

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-158-09**

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

and

**An Application by
Terasen Gas Inc. ("TGI"), Terasen Gas (Vancouver Island) Inc. ("TGVI") and
Terasen Gas (Whistler) Inc. ("TGW") (collectively the "Terasen Utilities")
for Return on Equity and Capital Structure**

BEFORE: A.J. Pullman, Panel Chair
D.A. Cote, Commissioner
M.R. Harle, Commissioner

December 16, 2009

ORDER

WHEREAS:

- A. By letter dated May 15, 2009, the Terasen Utilities filed with the British Columbia Utilities Commission (the "Commission") pursuant to sections 59 and 60 of the *Utilities Commission Act* (the "Act"), an application for Return on Equity and Capital Structure (the "Application"); and
- B. TGI applied for an increased Return on Equity ("ROE") for rate-setting purposes, and that the so determined ROE for TGI be used in establishing the ROE of TGVI and TGW used for rate-setting. The Application requests that the revised ROE be effective from July 1, 2009. In addition TGI applied for an increase of the equity ratio in its Capital Structure to 40 percent effective January 1, 2010. Terasen Utilities further requested that the Commission set their current rates as interim, effective July 1, 2009, until such time as permanent rates were established; and
- C. By Order G-53-09 dated May 21, 2009, the Commission established a Procedural Conference to take place on June 9, 2009 to hear submissions regarding the regulatory process for the review of the Application; and
- D. Further to the Procedural Conference, the Commission issued Order G-70-09 dated June 9, 2009 which established a Regulatory Timetable for an Oral Hearing Process as well as a schedule for written argument to hear submissions from the Parties on the subject of the request for interim rates; and
- E. By Order G-78-09 dated June 24, 2009, the Commission ordered, with Reasons for Decision attached as Appendix A to the Order, that the current rates of TGI and TGW be set as interim effective July 1, 2009 and that the changes to the allowed ROE from this proceeding be treated as changes to TGVI's cost of service, effective July 1, 2009; and

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- F. The Oral Hearing took place from September 28, 2009 to October 1, 2009. The following Intervenor took an active role in the proceedings, filed written argument or took part in the Oral Phase of Argument; the British Columbia Old Age Pensioners' Organization *et al.* ("BCOAPO"), the Commercial Energy Consumers of British Columbia ("CEC"), FortisBC Inc. ("FortisBC"), Pacific Natural Gas Ltd. ("PNG"), the Joint Industry Electricity Steering Committee ("JIESC") and the Industrial Customer Group ("ICG"); and
- G. The schedule of written Argument provided for Final Submissions to be filed as follows: i) Terasen Utilities, FortisBC and PNG on or before October 20, 2009; ii) Intervenor on or before November 6, 2009; and iii) Reply from Terasen Utilities, FortisBC and PNG on or before November 13, 2009; and
- H. An Oral Phase of Argument was held on November 24, 2009; and
- I. The Commission Panel has considered the Application, the evidence, and the submissions of the Parties all as set forth in the Decision issued concurrently with this Order.

NOW THEREFORE the Commission orders as follows:

- 1. The appropriate equity ratio for TGI is 40 percent effective January 1, 2010.
- 2. TGI is to file within 30 days a document setting out how and when it will implement the change to its capital structure in compliance with the ring-fencing conditions approved by Commission Order G-49-07.
- 3. A return on equity for TGI of 9.50 percent for rate-setting purposes is approved effective July 1, 2009.
- 4. The TGI ROE approved in paragraph 3 of this Order is to be used as the Benchmark ROE in establishing the return on equity of TGI and TGV used for rate-setting purposes and the allowed return on equity for TGI and TGV is effective July 1, 2009.
- 5. TGV's request to continue to set its allowed return on equity with reference to the Benchmark ROE by adding a utility specific risk premium of 70 basis points is denied. TGV is allowed a utility specific risk premium of 50 basis points above the Benchmark ROE.
- 6. TGV's request to continue to set its allowed return on equity with reference to the Benchmark ROE by adding a utility specific risk premium of 50 basis points is approved.

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7. TGI and TGW are to file in their respective next revenue requirement applications evidence on the equity component that best reflects their respective long-term business risks.
8. The TGI ROE approved in paragraph 3 of this Order can continue to serve as the Benchmark ROE for FortisBC and any other utility in British Columbia that uses a Benchmark ROE to set rates.
9. The automatic adjustment mechanism is eliminated.
10. TGI is to complete its study of alternative formulae to an automatic adjustment mechanism and report to the Commission on the study results by December 31, 2010.

DATED at the City of Vancouver, in the Province of British Columbia, this 16th day of December, 2009

BY ORDER

Original signed by:

A.J. Pullman
Panel Chair and Commissioner