR. HOBBS: Q: Okay, thank you. And then can you update the forecast if, in your opinion, it should be updated, to the end of 2012?

MR. STOUT: A: To the end of 2012? If it should be updated we'll take a look at that, yes.

MR. HOBBS: Q: Having the benefit of actuals to date.

MR. STOUT: A: Yes.

MR. HOBBS: Q: Right. And you'd have actuals to the end of November?

MR. STOUT: A: We should have, yes.

MR. HOBBS: Q: All right.

1 MR. STOUT: A: We'll get the most current we have,
2 whether it's October or November, but we'll get the
3 most current one.
4 **Information Request**
5 MR. HOBBS: Q: All right. And then would that suggest
6 that you would revise the forecasts for the balance of
7 the graph 2013 to 2016?
8 MR. STOUT: A: No, I don't think so. I think we see,
9 you know, as I've said earlier, we do see industrial
10 volumes bounce around. It does change over time.
11 We're expecting natural gas prices to rise as we've
12 seen in the market outlooks. That can have a
13 dampening factor on some of the industries that are
14 using kind of the -- from the industrial outlook. And
15 with economic uncertainty you don't know where they're
16 going to go. So I think that's our best estimate
17 right now of the throughput on the system through that
18 time frame.
19 MR. HOBBS: Q: For the throughput on the system, when I
20 look at this graph -- well, let me ask the question.
21 Is there a discernible trend on this graph for
22 throughput for the system?
23 MR. STOUT: A: Well, there's a trend over the front
24 end, which has the actuals. There's been a trend
25 downward, as I say the industrials do bump around.
26 There is a component of the industrial volume in the

1 revenues when you look at it that way. There's a
2 fixed charge, so that doesn't change. So the impact
3 on benefit to other customers is in only part of the
4 volume on the industrial side. But overall,
5 residential/commercial is a downward trend and
6 industrial does bump around. It varies.
7 MR. HOBBS: Q: Right. Back to my question. My
8 question is about throughput for the system.
9 MR. STOUT: A: Yes.
10 MR. HOBBS: Q: Is there a discernible trend for
11 throughout for the system?
12 MR. STOUT: A: And I'd say yes, we've had a trend
13 downward since 2002.
14 MR. HOBBS: Q: And most of that trend, 2002 to about
15 2009, and if I look at 2009 through to 2016, is there
16 a discernible trend?
17 MR. STOUT: A: I think we're seeing relatively flat
18 volumes on average over that time frame.
19 MR. HOBBS: Q: Thank you. I will need to check the
20 record, but just out of an abundance of caution, I
21 think my request to you for an undertaking is to
22 update the 2012 forecast year to date, and then to
23 revise as you determine to be appropriate the years
24 2013 to 2016 and reproduce the graph.
25 MR. STOUT: A: That's what I understood, yes.
26 MR. HOBBS: Q: Okay, thank you.

1 Ms. Des Brisay, you and I have recently had
2 a discussion about gas prices and electricity prices,
3 is that correct?
4 MS. DES BRISAY: A: I think it was March, Mr. Hobbs.
5 MR. HOBBS: Q: And things have changed a little bit
6 since March. That's just a simple question. Please
7 just answer the question. Have things changed since
8 March?
9 MS. DES BRISAY: A: I would say gas markets have
10 changed since March, yes.
11 **Proceeding Time 3:35 p.m. T23A**
12 MR. HOBBS: Q: That was well done, thank you.
13 Now, I am going to give you a chance to
14 answer a more fulsome question. When you talk about
15 gas markets, you use the words "shift". And can I
16 contrast that with the trend?
17 MS. DES BRISAY: A: Yes. I think they are two
18 different things.
19 MR. HOBBS: Q: Thank you. And my understanding is, is
20 that the shift occurred somewhere between -- well,
21 sometime before 2009?
22 MS. DES BRISAY: A: I think the shift has occurred as a
23 result of the technological advances that has unlocked
24 the potential of the natural gas resource, and that
25 started to be realized sometime before 2009 and it's
26 really only in the last couple of years that we are

1 realizing the full potential of that.
2 MR. HOBBS: Q: Thank you. Now, I'll ask you, can you
3 tell me why you used the word "shift" instead of the
4 word "trend"?
5 MS. DES BRISAY: A: I think I was asked earlier do I
6 think the shale gas development is a game changer, and
7 I think it is. I think that a trend I would see as
8 being more related to what -- predictable changes from
9 year to year that are related to increased cost, to
10 increased demand, increased supply that you can
11 forecast. And where there's -- and then the
12 volatility around that trend is the short-term factors
13 like weather and storage and economic factors and
14 those kinds of things. But in terms of what the
15 underlying fundamentals are.
16 I think what a shift is is that we had an
17 expectation of what was going to happen in the
18 marketplace for a long time, in the two thousands, and
19 we've had to rethink about what that picture now looks
20 like given that we have quite a different picture of
21 the availability of supply in North America, and what
22 the potential cost implications are of that
23 availability to supply in North America.
24 So you have to basically rebase, I think,
25 the thinking about what does that mean where we are
26 today. It's a different base than we would have

1 probably used in 2008, and then now we look at well,
2 what does that now mean for going in terms of trends,
3 if you want, looking forward, in terms of the
4 forecast.
5 MR. HOBBS: Q: Now that the shift has occurred, you can
6 start to think in terms of trends again.
7 MS. DES BRISAY: A: I think -- well, it's now that the
8 shift has occurred, you are rebasing your fundamentals
9 and you are continuing to look at fundamentals, and
10 what does that mean on a go-forward basis.
11 MR. HOBBS: Q: All right, and the shift occurred -- oh,
12 let me ask the question. Did the shift occur sometime
13 between 2006 and 2009?
14 MS. DES BRISAY: A: I think it is -- you know, in the
15 evolution of the natural gas industry in North
16 America, that that period of time, that it is still
17 probably occurring but that period of time is a very
18 short period of time. So it has happened very
19 recently and whether it is 2005 and 2009 or 2005 and
20 2011, it’s -- you know, this is a period where
21 everybody is rebasing, and there is still lots of
22 uncertainty about what it is going to mean on a go-
23 forward basis. But that’s a tiny period in terms of
24 the evolution of the markets of the oil and gas
25 industry.
26 MR. HOBBS: Q: Okay. May I take you to Exhibit B1-9-

