



LETTER NO. L-55-08

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VIA E-MAIL

November 20, 2008

Mr. Tom Loski
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Dear Sirs:

Re: Return on Common Equity for a
Low-Risk Benchmark Utility for the Year 2009

Pursuant to the British Columbia Utilities Commission ("the Commission") Decision dated June 10, 1994 regarding Return on Common Equity ("ROE") and Order G-35-94, and as amended by Order G-80-99, Order G-109-01 and Order G-14-06, the Commission has determined that the current ROE automatic adjustment mechanism results in an allowed return on common equity of 8.47 percent for a low-risk benchmark utility in 2009. The calculation and other documentation in support of this finding are attached.

The Commission notes that it has changed the source of data for the calculation of the yield spread between 10-year and 30-year Canada bonds from the Financial Post to the website of the Bank of Canada. The Commission Panel directed in its June 10, 2004 Decision that the source of the data for the yield spreads would be the Financial Post. However, in recent years the level of detail of the data in the Financial Post for the yield spreads has decreased. By Letter L-44-08 dated September 12, 2008, the Commission requested comment from the utilities with respect to a proposal to obtain yield data from the Bank of Canada website. Responses from Pacific Northern Gas Ltd., FortisBC Inc., and jointly from Terasen Gas Inc., Terasen Gas (Vancouver Island)

Inc. and Terasen Gas (Whistler) Inc., all supported the proposed change. Consequently, the Commission has used Bank of Canada data for the calculation of the yield spreads between 10-year and 30-year Canada bonds for 2009 and will use Bank of Canada data in future years unless parties are notified otherwise.

The appropriate ROE in 2009 for individual utilities will incorporate the risk premium for each utility relative to the low-risk benchmark.

Yours truly,

Original signed by:

Erica M. Hamilton

Attachments

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

Ms. Joanna Sofield
Chief Regulatory Officer
British Columbia Hydro and Power Authority

Mr. Jim Quail
Executive Director
The British Columbia Public Interest
Advocacy Centre

BCUC Regulated Utilities

Ms. Janet Fraser
Director, Regulatory Affairs
British Columbia Transmission Corporation

**Calculation Of Allowed 2009 Rate Of Return On Common Equity
For A Low-Risk Benchmark Utility
(Per Commission Order G-35-94,
Amended by Order G-80-99, Order G-109-01 and Order G-14-06)**

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, 2009 (Consensus Economics, November 2008 Consensus Forecast)	3.7%
	Ten Year Canada Bond Yield – end of November, 2009 (Consensus Economics, November 2008 Consensus Forecast)	4.0%
	Average of 3 and 12 Month Forecasts	3.85%
2.	Add average yield spread between 10-year and 30-year bonds as reported by the Bank of Canada for all trading days in October, 2008.	0.50%
3.	Equals forecast yield on long-term Canada bonds	4.35%

As per Commission Order G-14-06, the approved benchmark return on equity (ROE) is 9.145 percent assuming a 30-year long Canada bond yield of 5.25 percent. Where the forecast yield is greater or less than 5.25 percent, a sliding scale adjustment raises or lowers the benchmark ROE by 75 percent of the change in the forecast yield on long-term Canada Bonds (step 4). The unrounded allowed ROE in percentage terms is rounded to the nearest 2 decimal places (step 5).

4.	Unrounded allowed ROE based on sliding scale adjustment: $9.145 - (0.75 * (5.25 - 4.35))$	8.470%
5.	Allowed ROE	8.47%