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October 20, 2022

Residential Consumer Intervener Association
c/o Midgard Consulting Inc.
Suite 828 – 1130 W Pender Street
Vancouver, B.C.
V6E 4A4

Attention: Mr. Peter Helland, Director

Dear Mr. Helland:

Re: British Columbia Utilities Commission (BCUC) – 2022 Generic Cost of Capital Proceeding – Project No. 1599176

FortisBC Energy Inc. and FortisBC Inc. (collectively FortisBC) Response to the Residential Consumer Intervener Association (RCIA) Information Request (IR) No. 1 on FortisBC Rebuttal Evidence

On January 18, 2021, BCUC initiated the proceeding referenced above. In accordance with the regulatory timetable established in British Columbia Utilities Commission Order G-217-22A for the review of FortisBC's Evidence, FortisBC respectfully submits the attached response to RCIA Rebuttal IR No. 1.

For convenience and efficiency, FortisBC has occasionally provided an internet address for referenced reports instead of attaching lengthy documents to its IR responses. FortisBC intends for the referenced documents to form part of its IR responses and the evidentiary record in this proceeding.

If further information is required, please contact the undersigned.

Sincerely,

on behalf of FORTISBC

Original signed:

Diane Roy

Attachments
cc (email only): Commission Secretary
Registered Parties



British Columbia Utilities Commission (BCUC) 2022 Generic Cost of Capital (GCOC) (Proceeding)	Submission Date: October 20, 2022
FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) (collectively FortisBC) Response to Residential Consumer Intervener Association (RCIA) Information Request (IR) No. 1 on FortisBC Rebuttal Evidence	Page 1

1 **1.0 Reference Exhibit A2-20, .pdf Page 39 of 39**

2 **Dr. Lesser Response to BCUC IR No.2 10.4 Exhibit B1-21, .pdf Page**
3 **29 of 44**

4 **III. RESPONSE TO DR. LESSER**

5 **C. CAPM Inputs**

6 **Mr. Coyne’s response to whether he agrees with Dr. Lesser’s preference for using**
7 **current average government bond yields as the risk-free rate in the CAPM:**

8 *“... Interest rates on government bonds in June 2022 are much closer to the levels in the*
9 *Consensus Economics’ forecast from October 2021 than to the historical average level as*
10 *of December 2021.”*

11 1.1. Please provide the figures being referenced for June 2022, October 2021 and
12 December 2021.

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14 **Response:**

15 Concentric provides the following response:

16 The requested information is provided in the table below.

	Canada Long Govt Bond	U.S. 30-year Treasury
October 2021 – Consensus Economics Forecast	2.58%	2.91%
December 2021 – 30-day average yield	1.82%	1.87%
June 2022 – 30-day average yield	3.10%	3.18%

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18 The October 2021 forecast is taken from Figure 27 in Concentric’s January 2022 report. The risk-
19 free rate is the forecast 10-year bond yield from Consensus Economics from 2022-2024 plus the
20 average daily spread between 10-year and 30-year government bonds in December 2021.

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24 1.2. Please provide the updated figures (once available) that are to be used for the
25 model update scheduled for delivery on Nov 7, 2022.

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27 **Response:**

28 Concentric provides the following response:



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1 The updated figures are provided in the table below.

	Canada Long Govt Bond	U.S. 30-year Treasury
October 2022 – Consensus Economics Forecast	3.16%	3.41%
Sept 2022 – 30-day average yield	3.06%	3.47%

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3 The updated risk-free rate is the forecast 10-year bond yield from the October 2022 issue of
4 Consensus Economics for the period from 2023-2025 plus the average daily spread between 10-
5 year and 30-year government bonds in September 2022. The table also shows the daily average
6 government bond yields for the 30-days ending September 30, 2022.



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1 **2.0 Reference Exhibit A2-21, .pdf Page 3 of 11**

2 **Dr. Lesser Response to RCIA IR No.2 36.2 Exhibit A2-24 , .pdf Page**
3 **10 of 23**

4 **Dr. Lesser Response to BCOAPO IR No.2 18.2 Exhibit B1-21, .pdf**
5 **page 31 of 44**

6 **III. RESPONSE TO DR. LESSER**

7 **C. CAPM Inputs**

8 **Mr. Coyne’s response to Dr. Lesser’s response on the high influence of central**
9 **banks on the short- term interest rates rather than long-term interest rates:**

10 *“I disagree with Dr. Lesser on this point. The stated purpose of the U.S. Federal Reserve’s*
11 *Quantitative Easing after the financial crisis of 2008/2009 was to stimulate the economy*
12 *by reducing long-term interest rates through the purchase of longer-dated Treasury bonds.*
13 *This drove down long- term interest rates on Treasury bonds to levels well below where*
14 *they would otherwise have been given economic conditions and absent these novel*
15 *monetary policies. The Bank of Canada also engaged in Quantitative Easing in 2020 in*
16 *response to the COVID-19 pandemic, driving down yields on the long Canada bond. This*
17 *is important because it suggests that as central banks reverse the Quantitative Easing*
18 *and start to reduce the size of their balance sheets, it is reasonable to expect that longer-*
19 *term interest rates will also increase rather significantly as policy accommodation is*
20 *withdrawn.”*

21 2.1. Please confirm that the Bank of Canada has begun Quantitative Tightening this
22 calendar year.