1 6, appendix H, which has been the topic of much
2 discussion today, and I want to take you to page 16,
3 Figure 8. And I guess what I would like to do is
4 compare -- well, first, let me ask you to accept, if
5 you will, that the oral hearing for the 2005
6 proceeding was in November of 2005, and again, subject
7 to check, let me ask you to assume that the year over
8 year -- no. I've got to be very careful here.
9 Let me ask you to assume that the forward
10 price at the time of the oral hearing, the forward
11 price, the calendar year 2006, price at Sumas had
12 risen approximately 80 percent. Since a year ago.
13 So, year over year.
14 **Proceeding Time 3:40 p.m. T24A**
15 MS. DES BRISAY: A: I'm sorry, I don't understand the
16 question, perhaps you can --
17 MR. HOBBS: Q: Yes. It's not actually a question, but
18 your request for clarification is a good one.
19 MS. DES BRISAY: A: Okay.
20 MR. HOBBS: Q: I want you to assume, for the purposes
21 of my question -- I'm not expecting you to know this
22 -- that at the time of the 2005 oral hearing, the
23 forward price for the calendar year 2006 at Sumas had
24 risen approximately 80 percent from the previous year.
25 MS. DES BRISAY: A: So, November 2005, the forward
26 price -- so, for 2006, was 80 percent higher than the

1 actual price in 2005?
2 MR. HOBBS: Q: No, than a year earlier. I'm actually
3 quoting Mr. Jesperson, and I can introduce the
4 transcript if I need to, but I was hoping not to.
5 MS. DES BRISAY: A: Well, I'm sorry, I just don't
6 understand the question, so --
7 MR. HOBBS: Q: All right.
8 MS. DES BRISAY: A: I just want to understand. So
9 you're saying that at the time of the hearing in
10 November, 2005 --
11 MR. HOBBS: Q: Yes.
12 MS. DES BRISAY: A: -- assume that --
13 MR. HOBBS: Q: The forward price --
14 MS. DES BRISAY: A: -- the forecast of prices for 2006
15 is going to be 80 percent higher than what it actually
16 was in 2005.
17 MR. HOBBS: Q: No, than what it had been a year
18 earlier. And I would also ask you, and I'll get you
19 to --
20 MS. DES BRISAY: A: 2004? Okay.
21 MR. HOBBS: Q: Yes. And I'll actually also ask you --
22 well, this is not an assumption. I'll ask you to make
23 the calculation, if you will. To calculate for me the
24 year over year increase in prices to the time of the
25 oral hearing. So, compare November 2004 to November
26 2005 prices for me.

1 MR. STOUT: A: Sorry, the forward curve? So starting
2 November '04, and what was the forward curve --
3 MS. DES BRISAY: A: For '05?
4 MR. HOBBS: Q: No, I'm just asking for -- I think I
5 have the forward curve. What I'm asking you now is
6 simply for you to compare spot prices, November 2004
7 to November 2005 for me.
8 It pretty much falls out of the graph. For
9 my purposes, I can almost get there from the graph,
10 which shows a significant spike in 2005 to the time of
11 the oral hearing. Correct?
12 MS. DES BRISAY: A: Yes. I would think 2005 is the
13 time that we saw the impact of the hurricanes, where
14 there was a big part of the production taken out of
15 the Gulf, and we saw big spikes in natural gas costs.
16 And in fact the forward curve at the time -- at that
17 time of the hearing -- so, November, 2005, the forward
18 curve would have forecast 2006 prices to actually be
19 substantially lower than they were at the time of the
20 hearing. Because it was recognized that it was a
21 short-term interruption in prices -- or a short-term
22 interruption in supply, and there was a spike in
23 prices. And so we actually saw a backwardation in the
24 forward curve at that time, to what an expectation
25 about prices would be lower than what they were at the
26 actual time of the hearing in 2005.

1 MR. HOBBS: Q: Sure. And throughput was declining.
2 Will you accept that? For the previous three years,
3 throughput had been declining.
4 MS. DES BRISAY: A: Throughput on what?
5 MR. HOBBS: Q: On the system.
6 MS. DES BRISAY: A: On Fortis's system?
7 MR. HOBBS: Q: Yeah.
8 MS. DES BRISAY: A: On FortisBC's system.
9 MR. HOBBS: Q: Yes. And I can just take you back to
10 1.98.1.
11 MR. STOUT: A: Sorry.
12 MS. DES BRISAY: A: Is that right? Yeah.
13 MR. STOUT: A: Yes.
14 MS. DES BRISAY: A: Mr. Stout confirms that.
15 MR. HOBBS: Q: Thank you. All right. Given those
16 circumstances -- I'm finally leading up to my
17 question. Was Fortis -- was FEI a higher-risk utility
18 then than it is now?
19 MS. DES BRISAY: A: Given which circumstances? Sorry.
20 MR. HOBBS: Q: Let me --
21 MS. DES BRISAY: A: Maybe Mr. --
22 MR. DALL'ANTONIA: A: Yes. Sorry, I was looking at
23 something. I apologize, Mr. Hobbs. Can you repeat
24 the question?
25 MR. HOBBS: Q: Ask the question again?
26 MR. DALL'ANTONIA: A: Yeah. Sorry.

1 MR. HOBBS: Q: I'd like you to compare the business
2 risks of FEI between the two comparison points are
3 today and November, 2005. Have business risks
4 increased, stayed the same, or decreased?
5 **Proceeding Time 3:45 p.m. T25**
6 MR. DALL'ANTONIA: A: Since 2005 I would argue they
7 have increased. Since 2009 I would argue that they
8 are similar, as we said in our application, no lower.
9 Somewhat higher, and what we mean by somewhat higher,
10 it's more we see a continuation of certain trends, but
11 overall we'd say it's the same as 2009. And we accept
12 -- and in this discussion that we've having on gas
13 prices of 2009 to now is not too dissimilar to the gas
14 price discussion in 2009 oral hearing. ICG, which I
15 don't believe was you, it was a different ICG, I think
16 it was Mr. Bursey, there was commentary about the
17 prices in '05 relative to '09 and the decrease, and
18 Commission determination in 2009. They accepted
19 overall business risks had increased from 5 to 9 and
20 they pointed to the existing business risks as well as
21 the two new ones we've mentioned earlier today, which
22 was the First Nations and the climate change.
23 In the 2009 decision on page 36, which Mr.
24 Wallace was referring to earlier, there is a point
25 here where the Commission says that "Although all
26 interveners identify the competitive position of

natural gas compared with electricity as one risk which has diminished since 2005", again reflecting that graph. "…the Commission Panel considers a natural gas competitive edge over electricity is dependent on too many significant variables, such as the level of carbon tax, volatility of natural gas prices, and the impact of government policy on B.C. Hydro rates be considered permanent."

