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BRITISH COLUMBIA UTILITIES COMMISSION

LETTER NO. L-104-05

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VIA E-MAIL

December 2, 2005

Mr. Scott Thomson
Vice President, Finance and Regulatory Affairs
Terasen Gas Inc.
Terasen Gas (Vancouver Island) Inc.
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Mr. C.P. Donohue
Director, Regulatory Affairs & Gas Supply
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Dear Sirs:

Re: Return on Common Equity for a
Low-Risk Benchmark Utility for the Year 2006

Pursuant to the Commission's Decision dated June 10, 1994 regarding Return on Common Equity and Order No. G-35-94 as amended by Order No. G-80-99 and Order No. G-109-01, the Commission has determined that the current ROE automatic adjustment mechanism results in a return on common equity of 8.29 percent for a low-risk benchmark utility in 2006. The calculation and other documentation in support of this finding are attached.

The Commission notes that the automatic adjustment mechanism is currently under review as part of the oral public hearing into the Terasen Gas Inc. ("TGI")/Terasen Gas (Vancouver Island) Inc. (TGVI") June 30, 2005 Application to Determine the Appropriate Return on Common Equity on Capital Structure for TGI/TGVI and to Review and Revise the Automatic Adjustment Mechanism used in Calculating the ROE for Public Utilities Regulated by the BCUC. A Decision on that Application is expected in the spring of 2006.

The appropriate ROE in 2006 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

RG/cms
Attachments

Misc_Corresp/2006 ROE to Utilities

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

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

Mr. Marcel Reghelini
Director, Regulatory Affairs
British Columbia Transmission Corporation

Mr. Tony Morris
Acting Chief Regulatory Officer
British Columbia Hydro and Power Authority

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

BCUC Regulated Utilities

CALCULATION OF ALLOWED 2006 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, 2006 (Consensus Economics, November 2005 Consensus Forecast)	4.4%
	Ten Year Canada Bond Yield – end of November, 2006 (Consensus Economics, November 2005 Consensus Forecast)	4.7%
	Average of 3 and 12 Month Forecasts	4.55%
2.	Add Yield Spread Between 10-Year (June 1, 2015; 4.50%) and 30-Year (June 1, 2033; 5.75%) for all Trading Days in October, 2005.	0.238%
3.	Equals Forecast Yield on Long-Term Canada Bonds	4.788%

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	8.288%
7.	**Rounded Allowed ROE**	**8.29%**