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BRITISH COLUMBIA UTILITIES COMMISSION
GENERIC COST OF CAPITAL PROCEEDING EXHIBIT C6-12

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Our File: 12-2752
Date: November 5, 2012

British Columbia Utilities Commission
6th Floor- 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Erica M. Hamilton
Commission Secretary

Dear Ms. Hamilton:

Re: British Columbia Utilities Commission
Commission Order G-20-12 Generic Cost of Capital Proceeding
AMPC/BC Utility Customers – Evidence of Laurence D. Booth

We are legal counsel to the Association of Major Power Customers of BC (AMPC) and the BC Utility Customers in this matter. Please find enclosed for filing the evidence of AMPC's expert Dr. Laurence D. Booth.

Yours truly,

Bull, Housser & Tupper LLP

Matthew D. Keen

Encl.

FAIR RETURN FOR FORTISBC ENERGY (FEI)

EVIDENCE OF

Laurence D. Booth

BEFORE THE

British Columbia Utilities Commission

November 2012

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EXECUTIVE SUMMARY

The Association of Major Power customers (AMPC), the Commercial Energy Consumers Association of British Columbia (CEC), and the British Columbia Pensioners and Seniors' Organization (BCPSO), collectively the BC Utility Customers have asked me to review the application by the FortisBC Utilities on the generic cost of capital and to offer an opinion as to the fair rate of return on common equity (ROE) and appropriate capital structure for FortisBC Energy Inc. (FEI) and whether an ROE adjustment mechanism is appropriate.

My overall assessment is:

- FEI continues to earn its allowed ROE and there has been no material change in its short run risk. Longer term the emergence of shale gas is a game changer in terms of energy markets and has reduced FEI's long term risk of capital recovery. Overall I would judge that its business risk has declined to what it was before 2005 when it operated on a 35% common equity ratio.

- I would regard the comparators to FEI as being ATCO Gas, Gaz Metro, Union Gas and Enbridge Gas Distribution Inc (EGDI). In each case they are very large dominant gas distribution utilities. In addition I would add Nova Scotia Power Inc (NSPI) as a province wide integrated electric utility. In terms of common equity ratios, Union was awarded a 36% common equity ratio by the OEB (October 25, 2012), EGDI is currently before the OEB but it is difficult to see how the OEB can change its 36% common equity ratio given the Union Gas Decision. The Regie allows Gaz Metro 38.50% and NSPI recently settled on 37.5% common equity. These would indicate a reasonable range for FEI of 36.0%-38.50%. The only major utility outside that range is ATCO Gas, which was allowed 39%. This was the result of an across the board AUC decision that simultaneously set both allowed ROEs and common equity ratios in response to capital market conditions in 2009. So this decision did not reflect any changes in ATCO Gas;' business risk.

- The Canadian economy has now fully recovered from the recession and is drawing down on the remaining spare capacity. Recently the Governor of the Bank of Canada has described the Canadian financial system as "firing on all cylinders" and he expects the remaining output gap to be removed in 2013. So forecasters are anticipating interest rate increases.

- Up until Summer 2011, I (and most forecasters, including the equity market) expected strong economic growth and that the Bank of Canada would start increasing interest rates. In June 2011, for example, the Royal Bank of Canada was forecasting long Canada bond yields to be 4.55% by the end of 2012. However, this recovery to normal has been delayed for at least 2 years due to the Euro crisis and continuing problems in the US, where the actions of the Federal Reserve in Operation Twist and its commitment to keeping the Federal Funds rate at 0-0.25% until the end of 2014 have brought down global interest rates.

- While financial stress has disappeared from the system, corporate spreads over government bond yields remain high at 180 bps mainly due to unusually low government bond yields. I have therefore been recommending a credit spread adjustment of 50% of the change in the credit spread from normal to my estimates. This adds approximately 40 bps to simple CAPM estimates of the ROE, but should even out over the business cycle.

- However, the corporate credit spread adjustment does not adjust for the overall drop in bond yields since July 2011 and the introduction of Operation Twist by the US Federal Reserve Board. The introduction of quantitative easing to the tune of $85 million a month combined with flight out of the Eurozone leads me to judge that current long Canada bond yields are about 0.80% below where they should be for this stage in the business cycle.

- I judge the market risk premium to be 5.0% based on historic data, but academic experts, analysts and companies place it in a range 5.0-6.0% which I accept. This combined with my risk positioning of Canadian utilities (largely betas) in a range of 45-55% as risky as the market as a whole and my adjusted interest rate forecast lead to a risk premium based fair ROE for 2013 of **7.50%.**

- My analysis of DCF fair rates of returns confirms that current risk premium estimates are too low, since real bond yields are below any standard equilibrium level. This information supports my credit market and Operation Twist adjustments and provides corroborating estimates of the fair ROE.

- FEI's own actuary produces very similar estimates of the both the Canadian market return and the market risk premium to my own once they are converted to a consistent basis. These estimates have been accepted by FEI in its analysis of its defined benefit pension plan, so I regard my own recommendations as middle of the road and consistent with external experts in the area..

- I would recommend an ROE adjustment model where the ROE adjusts by 75% of the forecast change in the long Canada bond yield and 50% of the change in the credit spread. This would be subject to a minimum forecast long Canada bond yield of 3.80% and my going in ROE recommendation. Similar models are in use by the Regie and OEB.

- I would discount the use of estimates from the US since Moody's and other rating reports indicate there is greater regulatory protection in Canada. As a result Canadian utilities obtained higher credit ratings than their US peers even though they have lower ROEs and common equity ratios.