So we accept that gas prices are down. I think Mr. Stout and Ms. Des Brisay have also pointed out that from our goal which is providing gas to our customers, they look at a number of different factors, but there's a bunch of -- there's a number of different components that go into what they look at, which is their bill. And the competitive position relative has improved, but it is not solely a price determination that leads to that decision. So when I look at 2005 and 2012, I would argue that general business risks have increased. Compared to 2009 I don't see that overall business risk has decreased. I don't see that.

MR. HOBBS: Q: So somewhere between 2005 and 2009, business risks increased, in your opinion.

MR. DALL'ANTONIA: A: Yes. Based on the evidence we put forth in the 2009 hearing.

MR. STOUT: A: And in the opinion of the Commission at

1 the time as well.
2 MR. HOBBS: Q: Turn to Appendix H, which is Exhibit B1-
3 9-6, and page 4. There are no line items, or no line
4 markings here, but this second sentence under Section
5 2.2:
6 "The ranking of the risk categories provided
7 below is essentially the same as in 2009,
8 with regulatory risk being the greatest
9 risk."
10 And I really just want to confirm with you
11 that when you refer to regulatory risk there, the
12 regulator that you're referring to -- and you do not,
13 I believe, include any other regulatory -- regulator
14 in this regulatory risk category, the regulator you're
15 referring to is the British Columbia Utilities
16 Commission.
17 MR. DALL'ANTONIA: A: Yes, that's correct.
18 MR. HOBBS: Q: So your largest risk, decisions from the
19 British Columbia Utilities Commission.
20 MR. DALL'ANTONIA: A: Correct.
21 MR. HOBBS: Q: That's more significant than supply,
22 price or volatility on the gas supply side.
23 MR. DALL'ANTONIA: A: Yes. To answer your question
24 first and then I'll expand on that. When you look at
25 Table 2, which is on page 5 of that same exhibit,
26 we've been asked to rank the risk factors, and the

1 analysis that we went through was similar to what we
2 did in 2009, same frame of reference, and we were
3 really comparing 2009 the way we viewed it to 2012.
4 And given that we are regulated, given that the way we
5 were defining from a fair return standard the risk to
6 earn the fair return, a return on enough capital, the
7 regulator can have the single biggest impact by
8 denying a fair return. Straight, you know, simple,
9 active. We believe the fair return is 10 percent ROE,
10 and the decision comes back at 6 percent and there's
11 that kind of a gap, that would be the single biggest
12 risk from the point of view of what is the fair
13 return.
14 **Proceeding Time 3:51 p.m. T26A**
15 So from that perspective it's the greatest
16 risk. As well. undertaking our mandate, delivering
17 natural gas, we do need approvals for pretty much
18 everything we do, so in that context we are very
19 dependent on timely regulatory decisions to both rates
20 as well as investment approvals. So the regulator can
21 have the biggest single impact on us.
22 But we do note, just to clarify, that we
23 have viewed the risk fundamentally no different than
24 in 2009. I will note that from the key elements of
25 what defines regulatory risks, which is generally the
26 approvals and the determination of fair return, we

1 don't see any change there. To the extent that
2 deferral mechanisms help mitigate short-term risks,
3 again since 2009 we see no fundamental change in that
4 risk.
5 MR. HOBBS: Q: Thank you. In the FortisBC Inc's
6 service area, you're providing service on both the gas
7 and the electricity side, correct?
8 MR. DALL'ANTONIA: A: Correct
9 MR. HOBBS: Q: And in that sense, if you will, you are
10 competing against yourself.
11 MR. DALL'ANTONIA: A: We are providing -- yes, in some
12 ways we are competing and other ways we are
13 complementary but to the extent that electricity and
14 natural gas compete for space and hot water heating,
15 we'd be competing.
16 MR. HOBBS: Q: Right. And if you will, there's an
17 inverse relationship between gas and electricity
18 business risks?
19 MR. DALL'ANTONIA: A: I don't follow that, sorry.
20 MR. HOBBS: Q: Well, as gas risks go up or down, the
21 business risks on the electricity side go in the
22 opposite direction.
23 MR. DALL'ANTONIA: A: No, I would not agree with that.
24 If you look at table 2 and you look at the broad
25 categories, regulatory energy price, market shifts,
26 political operating, energy supply. Those risks are

1 relevant to the electric utility as well. They don't
2 move in inverse relationships and they can exist for
3 both utilities. In fact, operating risks for FortisBC
4 Inc., which is partly dependant on the fact that
5 they've got generation, is a risk that doesn't exist
6 for FortisBC Energy Inc.
7 MR. HOBBS: Q: Electricity prices -- and this is a
8 discussion I've recently had with Ms. Des Brisay,
9 electricity prices are at or close to the nine year
10 low?
11 MR. DALL'ANTONIA: A: I'm going to defer on that. I'm
12 not sure.
13 MS. DES BRISAY: A: Are you talking about market
14 prices?
15 MR. HOBBS: Q: Thank you. It's an important
16 distinction.
17 MS. DES BRISAY: A: It is a very important distinction.
18 MR. HOBBS: Q: Yes.
19 MS. DES BRISAY: A: Yes.
20 MR. HOBBS: Q: Thank you. I am talking about market
21 pricing.
22 MS. DES BRISAY: A: I would say we have seen some
23 strengthening in electricity prices over the last few
24 months since the last time we talked about electricity
25 prices, Mr. Hobbs. We are seeing lower prices in the
26 market right now. I would have to say largely driven

1 in our market, in the Pacific Northwest, largely
2 driven by two factors.
3 One is the predominance of hydro and we've
4 had a couple of very very wet years, and the second is
5 the introduction of a significant amount of wind
6 generation in the Pacific Northwest, and that has
7 meant that there has been times of year and very
8 unpredictable times of the year where there is a
9 surplus, if you want to call it, of power that needs
10 to find a home, and that's resulted in times in the
11 market where prices have gone, even gone negative.
12 And the other piece, the lower natural gas
13 prices in North America as a whole has resulted in
14 lower power prices as well, and that's one of the
15 reasons why -- well, it's a result of seeing the
16 significant amount of shift from say coal or other
17 fuels to natural gas for power generation. And in
18 most of North America you see that gas price now, or
19 the relationship between gas and coal as setting the
20 marginal price for electricity. And in our market
21 natural gas may be a cap for electricity prices today,
22 but because of this predominant -- because we've had a
23 lot of really good hydro years, if you want to put it
24 that way, and this wind that's being integrated into
25 it, we've seen quite low market prices.
26 **Proceeding Time 3:56 p.m. T27A**

