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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-14-06

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**IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473**

and

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

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
R.J. Milbourne, Commissioner
A.J. Pullman, Commissioner

March 2, 2006

O R D E R

WHEREAS:

- A. 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
- B. 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; and
- C. By Order No. G-69-05, the Commission established a Procedural Conference to be held on Wednesday, August 3, 2005 in Vancouver, B.C.; and
- D. In a letter dated August 25, 2005, the Joint Industry Electricity Steering Committee ("JIESC") requested that the Chair decide not to sit on the Panel to avoid compromising the unbiased appearance of the proceeding and the procedural fairness all parties are entitled to expect; and

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- E. By Letter No. L-67-05 dated August 5, 2005, the Commission Panel defined the scope of the proceeding, determined that other utilities would not have the same status as other Intervenor in the proceeding, and established an approved Regulatory Timetable including an Oral Public Hearing to review the Application to commence on Monday, November 14, 2005; and
- F. By Letter No. L-81-05 dated September 29, 2005, the Commission denied the request by the JIESC that the Chair should not sit on this matter; and
- G. An Oral Public Hearing was held in Vancouver commencing on November 14, 2005 and ending on November 18, 2005; and
- H. Written Argument was filed by the Companies on December 5, 2005 and by the Intervenor on or before December 20, 2005. Reply Argument was filed by the Companies on January 5, 2006 and an Oral Phase of Argument was held on January 17, 2006; and
- I. The Commission Panel has determined that a change to the Capital Structures of the Companies, the Returns on Equity allowed a low-risk benchmark utility, and the utility-specific equity risk premium for TGVI is in the public interest.

NOW THEREFORE the Commission orders as follows to be effective January 1, 2006:

- 1. The appropriate common equity component allowed in the capital structure of TGI is 35 percent.
- 2. The appropriate common equity component allowed in the capital structure of TGVI is 40 percent.
- 3. The approved return on equity for the benchmark low-risk utility is 9.145 percent assuming a 30-year long Canada bond yield of 5.25 percent. For 2006 this results in an approved return on equity for TGI of 8.80 percent.
- 4. The approved return on equity for TGVI is 70 basis points greater than the benchmark low-risk utility return, namely 9.5 percent.
- 5. Other B.C. utilities whose returns on equity are established relative to that of the benchmark low-risk utility may adjust their rates accordingly subject to Commission approval.

DATED at the City of Vancouver, in the Province of British Columbia, this 2nd day of March, 2006.

BY ORDER

Original signed by:

Robert H. Hobbs
Chair