



**LETTER No. L-57-03**

SIXTH FLOOR, 900 HOWE STREET, BOX 250  
VANCOUVER, B.C. CANADA V6Z 2N3  
TELEPHONE: (604) 660-4700  
BC TOLL FREE: 1-800-663-1385  
FACSIMILE: (604) 660-1102

ROBERT J. PELLATT  
COMMISSION SECRETARY  
Commission.Secretary@bcuc.com  
web site: <http://www.bcuc.com>

**VIA FACSIMILE**

November 20, 2003

Mr. C.P. Donohue  
Director, Regulatory Affairs & Gas Supply  
Pacific Northern Gas Ltd.  
950 - 1185 West Georgia Street  
Vancouver, B.C. V6E 4E6

Mr. George Isherwood  
Regulatory Affairs Executive  
Aquila Networks Canada (British Columbia) Ltd.  
P.O. Box 130  
Trail, B.C. V1R 4L4

Mr. Scott Thomson  
Vice President, Finance and Regulatory Affairs  
Terasen Gas Inc.  
16705 Fraser Highway  
Surrey, B.C. V3S 2X7

Mr. Geoffrey Higgins  
Manager, Regulatory Affairs  
Terasen Gas (Vancouver Island) 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 2004

Pursuant to the BCUC Decision dated June 10, 1994 regarding Return on Common Equity and attached Order No. G-35-94 as amended by Order No. G-80-99 and Order No. G-109-01, the Commission has determined that 9.15 percent is the appropriate return on common equity for a low risk benchmark utility in the year 2004. The calculation and other documentation in support of this finding are attached.

The appropriate ROEs in 2004 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:*

*Constance M. Smith*

for: Robert J. Pellatt

JWF/cms

Attachments

cc: Mr. R. Brian Wallace  
Bull, Houser & Tupper

Mr. Richard Gathercole, Executive Director  
The British Columbia Public Interest Advocacy  
Centre

Mr. Richard Stout, Chief Regulatory Officer  
British Columbia Hydro and Power Authority

Mr. J.D.V. Newlands, President  
Pacific Western Energy Products & Services Inc.

**CALCULATION OF ALLOWED 2004 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, 2004 (Consensus Economics, November 2003 Consensus Forecast)	5.000%
	Ten Year Canada Bond Yield – end of November, 2004 (Consensus Economics, November 2003 Consensus Forecast)	5.300%
	Average of 3 and 12 Month Forecasts	5.150%
2.	Add Yield Spread Between 10-Year (June 1, 2013; 5.25%) and 30-Year (June 1, 2033; 5.75%) for all Trading Days in October, 2003.	0.497%
3.	Equals Forecast Yield on Long-Term Canada Bonds	5.647%

*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%
6.	Unrounded Allowed ROE	9.147%
7.	Rounded Allowed ROE	9.15%

**2004 ROE Determination -- 10 to 30 Year Spreads**

Trading Days in October	10 yr. Yield	30 yr. Yield	Spread (basis points)
1-Oct	4.55	5.12	57
2	4.60	5.15	55
3	4.75	5.26	51
6	4.72	5.25	53
7	4.79	5.30	51
8	4.76	5.28	52
9	4.83	5.32	49
10	4.82	5.30	48
14	4.91	5.38	47
15	4.97	5.43	46
16	5.02	5.47	45
17	4.93	5.40	47
20	4.88	5.36	48
21	4.86	5.33	47
22	4.80	5.29	49
23	4.85	5.35	50
24	4.79	5.29	50
27	4.83	5.32	49
28	4.78	5.30	52
29	4.85	5.36	51
30	4.90	5.38	48
31	4.84	5.33	49
<b>Average Spread</b>			<b>49.7</b>

**Note:**

10 yr. Bond is Canada June 1, 2013; 5.25%

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

**Source:**

Financial Post

October 2, 2003 - November 1, 2003