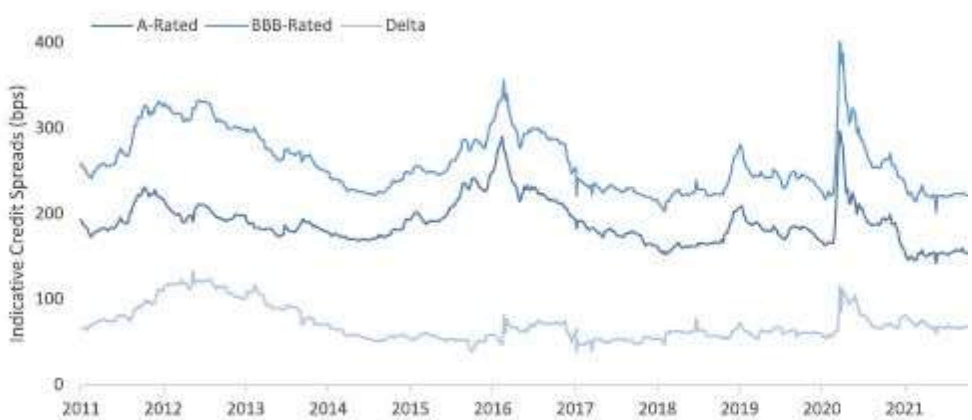
17.0 Reference Exhibit B-1-8, Page 35

Section 6.2.2.2 A-category Credit Rating Lowers FeI's Cost of Debt and Enhances Pricing Stability

FortisBC states: "With respect to the cost of debt, the credit spread associated with a BBB credit rating category is higher than that associated with an A credit rating category. In addition, A-rated debt yields are less volatile than BBB-rated debt. Figure 6-1 below shows the new issue credit spreads of BBB and A-rated corporate issuers, and the difference between them, from January 2011 to October 15, 2021. During this period, the average credit spread differential was approximately 70 basis points, with the pricing difference more pronounced during periods of market disruption (see 2016 and 2020). This means that based on a $200 million bond issued for 30-years, a BBB rated utility would have paid $1.4 million in additional interest expense annually that would have to be recovered from ratepayers. Over a lifetime of a 30-year bond, this translates into $42 million in additional interest expense."

Figure 6-1: Indicative 30 Year Credit Spreads of BBB-rated and A-rated New Issuances



17.1 What would be the net impact on rates of holding debt rates constant while applying FEI's proposed increased equity thickness and RoE?

<u>Response:</u>

If FEI's equity thickness and ROE are increased to 45 percent and 10.1 percent, respectively, as proposed while holding the debt rates (LTD and STD) constant as 2022 approved, there would be an approximate 4.5 percent rate increase (7.4 percent delivery rate increase) compared to the 2022 approved rates for FEI.

As explained in the BCUC's 2016 Cost of Capital Decision, under the Fair Return Standard rates must reflect a Fair Return (that meets the three standards of comparable investment, financial integrity and capital attractiveness standards), and cannot be judged based on the rate impacts associated with meeting that standard:

The Panel has not considered rate impacts that result from the revenue required to yield the fair return. The Panel recognizes that once a revenue requirement that has been established consistent with the Fair Return Standard and the regulatory compact, an assessment is required to determine not only that the rates give the utility the opportunity to realize its revenue requirements but also to ensure the rates that are set are structured so that they are consistent with the UCA requirement that they must not be "unjust" or "unreasonable" by being "more than a fair and reasonable charge for the service of the nature and quality provided by the utility."