



**LETTER No. L-46-02**

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**VIA FACSIMILE**

November 21, 2002

Mr. C.P. Donohue  
Director, Regulatory Affairs & Gas Supply  
Pacific Northern Gas Ltd.  
950 - 1185 West Georgia Street  
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Mr. George Isherwood  
Regulatory Affairs Executive  
Aquila Networks Canada (British Columbia) Ltd.  
P.O. Box 130  
Trail, B.C. V1R 4L4

Mr. Dietz Kellmann  
Director, Financial Development Services  
BC Gas Utility Ltd.  
16705 Fraser Highway  
Surrey, B.C. V3S 2X7

Mr. Geoffrey Higgins  
Manager, Regulatory Affairs  
Centra Gas British Columbia Inc.  
1675 Douglas Street  
P.O. Box 3777  
Victoria, B.C. V8W 3V3

Dear Sirs:

Re: Return on Common Equity for a  
Low-Risk Benchmark Utility for the Year 2003

Pursuant to Order No. G-80-99, as amended by Order No. G-109-01, the Commission has determined that 9.42 percent is the appropriate return on common equity for a low-risk benchmark utility in the year 2003. The calculation and other documentation in support of this finding are attached.

The appropriate ROEs in 2003 for individual utilities will incorporate the risk premium for each utility relative to the low-risk benchmark.

Each utility is required to submit an application for approval to the Commission to vary its rates in line with the determinations made in this letter.

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. John Hall  
President & CEO  
Princeton Light & Power Company, Limited

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 2003 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, 2003 (Consensus Economics, November 2002 Consensus Forecast)	5.300%
	Ten Year Canada Bond Yield – end of November, 2003 (Consensus Economics, November 2002 Consensus Forecast)	5.700%
	Average of 3 and 12 Month Forecasts	5.500%
2.	Add Yield Spread Between 10-Year (June 1, 2012; 5.25%) and 30-Year (June 1, 2033; 5.75%) for all Trading Days in October, 2002. (N.B. data was not published for October 17, 2002 and was omitted from the calculation.)	0.423%
3.	Equals Forecast Yield on Long-Term Canada Bonds	5.923%

*Where the forecast yield is greater than 6.0 per cent, the sliding scale applies to the difference between 6.0 per cent and the forecast yield, and this amount is added to 9.5 per cent. 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%
5.	Unrounded Allowed ROE	9.423%
6.	Rounded Allowed ROE	9.42%

**2003 ROE DETERMINATION -- 10 TO 30 YEAR SPREADS**

Trading Days in October 2002	10 yr. Yield	30 yr. Yield	Spread (basis points)
1-Oct	5.00	5.44	44
2	4.93	5.41	48
3	4.93	5.41	48
4	4.99	5.44	45
7	4.96	5.43	47
8	4.98	5.44	46
9	4.95	5.45	50
10	4.97	5.47	50
11	5.05	5.51	46
15	5.19	5.60	41
16	5.24	5.62	38
17	N/A	N/A	N/A
18	5.26	5.62	36
21	5.35	5.68	33
22	5.32	5.66	34
23	5.30	5.66	36
24	5.26	5.64	38
25	5.26	5.65	39
28	5.28	5.68	40
29	5.19	5.61	42
30	5.17	5.58	41
31	5.04	5.50	46
Average Spread			42.3

**Note:**

10 yr. Bond is Canada June 1, 2012; 5.25%

30 yr. Bond is Canada June 1, 2033; 5.75%

N.B. - Data not published for October 17, 2002

**Source:**

Financial Post

October 2, 2002 - November 1, 2002