1 That could change. We could see -- you
2 know, if we have a dry year, all of a sudden you're
3 back to being connected to that marginal generation in
4 the market, which could be natural gas, or coal, or
5 whatever other resources is there.
6 MR. HOBBS: Q: Given both gas and electric prices at
7 the market, would you consider the possibility that
8 there will be more energy consumption than there
9 otherwise would have been without the benefit of low
10 electricity and gas prices on the market?
11 MS. DES BRISAY: A: So, the low -- I would say both --
12 for both B.C. Hydro and FortisBC, that the market
13 prices -- the lower market prices is only offering a
14 small opportunity for us to mitigate costs for
15 customers. For most -- we own a lot of our own
16 generation. We have long-term contracts in place.
17 Those are really basically fixed costs that we have to
18 recover from our customers. We have a small bit of
19 our power portfolio that we are reliant on the market,
20 and we also do participate in the market in both gas
21 and electric, actually, to try to mitigate costs by
22 buying at a lower cost if we can, if we can offset
23 higher costs that we would otherwise face in our
24 portfolio. But it is really on the margin. It will
25 help us mitigate potentially cost increases in our
26 electric supply portfolio, but it's not a significant

1 piece of our market -- of our power portfolio. So --
2 MR. HOBBS: Q: And I'm -- let me interrupt, if I may.
3 And on the gas side, it's approximately two-thirds of
4 the final price?
5 MS. DES BRISAY: A: Well, I would say that was probably
6 true in 2008. But today, it's probably more like 50
7 percent, or slightly less than that, in terms of the
8 commodity price component. Maybe more than that if
9 you add in the midstream component.
10 MR. HOBBS: Q: Okay.
11 MR. STOUT: A: I think, Mr. Hobbs, when you look at the
12 kind of generic statement, there will be more
13 consumption with lower prices, that really varies
14 depending on the type of end-use customer you're
15 talking about, and the location and the opportunity.
16 So it's consumption-type specific, and I think
17 somewhat geographic specific, depending on the types
18 of industries and commercial uses that exist in a
19 given area.
20 MR. HOBBS: Q: My last question is an undertaking. And
21 it's an undertaking for Ms. Leeners. And what I'd
22 like you to do for me is -- and this is actually
23 something that you can spend days doing. It won't
24 take you very long. I'd like you to calculate for me
25 the customer impacts of a five percent change in the
26 equity ratio, and compare that to the customer impacts

1 of a 50 basis point and 100 basis point change in the
2 ROE.
3 MR. DALL'ANTONIA: A: So, on the 50 basis point and 100
4 basis point increase in ROE, you're keeping the equity
5 thickness at 40 percent? And then you're comparing
6 that to nine and a half percent equity, and then
7 taking that 40 percent, reducing it down to 35
8 percent? Those are the two scenarios?
9 MR. HOBBS: Q: Yes. I want -- what I would want to do
10 is isolate customer impacts, capital structure versus
11 ROE. And I think that will get us there.
12 MR. GHIKAS: And, Mr. Chairman, I am rising before the
13 panel addresses that IR. I actually wish to object to
14 the undertaking. And it requires a little bit of
15 explanation, but the reason is that the legal
16 precedents dealing with return on equity, cost of
17 capital proceedings, is such that the Commission has
18 to determine the fair return first, and then set rates
19 to recover the fair return. And it's not an exercise
20 that balances the fair return to utilities on one hand
21 and the rate impacts on another. And that has been
22 the precedent of the Supreme Court of Canada. It's
23 quoted in both the 2005 decision and the 2009
24 decision, and if we -- it may be useful to deal with
25 those now. But I can pass out excerpts of it, if need
26 be.

1 The 2009 decision -- you can go ahead and
2 do that -- Mr. Chairman, as we pass these out, just
3 for context, the argument was made in 2009, which is
4 set out in the 2009 decision, in passages that I'll
5 take you to.
6 **Proceeding Time 3:45 p.m. T28A**
7 The Industrial Customer Group at the time argued that
8 -- and the way it's set out in the decision is that
9 "The ICG submits that the *Act* requires the
10 Commission to balance the interests of the
11 parties and set a just and reasonable rate
12 that provides the utility with a fair return
13 on the rate base. ICG submits that Section
14 59 of the *Act* explicitly requires the
15 Commission to consider the rates from the
16 customer perspective, specifically whether
17 the proposed rate is fair and reasonable for
18 the nature and quality of the service."
19 And then the Commission addresses the fact
20 that Terasen's argument at the time was to quote back
21 a passage from the 2006 decision that said exactly the
22 opposite and exactly the submission that I was putting
23 forward to you previously, with the Commission final
24 determination on page 15 of the 2009 decision being:
25 "As for the intervener's submissions, this
26 is not the time for a rate increase, and

1 ICG's submission that a Commission must
2 balance the requirement of customers with
3 those of Terasen, the Commission Panel
4 adopts the Commission's statement in the
5 2006 decision where it made clear that its
6 obligation was and is to set rates that are
7 fair and reasonable and to allow the utility
8 the opportunity to earn a fair rate of
9 return."
10 The passage that it was referring to from
11 the 2006 proceeding is on page 8, but it's actually
12 quoted in the 2009 decision as well. And that is the
13 passage that Terasen had quoted back when the
14 Commission rejected ICG's argument at the time, and
15 that passage is found on page 8 of the 2009 decision
16 and also on page 8 of the 2006 decision. And the
17 passage is quoted in the long quote format in the 2009
18 decision. It says:
19 "The Commission Panel does not accept that
20 the reference by Martland…"
21 and that's a judge of the Supreme Court of Canada,
22 "…to a balancing of interest to mean that
23 the exercise of determining a fair return is
24 an exercise of balancing the customer's
25 interests in low rates assuming no
26 detrimental effects on the quality of