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24 **Response:**

25 Concentric provides the following response:

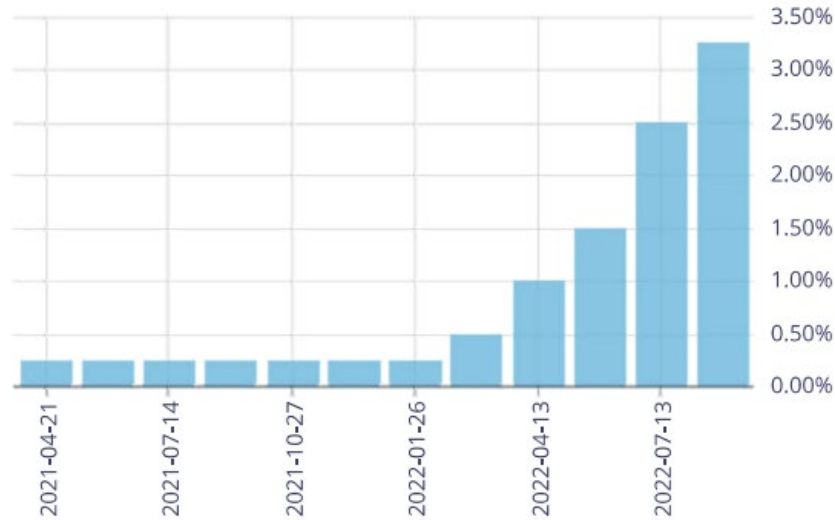
26 Confirmed. On April 13, 2022, the Bank of Canada announced that it was ending the reinvestment
27 phase of its asset purchase program and beginning quantitative tightening (QT). With the
28 initiation of QT, maturing government of Canada bonds will no longer be replaced and as a result,
29 the size of the balance sheet will decline. The Bank of Canada indicated that it was not actively
30 considering selling bonds. At each subsequent policy meeting, including the September 7, 2022
31 meeting, the Bank of Canada has indicated that it was continuing the QT program.

32 At the same time, as shown in the chart below, the Bank of Canada has raised the overnight rate
33 target from 0.25% in January 2022 to 3.25 percent as of September 2022. The Bank of Canada
34 has also indicated that further increases in the overnight rate target are expected in order to
35 combat inflation that has been more persistent than expected and is well above the Bank of
36 Canada’s target of 2.0 percent.

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1

Bank of Canada Overnight Rate



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2.2. Please explain what impacts Quantitative Tightening has had on Canadian bond prices and yields.

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Response:

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Concentric provides the following response:

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As shown in the chart below, yields on Canadian government and corporate bonds have increased substantially since January 2022. Specifically, the yield on 10-year government bonds has increased from 1.43 percent to 3.17 percent, the yield on 30-year government bonds has increased from 1.68 percent to 3.10 percent, and the yield on Canadian A-rated utility bonds has increased from 3.05 percent to 4.91 percent as of September 30, 2022. This sharp increases in bond yields are due in part to the Bank of Canada raising short-term interest rates and engaging in QT, both of which are intended to combat much higher than expected inflationary pressure in the economy.

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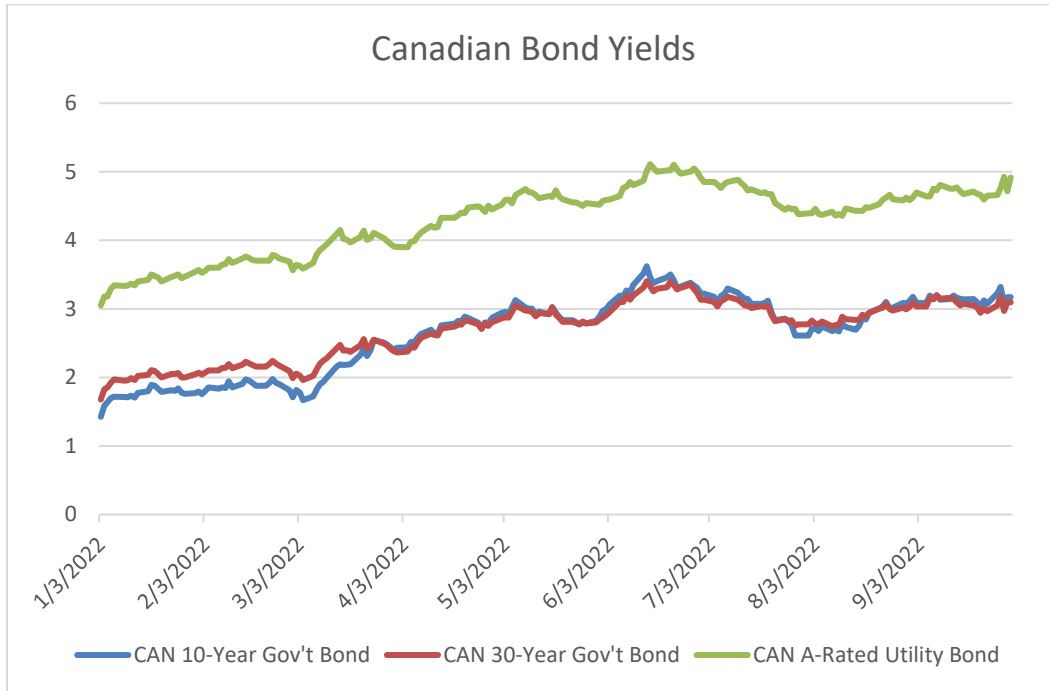
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