



IN THE MATTER OF  
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

a Generic Hearing into the Rate of Return on Common Equity  
for a Benchmark Utility

**BEFORE:** P. Ostergaard, Chair )  
L.R. Barr, Deputy Chair )  
P.G. Bradley, Commissioner ) August 26, 1999  
B.L. Clemenhagen, Commissioner )

**O R D E R**

**WHEREAS:**

- A. In its Decision dated June 10, 1994, the Commission established rates of return on common equity ("ROE") for BC Gas Utility Ltd. ("BC Gas"), Pacific Northern Gas Ltd. ("PNG"), West Kootenay Power Ltd. ("WKP"), and Centra Gas Fort St. John Inc. ("Centra FSJ"); and
- B. In the same Decision the Commission established a mechanism for varying the ROE on an annual basis; and
- C. The Commission, by Order No. G-49-97, amended the mechanism to correct for certain problems and to make it more consistent with the practices of other regulatory bodies; and
- D. In December of each year from 1995 through 1998, the Commission reviewed the financial criteria and issued Letters informing BC Gas, PNG, WKP and Centra FSJ about the approved ROE for each subsequent year based on the original and amended mechanism; and
- E. In 1998 there were requests from various parties to re-examine the mechanism to determine if further amendments were required. The Commission, by Letter No. L-73-98, advised interested parties that the Commission, in 1999, would be establishing a process for a comprehensive review of all issues surrounding the setting of the ROE; and
- F. The 1994 ROE Decision anticipated a review of the mechanism; and
- G. On March 11, 1999, the Commission issued Order No. G-26-99 setting down an oral public hearing into the appropriate ROE and Capital Structures for BC Gas, PNG, WKP, Centra FSJ and Centra Gas Whistler Inc. to commence May 31, 1999; and
- H. By way of letters dated March 22, 1999 and March 23, 1999, BC Gas, PNG and WKP ("the Utilities") asked the Commission to reconsider the scope of the hearing and limit the items for consideration to the ROE for a low-risk benchmark utility and to the automatic adjustment formula; and
- I. The Utilities also asked that the Commission delay the date for the filing of all evidence to May 17, 1999, to make such further adjustments to the Regulatory Timetable as necessary to allow for this delay, and to proceed on a written rather than an oral basis; and

- J. Comments on this request were received from the Consumers' Association of Canada (B.C. Branch) et al. and the Joint Industry Electrical Steering Committee supporting the restriction in the scope of the hearing but opposing the request for a written hearing; and
- K. The Commission considered all the submissions and set down an oral public hearing into the appropriate ROE for a low-risk benchmark utility and into future processes or mechanisms that may be employed to improve the determination of ROE for the Utilities in future years; and
- L. The public hearing proceeded as scheduled on Monday, June 21, 1999 in Vancouver.

**NOW THEREFORE**, the Commission directs as follows:

1. The equity risk premium for a low-risk benchmark utility is 350 basis points when long Canada yields are 5.5 percent. This premium includes a 50 basis point cushion to cover the risk of dilution and the cost of new share issues in ordinary circumstances. Accordingly, the fair rate of return on equity for a low-risk benchmark utility is 9.0 percent when long Canada yields are 5.5 percent.
2. The current automatic adjustment formula shall continue to be employed, with the following exceptions:
  - (a) at forecast long Canada yields of 6.0 percent or below, the equity risk premium for a low-risk benchmark utility will be fixed at 350 basis points;
  - (b) at forecast long Canada yields of greater than 6.0 percent, the current contraction/expansion factor (i.e., the sliding scale) of 0.8 of the difference in forecast long Canada yields shall be retained and shall be driven off a low-risk benchmark utility ROE of 9.5 percent;
  - (c) to determine the forecast long Canada yield, the period over which the 10- to 30-year spread is to be measured shall be redefined as all the trading days in the October preceding the November Consensus forecast; and
  - (d) the Commission will canvass interested parties on the need for a review of the automatic adjustment formula when long Canada rates exceed 8.0 percent for a period of at least six months.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 26<sup>th</sup> day of August 1999.

BY ORDER

*Original signed by:*

Peter Ostergaard  
Chair