1 service with the shareholder's interests in
2 a fair return. In coming to a conclusion of
3 the fair return the Commission does not
4 consider the rate impacts of the revenue
5 required to yield the rate of return…"
6 sorry,
7 "…to yield the fair return. Once the
8 decision is made as to what is a fair
9 return, the Commission has a duty to approve
10 rates that will provide a reasonable
11 opportunity to earn a fair return on
12 invested capital."
13 So to the extent that my friend is putting
14 in -- is making this undertaking with respect to put
15 it in as evidence that in his submission is relevant
16 to the determination of this proceeding, I would
17 object to it.
18 THE CHAIRPERSON: Thank you. Do you have any comments,
19 Mr. Hobbs?
20 MR. HOBBS: I do, and Mr. Ghikas has kindly framed the
21 issue. The relevance can be determined later. It's a
22 question of law and it certainly can be determined
23 later.
24 Mr. Chair, I would resist -- I would
25 encourage you to resist Mr. Ghikas's submissions for
26 several reasons, but perhaps the most important one is

1 that it's an issue for later as to the weight to be
2 given to it. But for you to close your eyes to the
3 significance of changes to the return on equity as
4 compared to capital structure, this is I think much of
5 the weight of the evidence and that is you need to
6 look at both together. And so why not do that?
7 So that at some point, if in fact you
8 decide that it's relevant, that you can make the
9 decision in the context of customer impacts. After
10 all there are significant customer impacts here, and
11 just to ignore the customer impacts until you later
12 get to the point of deciding whether or not it's
13 relevant, it seems to me is really restricting scope
14 of the inquiry here beyond what's necessary.
15 I framed the undertaking quite broadly.
16 I'll need to check the record, and I could very well
17 be wrong, but I think I used "customer impacts" in all
18 of my requests of the panel. I didn't speak to rates
19 or to absolute dollars.
20 **Proceeding Time 4:06 p.m. T29A**
21 If you do decide in favour of Mr. Ghikas in
22 this matter, I would, as an alternative, to encourage
23 you to at least look at the dollar impacts, if not the
24 rate impacts. And I can say that most of the purpose
25 of my request will be met if you simply have Ms.
26 Leeners calculate the absolute dollar impacts of the

1 difference, and then we can compare the dollar
2 impacts, one versus the other. But it does seem to me
3 that you should include both dollar impacts and rates,
4 and then decide relevance later.
5 THE CHAIRPERSON: Thank you, Mr. Hobbs. We're just
6 going to caucus here for a second.
7 MR. GHIKAS: Mr. Chairman, I was just going to note, Mr.
8 Chairman, I don't mean to interrupt -- well, I did
9 mean to interrupt, but what I was meaning to say was
10 that I believe this is Mr. Hobbs's last request. If
11 it's convenient to you, you could decide to just deal
12 with it in the morning as you come in. I think that
13 would be convenient for me as well.
14 THE CHAIRPERSON: That was my next -- I was going to say
15 the same thing.
16 MR. HOBBS: Mr. Ghikas's suggestion is a very good one,
17 if it's a good one for you.
18 THE CHAIRPERSON: Yes. We'll deal with it after the fact
19 and not hold up proceedings.
20 MR. HOBBS: The one thought I do have is that there may
21 be others that are interested in the undertaking, and
22 you, in the morning, may decide to give others an
23 opportunity to comment as well.
24 THE CHAIRPERSON: Thank you, Mr. Hobbs.
25 MR. HOBBS: Thank you, Mr. Chair, Commissioners.
26 MR. FULTON: Well, Mr. Chairman, I think it probably

1 would be more efficient if others do have comments
2 that they wish to make on the undertaking that they
3 make them today rather than make them in the morning,
4 so that it will avoid the Commission Panel going away
5 again to make the decision that it may wish to make
6 overnight.
7 THE CHAIRPERSON: Okay. Well, let's ask if any of the
8 other participants have comments they'd like to make
9 on this.
10 MR. WEAFER: Mr. Chairman, only to support the
11 submissions of Mr. Hobbs, and particularly with
12 respect to just the magnitude of financial impact of
13 the request. I think that's reasonable information
14 for a Panel to have before it. So we would endorse
15 this submission.
16 THE CHAIRPERSON: Thanks, Mr. Weafer.
17 MS. WORTH: Panel, BCPSO would like to support Mr.
18 Hobbs's motion for this undertaking as well on a
19 similar basis as Mr. Weafer has just put before you.
20 Thank you.
21 THE CHAIRPERSON: Thank you, Ms. Worth.
22 MR. FULTON: Are there any other participants who wish to
23 make submissions?
24 There being none, Mr. Chairman, that will
25 close the submissions on Mr. Hobbs' request.
26 THE CHAIRPERSON: Thank you very much, Mr. Fulton.

1 MR. FULTON: Mr. Chairman, that also concludes the cross-
2 examinations by the interveners, so I am standing at
3 the mike and I will begin my cross.
4 **CROSS-EXAMINATION BY MR. FULTON:**
5 MR. FULTON: Q: Mr. Dall'Antonio, I believe it was you
6 this morning who agreed with Mr. Wallace that risk can
7 be considered either short-term or long-term.
8 Correct?
9 MR. DALL'ANTONIA: A: Correct.
10 **Proceeding Time 4:11 p.m. T30A**
11 MR. FULTON: Q: And I have a series of questions that
12 relate to short-term risks and I'm going to be
13 referring during these questions to Exhibits B1-20 and
14 B1-24. And in particular to pages 219 to 221 of B-20.
15 And page 73 of B-24. There may be another reference
16 that I'll determine in a moment.
17 But if we could begin with B1-20, and would
18 I be correct in understanding that when Fortis is
19 considering the likelihood of meeting its awarded ROE
20 in the upcoming year, that the risks that it looks at
21 are the risks that appear first of all on page 219,
22 but then are assessed in Table 3 beginning on page 220
23 and 221?
24 MR. DALL'ANTONIA: A: I think, just to clarify, when
25 you say look at the risks, what we look at in meeting
26 our ROE is simply achieving our allowed ROE --

