



LETTER No. L-43-01

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VIA FACSIMILE

November 26, 2001

Mr. C.P. Donohue
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Mr. Robert H. Hobbs
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Dear Sirs:

**Re: Return on Common Equity for a
Low-Risk Benchmark Utility for the Year 2002**

In letter No. L-62-01, the Commission established a written public hearing to review the yield spread between medium and long-term bonds in 2001 to consider whether amendments should be made to the mechanism prior to the calculation of the low-risk benchmark Return on Common Equity ("ROE") for 2002. In addition, the hearing was to review whether or not to continue with the Commission's practice of rounding the low-risk benchmark ROE to the nearest 25 basis points (0.25 percent).

Following the hearing, the Commission determined by Order No. G-109-01 that the current treatment of the yield spread between 30-year and 10-year bonds did not require adjustment. The Commission also determined that the ROE for the low-risk benchmark utility, expressed as a percentage, should be rounded to two decimal places prior to adding the utility-specific risk premium.

Therefore, pursuant to Order No. G-80-99, as amended by Order No. G-109-01, the Commission has determined that 9.13 percent is the appropriate ROE for a low-risk benchmark utility in the year 2002. The calculation and other documentation in support of this finding are attached.

The appropriate ROEs in 2002 for individual utilities will incorporate the risk premium for each utility relative to the low-risk benchmark.

Yours truly,

Original signed by:

Robert J. Pellatt

JWF/cms
Attachments

cc: Mr. R. Brian Wallace
Bull, Housser & Tupper
Mr. Richard Gathercole, Executive Director
The British Columbia Public Interest Advocacy Centre

Mr. Ray Aldeguer, Senior Vice President
Legal and Regulatory Affairs and General Counsel
British Columbia Hydro and Power Authority
Mr. J.D.V. Newlands, President
Pacific Western Energy Products & Services Inc.

CALCULATION OF ALLOWED 2002 RATE OF RETURN ON COMMON EQUITY
FOR A LOW-RISK BENCHMARK UTILITY
(PER COMMISSION ORDER NO. G-80-99, AS AMENDED BY ORDER NO. G-109-01)

A forecast of long-term Canada bonds is developed based on the Consensus Economics forecast of 10-year bonds (step 1) and the observed spread between 10- and 30-year bonds over a defined period (step 2). This establishes a forecast yield for long Canada bonds (step 3).

1.	Ten Year Canada Bond Yield – end of February 2002 (Consensus Economics, November 2001 Consensus Forecast)	4.900%
	Ten Year Canada Bond Yield – end of November 2002 (Consensus Economics, November 2001 Consensus Forecast)	5.400%
	Average of 3 and 12 Month Forecasts	5.150%
2.	Add Yield Spread Between 10-Year (June 1, 2009; 5.5%) and 30-Year (June 1, 2029; 5.75%) for all Trading Days in October 2001.	0.479%
3.	Equals Forecast Yield on Long-Term Canada Bonds	5.629%

Where the forecast yield is greater than 6.0 percent, the sliding scale applies to the difference between 6.0 percent and the forecast yield, and this amount is added to 9.5 percent. Where the forecast yield is 6.0 percent or below, no sliding scale adjustment is applied and the equity risk premium is fixed at 3.50 percent (step 4). The equity risk premium is added to the forecast Long Canada yield to determine the unrounded allowed ROE (step 5).

The unrounded ROE in percentage terms is rounded to the nearest 2 decimal places (step 7).

4.	Equity Risk Premium when the forecast Long Canada Yield is 6.0% or below	3.500%
6.	Unrounded Allowed ROE	9.129%
7.	Rounded Allowed ROE	9.13%

2002 ROE Determination -- 10 to 30 Year Spreads

Trading Days in October	10 yr. Yield	30 yr. Yield		Spread (bp)	
1-Oct	5.32	5.78		46	
2	5.26	5.73		47	
3	5.25	5.71		46	
4	5.26	5.72		46	
5	5.23	5.71		48	
9	5.30	5.77		47	
10	5.32	5.79		47	
11	5.41	5.84		43	
12	5.40	5.84		44	
15	5.35	5.82		47	
16	5.30	5.75		45	
17	5.25	5.72		47	
18	5.25	5.71		46	
19	5.29	5.74		45	
22	5.31	5.77		46	
23	5.28	5.76		48	
24	5.22	5.72		50	
25	5.17	5.69		52	
26	5.15	5.68		53	
29	5.08	5.65		57	
30	4.98	5.56		58	
31	4.86	5.32		46	
Average Spread				47.9	

Note:	Source:
10 yr. Bond is Canada June 1, 2011; 6.00%	Globe and Mail, Report on Business
30 yr. Bond is Canada June 1, 2029; 5.75%	October 2, 2001 - November 1, 2001

