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**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER** G-69-05

TELEPHONE: (604) 660-4700  
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**IN THE MATTER OF  
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473**

and

**Terasen Gas Inc. ("TGI") and Terasen Gas (Vancouver Island) Inc. ("TGV") ("the Companies")**

**Application**

**To Determine the Appropriate Return on Equity ("ROE") and Capital Structure to be Used in Setting the Rates of  
the Companies Commencing January 1, 2006**

and

**To Review and Revise the Automatic Adjustment Mechanism Used in Calculating the ROE Allowed in Rates for  
Public Utilities Regulated by the BC Utilities Commission  
("the Application")**

**BEFORE:** R.H. Hobbs, Chair ) July 7, 2005

**O R D E R**

**WHEREAS:**

- A. Commission Order No. G-35-94 established a mechanism for determining on an annual basis the ROE for BC Gas Utility Ltd. ("BC Gas") (now Terasen Gas Inc.), West Kootenay Power Ltd. (now FortisBC Inc.), Pacific Northern Gas Ltd. and Centra Gas Fort St. John (now Pacific Northern Gas (N.E.) Ltd.); and
- B. Commission Order No. G-49-97 amended the mechanism to correct for certain problems and make it more consistent with the practices of other regulatory bodies; and
- C. Commission Order No. G-26-99 set down an oral public hearing into the appropriate ROE and Capital Structures for the above named utilities and Centra Gas Whistler Inc. Commission Order No. G-80-99 directed that the automatic ROE adjustment mechanism should continue to be employed, with certain changes; and
- D. On November 1, 2000, BC Gas applied to the Commission to adjust the application of the automatic ROE adjustment formula to address the then current situation of yields on 10-year Government of Canada bonds exceeding the yields on 30-year Government of Canada bonds. The Commission reviewed the submissions of the various parties and decided not to vary the application of the ROE adjustment mechanism for 2001, as stated in Letter No. L-61-00; and

- E. By 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 for 2002. By Order No. G-109-01 the Commission determined that the treatment of the yield spread between 30-year and 10-year bonds did not require adjustment and 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; and
- F. On July 22, 2004, TGI wrote to the Commission requesting that the Commission convene a hearing to review return on equity and capital structure. By Order No. G-88-04 the Commission determined that a hearing was not warranted at that time but concluded that such a review would be appropriate in the Fall of 2005 in time for implementation January 1, 2006; and
- G. By Application dated June 30, 2005, the Companies submit that: 1) the allowed returns on equity of both Companies should be increased to an appropriate level, 2) the common equity component in the capital structure of both Companies should be increased to properly reflect the risks of the Companies, and 3) the current ROE adjustment mechanism should be reviewed and revised to provide the Companies with a fair and adequate return on equity in future years.

**NOW THEREFORE** the Commission orders as follows:

1. A Procedural Conference regarding the regulatory process for the review of the TGI and TGVI Application will be held on Wednesday, August 3, 2005, commencing at 9:00 a.m. in the Commission Hearing Room on the Sixth Floor, 900 Howe Street, Vancouver, B.C.

The Procedural Conference will address matters such as:

- the scope of the Commission's review of the Application;
  - steps and timetable associated with the regulatory review process; and
  - other matters that will assist the Commission to efficiently review the Application.
2. After the Procedural Conference, the Commission will issue a further procedural Order and Regulatory Agenda.
  3. TGI and TGVI will publish as soon as possible, in display-ad format, the Notice of Procedural Conference attached as Appendix A to this Order, in the Vancouver Sun, the Province, the Victoria Times Colonist, and such other appropriate local news publications as may properly provide adequate notice to the public in BC.

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4. The Application, together with any supporting materials, will be made available for inspection at the TGI Head Office and at the Commission's office.
5. Intervenor and Interested Parties should register with the Commission, in writing, by July 29, 2005, and advise whether they intend to attend the Procedural Conference. Intervenor should specifically state the nature of their interest in the TGI and TGVI Application and identify generally the nature of the issues that they may intend to pursue during the proceeding and the nature and extent of their anticipated involvement.
6. Commission Information Request No. 1 to TGI and TGVI will be issued on August 12, 2005. The Companies' Response to Commission Information Request No. 1 is due on September 2, 2005.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 7<sup>th</sup> day of July 2005.

BY ORDER

*Original signed by:*

Robert H. Hobbs  
Chair

Attachment



**Terasen Gas Inc. ("TGI") and Terasen Gas (Vancouver Island) Inc. ("TGVI") ("the Companies")**

**Application**

**To Determine the Appropriate Return on Equity and Capital Structure to be Used in Setting the Rates of the Companies Commencing January 1, 2006**

**and**

**To Review and Revise the Automatic Adjustment Mechanism Used in Calculating the ROE Allowed in Rates for Public Utilities Regulated by the BC Utilities Commission**

**NOTICE OF PROCEDURAL CONFERENCE**

<b>Date:</b>	Wednesday, August 3, 2005
<b>Time:</b>	9:00 a.m.
<b>Location:</b>	BC Utilities Commission Hearing Room Sixth Floor 900 Howe Street Vancouver, B.C.

**THE APPLICATION**

By Application dated June 30, 2005, the Companies submit that: 1) the allowed returns on equity of both Companies should be increased to an appropriate level, 2) the common equity component in the capital structure of both Companies should be increased to properly reflect the risks of the Companies, and 3) the current ROE adjustment mechanism should be reviewed and revised to provide the Companies with a fair and adequate return on equity in future years.

**THE REGULATORY PROCESS**

The Commission will hold a Procedural Conference regarding the regulatory process for the review of the TGI and TGVI Application on Wednesday, August 3, 2005, commencing at 9:00 a.m. in the Commission Hearing Room on the Sixth Floor, 900 Howe Street, Vancouver, B.C.

Following the Procedural Conference, the Commission will issue a further procedural order and regulatory agenda to registered parties.

**PUBLIC INSPECTION OF THE DOCUMENTS**

The Application and supporting material will be made available for inspection at the TGI Head Office at 16705 Fraser Highway, Surrey, B.C., V3S 2X7 and the British Columbia Utilities Commission office: Sixth Floor, 900 Howe Street, Vancouver, B.C., V6Z 2N3.

The Application will also be available for viewing on the TGI website at [www.terasengas.com](http://www.terasengas.com) and on the Commission's website at [www.bcuc.com](http://www.bcuc.com).

## **INTERVENTIONS**

Persons who expect to actively participate in this proceeding should register as Intervenor with the Commission, in writing, by July 29, 2005, identifying their interest in the TGI and TGV Application and indicating whether they plan to attend the Procedural Conference. Intervenor should identify the issues that they intend to pursue and the nature and extent of their anticipated involvement in the review process. Intervenor will each receive a copy of the Application and all correspondence and filed documentation. Intervenor should provide an e-mail address if available.

Persons not expecting to actively participate, but who have an interest in the proceeding should register as Interested Parties with the Commission, in writing, by July 29, 2005, identifying their interest in the Application and indicating whether they plan to attend the Procedural Conference. Interested Parties will each receive a copy of the cover letter to the Application, and all Orders and Decisions issued.

## **FURTHER INFORMATION**

For further information, please contact Mr. Robert J. Pellatt, Commission Secretary, or Mr. Jim Fraser, Director, Strategic Services, as follows:

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Facsimile: (604) 660-1102

E-Mail: [Commission.Secretary@bcuc.com](mailto:Commission.Secretary@bcuc.com)  
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