1 MR. FULTON: Q: Right.
2 MR. DALL'ANTONIA: A: -- in each of the categories, not
3 risks, when we -- on page 219 they represent the line
4 items, if you will, in our income statement.
5 MR. FULTON: Q: Right. But when I go forward to Table
6 3, those are the line items, the revenue requirement
7 line items that you're assessing from a risk
8 standpoint.
9 MR. DALL'ANTONIA: A: Yes, that's correct.
10 MR. FULTON: Q: Okay. I want to begin with the cost of
11 gas category, and cost of gas variances are covered
12 100 percent by a deferral account, correct?
13 MS. LEENERS: A: Correct.
14 MR. FULTON: Q: And in addition to that coverage, is it
15 not the case that the shareholders of Fortis also
16 receive a bonus of about a million dollars each year
17 for purchasing gas for Fortis's customers?
18 MR. DALL'ANTONIA: A: I think you are referring to the
19 gas supply mitigation incentive plan.
20 MR. FULTON: Q: Yes.
21 MR. DALL'ANTONIA: A: And our incentive is not for
22 purchasing gas. We end up buying gas during the year
23 to meet our needs on a daily basis. And to the extent
24 that we have acquired surplus gas, we undertake
25 activities to try to maximize the value of the gas we
26 have purchased, and we give, I think, Cynthia, 99

1 percent of any -- you can explain the mechanics. But
2 it's really to incent us to make sure that we try to
3 maximize the value to reduce the overall cost of gas
4 to the benefit of our customers, to decrease the total
5 gas supply cost.
6 MR. FULTON: Q: So you're shaping the gas, in other
7 words.
8 MS. DES BRISAY: A: No, it's approximately --
9 effectively, the gas supply in mitigation incentive
10 plan is an incentive plan that's in place that's
11 focused on the mitigation activities that we take for
12 any surplus resources that we may have on a day-to-day
13 basis, after we take into account what our customer
14 requirements are on that time frame. It went through
15 -- we just recently went through a full review of that
16 program that involved a working group with stakeholder
17 interveners, customer representatives, as well as
18 Commission staff, where we went through that program
19 and revamped it to become a more transparent program
20 that was easier to measure the efforts that were being
21 done by the company and its employees to meet those
22 mitigation activities.
23 And in the past, it has resulted in an
24 incentive payment earned by those -- the company
25 towards what they are able to deliver in those
26 mitigation activities of approximately a million

1 dollars, between a million and a million point one.
2 We just -- for -- just finished this past year the
3 first year under the new program, and we will be
4 earning an incentive -- well, at least we'll be
5 requesting approval for an incentive that is -- that
6 would result from that new program of about $850,000
7 over about a $30 million mitigation activity that --
8 the value that has been delivered to customers through
9 those mitigation activities. It's not an incentive,
10 as Mr. Dall'Antonio said, that's paid about for us to
11 purchase gas on behalf of customers.
12 MR. FULTON: Q: And is that amount that's been a
13 million to 1.1 million in the past, and you are
14 seeking approval for around $800,000, are those
15 amounts in addition to the awarded ROE?
16 **Proceeding Time 4:16 p.m. T31A**
17 MR. FULTON: Q: In addition to the awarded ROE?
18 MS. DES BRISAY: A: They are the only amounts that we
19 have an opportunity to earn an incentive on for the
20 gas portfolio, including the midstream costs. So
21 those are all -- those are around the activities on
22 our gas and midstream portfolio that we do not have
23 any other opportunity to earn on.
24 MR. FULTON: Q: Right, and --
25 MR. DALL'ANTONIA: A: I believe that plan was in place
26 in 2005 as well as 2009.

1 MS. DES BRISAY: A: That's correct.
2 MR. FULTON: Q: So do I take it from your response that
3 those are amounts that are in addition to the awarded
4 ROE?
5 MR. DALL'ANTONIA: A: Yes.
6 MR. FULTON: Q: Thank you.
7 MR. DALL'ANTONIA: A: They did exist in 2005 and 2009.
8 MR. FULTON: Q: Now, if you look at Table 3 on page
9 220, the O&M expenses have been assessed as high from
10 a risk standpoint.
11 MS. LEENERS: A: That is correct.
12 MR. FULTON: Q: And then if you go to page 72 of
13 Exhibit B1-24.
14 MR. DALL'ANTONIA: A: Sorry, page?
15 MR. FULTON: Q: Page 72 of Exhibit B1-24. The table in
16 the response to question 2.182.0 shows that the actual
17 O&M expense, that is the less capitalized overheads
18 compared to the BCUC approved overhead O&M expense
19 outlined in the PBR agreement, correct?
20 MS. LEENERS: A: I would just like to clarify. I think
21 this was showing two different things. The Table 3 in
22 B1-20 is just showing that percentage of the account
23 that is not subject to a deferral. So what we're
24 saying, if you go over to the explanation, we're
25 saying 9 percent of O&M is subject to a deferral
26 through pensions, insurance, and the BCUC levies.

1 Therefore we have 91 percent of that account that is
2 not subject to a deferral. That was why we assessed
3 that as high.
4 MR. FULTON: Q: Okay. Okay. So, now, so that in terms
5 of the table on page 72 though, it shows when you look
6 at the variance column, that FEI achieved significant
7 savings in O&M expense in all years except 2010.
8 Would you agree with that?
9 MS. LEENERS: A: I would agree on 2011, actually, I
10 wouldn't call significant, but between 2004 -- I'm
11 just working across, sorry, 2003 to 2009. I would say
12 on average they're all over 5 million.
13 MR. FULTON: Q: Yes, so significant savings, yes?
14 MS. LEENERS: A: Yes, they're significant savings. But
15 once again, as you stated in the question, the
16 majority of these years, the majority of the larger
17 amounts were during the PBR environment, and 50
18 percent of this would have been returned to customers.
19 So this was not a shareholder -- this did not go 100
20 percent to the shareholder. It was 50 percent to
21 customers.
22 MR. FULTON: Q: Thank you. Line 4 on page 219 of
23 Exhibit B1-20, Table 1, relates to depreciation and
24 amortization expenses. And these expenses aren't
25 covered by a deferral account, correct?
26 MS. LEENERS: A: In 2011 depreciation was not covered

1 by a deferral account.
2 MR. FULTON: Q: Would you agree with me that BCUC Order
3 G-44-12 eliminates the variances in depreciation
4 expenses for 2012 and going forward?
5 MS. LEENERS: A: That is correct. The BCUC decision
6 put forth that deferral. Just to be clear, the
7 company actually did not request that deferral in our
8 application. That was ordered by the Commission.
9 **Proceeding Time 4:21 p.m. T32A**
10 MR. DALL'ANTONIA: A: And just to clarify, it is 2012
11 and ’13. Our revenue requirement application coming
12 up, we’ll see what comes out of that.
13 MR. FULTON: Q: Thank you. And in terms of the actual
14 depreciation and amortization expense, you’ll agree
15 with me that it was well below the approved levels
16 except for 2010 and 2011.
17 MS. LEENERS: A: Once again, I don’t understand the
18 definition of “well below”.
19 MR. FULTON: Q: Okay.
20 MS. LEENERS: A: But during the PBR period, once again,
21 between I’d say 2005 and 2009, on average it was
22 higher than other years, that is correct.
23 MR. DALL'ANTONIA: A: And just to clarify, Mr. Fulton,
24 because of the reference to PBR, this is what we would
25 have expected to occur. We had a formulated PBR that
26 drove what O&M was each year. That would be recovered

in rates as well as an assumption of capital, and the spending of capital which also determined what the depreciation is. So to the extent that we were more efficient in O&M and in capital, you would expect to see savings generated on those two line items, including depreciation.

