



LETTER L-31-13A

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VIA EMAIL

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June 6, 2013

Ms. Diane Roy
Director, Regulatory Affairs – Gas
FortisBC Energy Inc.
16705 Fraser Highway
Surrey, BC V4N 0E8

Dear Ms. Roy:

Re: British Columbia Utilities Commission
Project No. 3698660/G-20-12
Generic Cost of Capital Proceeding – Stage 1

Capital Structure Implementation and Amended Rates
Compliance Filing and Approval to Implement Rates
Interpretation of Interim Order G-187-12

On May 28, 2013, FortisBC Energy Utilities (FEU)¹ filed with the British Columbia Utilities Commission (Commission) its Compliance Filing pursuant to the Generic Cost of Capital (GCOC) Proceeding – Stage 1 Decision and Order G-75-13.

On May 31, 2013, Commission staff and representatives of FEU discussed, by way of a teleconference, a number of issues arising from the FEU's Compliance Filing, which includes, among other things, information with respect to revenue surplus, notional delivery margin change for FEI, Fort Nelson Service Division, FEVI and FEW; a proposal to implement the change in capital structure; and a request to establish the January 1, 2013 existing interim rates for FEI, Fort Nelson Service Division, FEVI and FEW as permanent.

This letter provides clarification to FEU and other stakeholders from the Commission Panel (Stage 1) regarding interim rates pursuant to Order G-187-12 (Interim Order).

Issue

Pages 53-54 and 80 of the GCOC – Stage 1 Decision determined that: (a) a reduction in the common equity ratio of 1.5 percent to 38.5 percent is appropriate for FEI, which was established as the benchmark utility; and (b) the Return on Equity (ROE) for FEI is 8.75 percent, to be effective January 1, 2013, provided for by Order G-47-12 and confirmed in Order G-187-12. Page 80 in the Decision also states that the ROE will be effective until December 31, 2015, subject to variation commencing January 1, 2014, by the Automatic Adjustment Mechanism formula.

¹ Consisting of FortisBC Energy Inc. (FEI), FEI Fort Nelson Service Area (Fort Nelson), FortisBC Energy (Vancouver Island) Inc. (FEVI), and FortisBC Energy (Whistler) Inc. (FEW)

The gas and electric utilities of FortisBC were jointly registered as FBCU (comprising of FEI, FEVI, FEW and FortisBC Inc.) in the GCOC-Stage 1 Proceeding. FEU requested in the compliance filing that a Commission order be issued to give effect to the existing interim rates as permanent, approve a rate rider to flow through the refund, and approve the new financial schedules for FEI Fort Nelson Service Area, FEVI and FEW to reflect the impact of the GCOC – Stage 1 Decision. FBCU made no similar request on behalf of FortisBC Inc.

According to FEU, the request made on behalf of FEVI and FEW is based on Orders G-20-12 and G-47-12, which stated that the GCOC Proceeding was not intended to set each utility's risk premium on the Benchmark ROE, and that any adjustment to an individual utility's premium that is effective after December 31, 2013, will be set in a separate future proceeding for that utility. Accordingly, FEU take the position that the existing interim rates for FEW and FEVI are treated in the same manner as the benchmark utility given the Decision on the Capital Structure and the ROE.

Commission Panel Clarification

Commission Order G-187-12 dated December 10, 2012, clearly sets out the rates for all utilities, with the exception of British Columbia and Hydro Authority, as interim effective January 1, 2013. In addition, Order G-187-12 sets out that any risk premium on the benchmark ROE and capital structure of the regulated utilities that depend on the benchmark utility for rate setting will be determined following the decision in Stage 2. Accordingly, the rates for the benchmark utility, FEI, ceased to be interim when the GCOC - Stage 1 Decision and its accompanying Order G-75-13 were issued.

The Commission's view is that the interim rates for all other utilities remain interim until a decision is rendered for the Stage 2 of GCOC. The Stage 2 of GCOC will review on the appropriate ROE and capital structure for each utility relative to the benchmark utility. The Commission notes that the wording in the Preliminary Scoping Document attached to Order G-20-12 dated February 28, 2012, and the wording under Matter # 4 on page 8 of Appendix A to Order G-47-12 regarding GCOC Proceeding are superseded by Orders G-148-12 dated October 11, 2012 and G-187-12 dated December 10, 2012.

Yours truly,

Erica Hamilton

EC/dg

cc: Registered Parties
(Stage 1 and 2)