FORTISBC ENERGY CEC ROE 2016
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Our File: 15-4171
Date: February 3, 2016

BY E-MAIL

British Columbia Utilities Commission
6th Floor – 900 Howe Street
Vancouver, BC V6Z 2V3

Attention: Erica Hamilton, Commission Secretary

Dear Sirs/Mesdames:

Re FortisBC Energy Inc. Common Equity Component and 2016 Return on Equity Association of Major Power Customers of BC (AMPC), British Columbia Old Age Pensioners' Organization et. al. and the Commercial Energy Consumers Association of British Columbia (Utility Customers)
Revised Evidence of Dr. Booth

We are legal counsel to AMPC in this matter, and write on behalf of AMPC and the Utility Customers. After filing his evidence, Dr. Booth discovered that he had misread a table. This error does not affect his overall conclusions, but does affect some of the underlying calculations, and he has therefore corrected his evidence.

Accordingly, please find enclosed the corrected evidence of Dr. Booth, as well as a blackline comparing it to the version filed on January 26 that clearly shows where the changes have been made. The blackline document does not contain appendices, as no changes were made in those sections.

Again, bookmarks have been embedded in the document to assist with navigation.

Please contact the undersigned if you have any questions.

Bull, Housser & Tupper LLP

Matthew D. Keen

FAIR RETURN AND CAPITAL STRUCTURE FOR FORTIS BC ENERGY

EVIDENCE OF

Laurence D. Booth

BEFORE THE

BC Utilities Commission

~~January~~Corrected February 3, 2016

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APPENDIX A: PROFESSOR BOOTH'S CURRICULUM VITAE

APPENDIX B: MARKET RISK PREMIUM ESTIMATES

APPENDIX C: RELATIVE RISK FOR A BENCHMARK UTILITY

APPENDIX D: DCF ESTIMATES

APPENDIX E: ALTERNATIVE MODELS TO THE CAPM

EXECUTIVE SUMMARY

1. The Canadian economy has stalled somewhat as resource prices have collapsed following a slowdown in China and with them the value of the Canadian $. This has hurt the resource intensive sectors like Alberta, but added extra stimulus to others, in particular, Ontario and Quebec. As the economy adjusts to this change short term growth has weakened, but is expected to get back on track in 2017. The BC economy is one of the strongest in Canada in terms of economic growth.

2. Although the US Federal Reserve has stopped its bond buying program (quantitative easing or Operation Twist), others are still very active and there is now a huge block of government bonds that have been taken off the bond market increasing prices and lowering yields from where they would otherwise have been. This has led to continuing low long Canada bond yields causing corporate credit spreads over government bond yields to remain high at 191 bps. This is mainly due to unusually low government bond yields not higher credit risk, since all the standard stress indicators show normal capital market conditions.

3. Canadian utilities have issued 40 and in some cases 50 year bonds at extremely low interest rates and FEI recently issued 30 year MTNs at a little over 1.35% spread over equivalent maturity long Canadas..

4. I have been recommending a credit spread adjustment of 50% of the change in the credit spread from the normal spread of 100bps to my ROE recommendations. This adds 45 bps to simple CAPM estimates, but should even out over the business cycle. I regard this as simply converting the simple CAPM into a Contingent CAPM or CCAPM as required by theory.

5. However, the credit spread adjustment does not adjust for the overall drop in bond yields as partly indicated by the behaviour of preferred share yields. Since the US embarked on its third round of quantitative easing the traditional spread of preferred share yields over both government of Canada and generic A rated corporate bonds has changed. This indicates that current long Canada bond yields are at least 1.30% too low based on traditional, spreads confirming my real bond yield model that indicates an even higher 2.5%.

6. For 2016 I continue to recommend an ROE of 7.50% for a benchmark utility. This recommendation ~~includes~~reflects a 0.45% adjustment for credit spreads ~~and~~, 1.3% for the impact of global bond buying programs and evidence from DCF equity costs. For 2017 and later years I recommend the BCUC continue with its ROE adjustment model with the 3.80% floor to the long Canada bond yield. However, I do not expect this floor to be triggered over the next three years.

7. I accept FEI's broad assessment that its business risk is largely unchanged since 2012, but would point out there are signs of a marginal decrease in risk. Consequently, I see no reason to change my standard common equity ratio recommendation of 35% which is slightly below a comparator benchmark of 37%.

8. I disagree with the company's assessment that it might have problems with the interest coverage ratio (ICR) restriction in its bond indenture and therefore capital market access problems. Its ICR analysis is deficient and with its own filing with securities regulators its recent ICR was over 2.2. Currently I judge there to be no capital market or access problems for high quality utilities and given the state of the financial system FEI should have no problems financing itself with my recommended financial parameters.[1]

9. I would recommend no adjustment for the amalgamation of FEI which I do not judge to materially alter its risk or financial parameters. This conclusion is in line with the decision of the rating agencies, which seem to regard the amalgamation as not material.

[1] TD's "action note" of May 6, 2015 notes that FEI's ultimate parent Fortis has an ROE of 7.10% and an investment grade bond rating.