

REQUESTOR NAME: **BCPSO**
INFORMATION REQUEST ROUND NO: **1**
TO: **FortisBC Utilities (“FBCU”)**
DATE: **August 31, 2012**
PROJECT NO: **3698660**
APPLICATION NAME: **Generic Cost of Capital Proceeding**

1.0 Reference: Exhibit B1-9, FBCU Evidence, pages 3 and 7-8

Preamble: The Evidence states that one of the elements of FEI’s business risk is the competitiveness of natural gas to alternative energy sources such as electricity.

1.1 Is it FBCU’s view that, relative to the situation that existed in 2009, the competitive position of natural gas versus electricity has improved, or has it deteriorated?

2.0 Reference: Exhibit B1-9, FBCU Evidence, page 6

2.1 Was the outcome of the Commission’s Decision regarding allowed ROE less than what had been identified by all of the experts who participated in the BCUC proceeding regarding the 2009 Application?

**3.0 Reference: Exhibit B1-9, FBCU Evidence, page 10
Exhibit B1-9, FBCU Evidence, Appendix G, page 6, lines 7-8
Exhibit B1-9, FBCU Evidence, Appendix F, page 1, line 18**

3.1 Was the evidence provided by Ms. McShane and Dr. Vander Weide developed on a totally independent basis? More specifically, did the experts consult with each other and/or have available to them drafts of the other expert’s evidence prior completing and finalizing their own evidence?

4.0 Reference: Exhibit B1-9, FBCU Evidence, pages 11-12 and page 29

4.1 What is FBCU’s view regarding the need for a deemed interest rate in circumstances (such as PNG – see Exhibit B3-7) where the deemed debt level exceeds the actual debt level and, if required, how should the rate be established?

5.0 Reference: Exhibit B1-9, FBCU Evidence, pages 18-19

5.1 Even in circumstances where an actual utility is used as the “benchmark”, will it not be necessary for there to be common agreement (or determination by the BCUC) regarding the characteristics of the utility – particularly for those characteristics, such as business risk and competitive position, where opinions may differ?

6.0 Reference: Exhibit B1-9, FBCU Evidence, pages 22-23

6.1 For each of the four trends noted on pages 22-23 that are viewed as increasing the business risk for FEI (as a distributor of natural gas), please comment on whether the same “trends” can be viewed as decreasing the business risk for electricity distributors and/or vertically integrated electric utilities.

7.0 Reference: Exhibit B1-9, FBCU Evidence, page 26

7.1 Please discuss FEI’s borrowing activities since 2008. For each debt issue please indicate whether or not FEI was able to borrow at the rate one would expect available for a minimum A rated company.

8.0 Reference: Exhibit B1-9, FBCU Evidence, page 31

8.1 Based on the most recent actual financial results, what portion of FEI’s overall capital structure is associated with (i) its average working capital requirements and (ii) the development of assets?

9.0 Reference: Exhibit B1-9, Appendix F (McShane Evidence), pages 45-48 and 51

9.1 The discussion on pages 45-48 suggests that the business risk associated with vertically integrated electric utilities is higher than that of natural gas distribution utilities. However, the text on page 51 specifically notes the competitive advantage available to electric utilities with low embedded costs of heritage hydroelectric generation. Please comment on the relative ranking of vertically integrated electric utilities (with relatively low cost sources of generation such as hydro-electric) versus natural gas distributors, particularly in the context of BC.

10.0 Reference: Exhibit B1-9, Appendix F (McShane Evidence), pages 92-93

10.1 The equations set out in both Table 17 and Table 18 have relatively low R^2 values. At what level of R^2 value would the results of the equation be viewed as insufficiently robust to be used in determining a reasonable utility relative risk adjustment?

11.0 Reference: Exhibit B1-9, Appendix F (McShane Evidence), page 121

11.1 What assurance is there that non-arm’s length issues between a utility and an affiliated company have “cost rates that are based on market conditions”?

12.0 Reference: Exhibit B1-9, Appendix F (McShane Evidence), page 135-136

12.1 The text on these pages concludes that “size matters” in evaluating ROE. Please explain how the relative size of FEI was taken into account in the determination of the return on equity values set out in Table 31.

13.0 Reference: Exhibit B1-9, Appendix G (Vander Weide Evidence), page 14

Preamble: Other evidence filed in this proceeding has suggested that size is a factor consider in the determination of return on equity.

13.1 Does Mr. Vander Weide agree?

13.2 Was size taken into account in the selection of utilities as set out on page 14?