So you would see an increase in depreciation variance each year because for each year they didn't spend that dollar of capital, you wouldn't have subsequent years of depreciation. So both the over earning on O&M as well as on depreciation, really came out of the fact that the formula was incenting us to take certain action and achieve those types of results.

MS. LEENERS: A: One other comment. Similar to O&M, these depreciation amounts would have been split 50 percent with the customers as well, so obviously divide them by half as to what went to earnings.

MR. FULTON: Q: And I understand -- as I understand Table 3 in any event, the reason why the risk for O&M is rated -- has been assessed as high is that approximately 91 percent of the category is not covered by a deferral accounts.

MS. LEENERS: A: That is correct.

MR. FULTON: Q: And that's the only reason.

MS. LEENERS: A: I think that was the purpose of this

table, was to provide a percentage and obviously make an assessment based on that percentage as to whether it was high, medium or low.

MR. FULTON: Q: Line 5 on Table 1 relates to other operating revenue, and in Table 3 that revenue requirement is rated as being high risk, again because it is only covered by about 10 percent. Only 10 percent of it is covered by a deferral account, correct?

MS. LEENERS: A: That is correct. And the items that we are exposed to there would be late payment charges, connection charges, NSF cheques, FEI wheeling charge and the Southern Crossing pipeline third party revenue. So the total there is approximately 24 million, of which we have a mitigation account for Southern Crossing which would be 2.4 percent. Therefore 90 percent of that would be not covered by a deferral.

MR. FULTON: Q: Okay. And can you tell us generally whether those revenues would be significant variable from those forecasted and approved?

MS. LEENERS: A: I don’t have that information in front of me.

MR. FULTON: Q: Could I ask you by way of undertaking then to provide a table for the last ten years of actual versus approved other operating revenues, so we

1 can look at the risks for this item?
2 MR. DALL'ANTONIA: A: Yes, we can do that.
3 MS. LEENERS: A: Certainly.
4 **Information Request**
5 MR. FULTON: Q: Thank you. Now, for income taxes, the
6 company's FEI is claiming a moderate risk. The income
7 taxes though -- aren't any changes in income tax
8 covered by deferral account treatment?
9 MS. LEENERS: A: There is changes covered by deferral
10 account treatment correct. Not the whole account
11 though.
12 MR. DALL'ANTONIA: A: Just to be clear, it's tax rate
13 changes, not income tax in total. Because that's also
14 driven by the earnings. So it's the tax rate change
15 that we are referring to here.
16 MR. FULTON: Q: Okay. And the tax rate is applied to
17 the net income.
18 MS. LEENERS: A: Correct, your pre-tax income.
19 MR. DALL'ANTONIA: A: Your taxable income.
20 MS. LEENERS: A: Yeah.
21 **Proceeding Time 4:26 p.m. T33A**
22 MR. FULTON: Q: Thank you. Line item 7, "Other
23 Expenses", this his is likely a flow-through item
24 without any risk to the utility.
25 MS. LEENERS: A: This is a very, very small item of
26 approximately $1 million, and I am not --

1 MR. DALL'ANTONIA: A: I believe the NSP provision came
2 out of the 2010/11 revenue requirement, and there is
3 -- I'm probably going to get this wrong, but there is
4 a small balance and instead of flowing through a rate
5 change, we kept 2010 rates flat, and then '11 we
6 amortized it. So I think in '12 and '13 that's gone.
7 MS. LEENERS: A: That is correct.
8 MR. FULTON: Q: Thank you. Financing costs at line 8.
9 This item is almost entirely covered by a deferral
10 account, correct?
11 MS. LEENERS: A: The majority of it would be covered by
12 a deferral account. The only proportion that's not is
13 basically the principal balances of short-term debt.
14 But the rates would be subject to deferral, interest
15 rate changes.
16 MR. FULTON: Q: Okay. So the assessment of risk for
17 that item is low.
18 MS. LEENERS: A: Correct.
19 MR. FULTON: Q: And then the last item is the ROE.
20 Which falls out of the other cost categories, and
21 Fortis's control of those categories, correct?
22 MR. DALL'ANTONIA: A: Correct. I think it's worth
23 noting, Mr. Fulton, going through the table, that
24 basically is the situation we faced in 2005 and in
25 particular 2009. There is really not a lot of
26 variance in the use of the deferral accounts and the

1 preparation of this table. If you look at Table 1 on
2 page 219, the cost of gas is your single biggest
3 expense. We made use of the CCRA MCRA variance
4 accounts since, I believe -- I'm going to get the date
5 wrong, but I know it was before 2005 and it was in
6 existence in 2009. So, while we do have -- make good
7 use of deferral accounts to both the benefit of the
8 shareholder and the customer from a short-term
9 variance, that situation isn't new and it's not
10 different, really, than 2009. It's not a new fact
11 from our perspective, from management of the short-
12 term business risks.
13 MR. FULTON: Q: Good. And if we turn back to page 212
14 of B1-20, and the response to IR 95.1, would you agree
15 with me that that response shows that FEI over-earned
16 its ROE in every year of the last nine years except
17 2010?
18 MR. DALL'ANTONIA: A: Correct.
19 MR. FULTON: Q: And is Fortis opposed to returning to
20 regular regulatory review under PBR?
21 MR. DALL'ANTONIA: A: No, we're not opposed to it.
22 MR. FULTON: Performance-based rate-making, I should say.
23 MR. DALL'ANTONIA: A: Yes. So, we're not opposed to
24 it. It's something that we'll be likely considering
25 in the next RRA, or some form. Maybe not the same
26 form or as broad. Again, the PBR in 2003, I think,

