Diane Roy
Vice President, Regulatory Affairs

Gas Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.com

Electric Regulatory Affairs Correspondence
Email: electricity.regulatory.affairs@fortisbc.com

FortisBC
16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (604)576-7349
Cell: (604) 908-2790
Fax: (604) 576-7074
www.fortisbc.com

December 9, 2022

Commercial Energy Consumers Association of British Columbia
c/o Owen Bird Law Corporation
P.O. Box 49130
Three Bentall Centre
2900 – 595 Burrard Street
Vancouver, BC
V7X 1J5

Attention: Mr. Christopher P. Weafer

Dear Mr. Weafer:

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 Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1 on Undertakings

On January 18, 2021, BCUC initiated the proceeding referenced above. In accordance with the amended regulatory timetable established in British Columbia Utilities Commission Order G-327-22A for the review of FortisBC's Evidence, FortisBC respectfully submits the attached response to CEC IR No. 1 on Undertakings.

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

1. Reference: Exhibit B1-50, page 2

Table 1: Bond Yields and Market Risk Premiums

Scenario	As of	Bond Yield (Canada)	MRP (Canada)	Bond Yield (U.S.)	MRP (U.S.)
A.1 – Coyne - original	December 2021	2.58%	8.49%	2.91%	8.49%
A.2 – Coyne – 90 day	October 2022	3.21%	7.29%	3.50%	7.28%
A.3 – Coyne – 30 day	October 2022	3.27%	7.17%	3.92%	7.17%
B.4 – Lesser – 30 day	December 2021	1.82%	6.20%	1.87%	5.69%
B.5 – Lesser – 90 day	December 2021	1.90%	6.12%	1.94%	5.62%
B.6 – Lesser – 30 day	October 2022	3.27%	5.47%	3.92%	3.30%
B.7 – Lesser – 90 day	October 2022	3.09%	5.66%	3.43%	3.78%

A U.S. MRP of 3.30% or 3.78% (as calculated in Scenarios B.6 and B.7) is outside any reasonable range of the MRP estimates and 3.5% to 4.0% lower than the historical U.S. MRP of 7.46% from 1929-2021. And the historical MRP is understated because it is based on government bond yields of approximately 5.0%, compared with average bond yields of 3.4% to 3.9% in October 2022, so one would expect a higher than historical MRP given current bond yields, and not lower, as indicated by Dr. Lesser's method.

1.1 Please explain the economic factors that would have contributed to the low US MRP results for October 2022 under Dr. Lesser's methodology.

Response:

Concentric provides the following response:

The low forward-looking market risk premium results in the U.S. in Scenarios B.6 and B.7 as compared to Scenarios B.4 and B.5 or Scenarios A.2 and A.3 are attributable to a few main factors:

In comparison to Scenarios B.4 and B.5 (which are also developed using Dr. Lesser's suggested approach):

1. the change from December to October reflects lower short-term earnings per share (EPS) growth rates for the companies in the S&P index and to a lesser extent the TSX index. In the U.S., the average projected EPS growth rate decreased from 13.84 percent in December 2021 to 8.87 percent in October 2022 due to reduced expectations for earnings growth in the near-term as economic growth slowed.

2. much higher current average government bond yields, which are used as the risk-free rate. In the U.S., the current average 30-year Treasury bond yields increased by between 150 and 200 basis points from December 2021 to October 2022.

These lower short-term EPS growth rates were partially offset by higher average dividend yields. For the S&P 500 companies, the average dividend yield increased from 2.03 percent to 2.54 precent as stock prices declined in response to higher interest rates and concerns about lower economic growth or recession in the near term.

The table below summarizes the specific inputs to the forward-looking MRP in the U.S. in October 2022 as compared to December 2021:

Scenario	As of	Dividend Yield	ST growth rate	LT growth rate	Secondary market required return	Current risk-free rate	MRP
B.4 Lesser 30 day	Dec. 2021	2.03%	13.84%	4.35%	7.56%	1.87%	5.69%
B.5 Lesser 90 day	Dec. 2021	2.03%	13.84%	4.35%	7.56%	1.94%	5.62%
B.6 Lesser 30 day	Oct. 2022	2.54%	8.87%	4.14%	7.22%	3.92%	3.30%
B.7 Lesser 90 day	Oct. 2022	2.54%	8.87%	4.14%	7.22%	3.43%	3.78%

In comparison to Scenarios A.2 and A.3, which contrasts Mr. Coyne's methodology with that of Dr. Lesser's suggested approach for the same October 2022 period:

1. Mr. Coyne's approach (Scenarios A.2 and A.3) reflects the average of the historical MRP and the forward-looking MRP, estimated using the constant growth DCF model (comparable to the FERC approach).

2. Dr. Lesser's suggested approach (Scenarios B.6 and B.7) assumes that all earnings growth for the S&P or TSX companies beyond the first 5 years is constrained to GDP, which is well below any other estimate of earnings growth (historic or projected), and therefore results in a very low earnings growth rate.

These are not "economic factors" per se, but a fundamentally different assumption regarding future earnings growth.