1 was also a function of some circumstances where we are
2 moving to a broad shared services model with the
3 acquisition of FEVI and FEW and so there was some
4 opportunity there when we went from an efficiency
5 point of view, that we knew that we could capture and
6 share with our customers. So we see value in a PBR.
7 I'm not sure what it would look like yet, so we
8 wouldn't be adverse to pursuing such an outcome.
9 **Proceeding Time 4:30 p.m. T34A**
10 MR. FULTON: Q: And there was a discussion earlier
11 today about the number of deferral accounts and the
12 number that I recall was 24. Is Fortis aware of any
13 other specific utility in North America that has that
14 number of deferral accounts.
15 MR. DALL'ANTONIA: A: I think if you look at -- I'll
16 get this hopefully right -- in Exhibit B1-24, the
17 attachment to IR 197.1, we were asked to compare the
18 numbered deferral accounts to certain other utilities.
19 As well, in -- let me just see. There is three IRs
20 that point to the various use of deferral accounts.
21 I'll just walk through them if I can, Mr. Fulton.
22 MR. FULTON: Q: Okay.
23 MR. DALL'ANTONIA: A: So the first one is attachment
24 197.1.
25 MR. FULTON: Q: Is that an electronic attachment or no?
26 MR. DALL'ANTONIA: A: I have it in front of me. I

1 don't believe it was electronic. I believe it was
2 filed.
3 MR. FULTON: Q: Okay. Thank you.
4 MR. DALL'ANTONIA: A: And the next exhibit to look at
5 is the attachment to IR 167.1 which is in the same
6 exhibit, B1-24.
7 MR. FULTON: Q: Okay.
8 MR. DALL'ANTONIA: A: And then we also have in Exhibit
9 B1-20 the attachment to attachment 54.2. And they
10 are prepared for different purposes, and Ms. McShane
11 has much more knowledge on the use of the various
12 accounts. But attachment 54.2 refers to the U.S.
13 practice compared to the Canadian practice generally.
14 Attachment 167.1, I believe Ms. McShane was asked to
15 specifically refer to certain of the utilities in her
16 sample group. And then attachment 197.1 referred to a
17 comparison to deferral accounts between FEI and
18 Enbridge, Union Gas and then a handful of U.S.
19 utilities.
20 **Proceeding Time 4:33 p.m. T35A**
21 So on that basis, I think there is evidence
22 that there is widespread use of deferral accounts,
23 especially for the major expenses such as cost of gas,
24 flow-through, weather normalization and decoupling. I
25 will agree with Mr. Fulton that if you did a simple
26 add-up-the-numbers, FEI currently has 24 and I think

1 Enbridge has about 20, 21.
2 MR. FULTON: Q: Thank you.
3 MR. DALL'ANTONIA: A: But the point, I think, that's
4 worth noting is the nature of those deferral accounts
5 -- which ones speak specifically to a variance in your
6 income statement, which could affect your ROE, and
7 which deferral accounts are there for specific
8 situations.
9 So, this growth from 13 deferral accounts
10 to 24, three of them were just splitting of already
11 existing deferral accounts. So we had the -- I think
12 it was called the GCRA, which was Gas, Commodity,
13 something account. And that became the MICRA and the
14 SECRA as an example. If you look at some of the other
15 ones that we have added, they're balance sheet items.
16 They don't actually affect our earnings. So this
17 discussion, and Dr. Booth's evidence goes into it,
18 that we've had this, you know, explosion of deferral
19 accounts, I know those aren't his words, but that
20 seems to be the intimation -- it's just not the fact.
21 Since 2005 and 2009 to 2012, there really has been no
22 significant fundamental charge to our risk on deferral
23 mechanisms or regulatory risk. So that's the point I
24 would just like to clarify. It's not a simple "how
25 many do you have". It's what's the nature of them and
26 how broad they are.

1 MR. FULTON: Q: Okay.
2 This would be an appropriate time to break,
3 Mr. Chairman. I see the time. Thank you.
4 MR. GHIKAS: Mr. Chairman, I do have a few undertakings
5 to file, which may be beneficial to do them now.
6 THE CHAIRPERSON: Please, yes.
7 MR. GHIKAS: Before we leave.
8 THE CHAIRPERSON: Might as well.
9 MR. GHIKAS: The first one is from this morning at
10 approximately 10:44 or 10:45, around there. And the
11 requester was Mr. Wallace. The witness was Ms. Des
12 Brisay, and the exchange was about the situation in
13 November, 2009 versus November, 2012, in terms of
14 prices and impacts and of that nature. We don't have
15 the exact text, but that was the gist of it.
16 And that would be Undertaking number 2,
17 Exhibit B1-36.
18 THE HEARING OFFICER: B1-36.
19 MR. GHIKAS: Oh, sorry. That was number two.
20 THE CHAIRPERSON: Can we get it? This is undertaking
21 number one?
22 MR. GHIKAS: You know, I did them in the wrong order. If
23 you make that one B1-37, that's undertaking number
24 two. Undertaking number 1 is B1-36, and that is from
25 this morning, another request of Mr. Wallace to Ms.
26 Des Brisay at 11:16 this morning, and that requested

1 an update to Figures 9 and 11 in BCUC IRs 1.102.1 and
2 1.104.1 to October of this year. Did I confuse you on
3 the numbering of the exhibits or -- okay.
4 **Proceeding Time 4:36 p.m. T36**
5 THE CHAIRPERSON: No, you got it right.
6 MR. GHIKAS: Okay.
7 THE CHAIRPERSON: I said take 01 as B1-36?
8 MR. GHIKAS: Yes. Thank you.
9 **(RESPONSE - "FORTISBC UTILITIES UNDERTAKING NO. 1",**
10 **MARKED EXHIBIT B1-36)**
11 **(RESPONSE - "FORTISBC UTILITIES UNDERTAKING NO. 2",**
12 **MARKED EXHIBIT B1-37)**
13 MR. GHIKAS: And that's everything for me, Mr. Chair.
14 THE CHAIRPERSON: That's everything? Okay, let's adjourn
15 for the day. Remember we're starting a little earlier
16 tomorrow at 8:30 a.m. So, thank you.
17 **(PROCEEDINGS ADJOURNED AT 4:37 A.M.)**
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