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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-50-12**

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

and

Generic Cost of Capital Proceeding

BEFORE: D.A. Cote, Commissioner/Panel Chair
M.R. Harle, Commissioner April 19, 2012
L.A. O'Hara, Commissioner

O R D E R

WHEREAS:

- A. On December 16, 2009, the British Columbia Utilities Commission (Commission) issued its Decision on the Return on Equity and Capital Structure Application (2009 ROE Decision) for Terasen Gas Inc. (TGI), Terasen Gas (Vancouver Island) Inc., and Terasen Gas (Whistler) Inc. (TGW), (collectively, the Terasen Utilities, now known as the FortisBC Energy Utilities);
- B. By Order G-158-09 issued concurrently with the 2009 ROE Decision, the Commission ordered, among other things, that the Return on Equity Automatic Adjustment Mechanism (ROE AAM) in place since 1995 be eliminated; that the appropriate equity ratio for TGI would be 40 percent effective January 1, 2010; that the 9.5 percent ROE approved for TGI effective July 1, 2009, should continue to serve as the Benchmark ROE for FortisBC Inc. and any other utility in British Columbia that uses a Benchmark ROE to set rates; and that TGI was to complete its study of alternative formulas to an ROE AAM and report to the Commission by December 31, 2010;
- C. On December 8, 2010, the Terasen Utilities filed their study on ROE alternative formulas with the Commission;
- D. Since the issuance of the 2009 ROE Decision, changes have occurred in the financial markets. On November 28, 2011, the Commission issued to all regulated entities a Preliminary Notification of Initiation of Generic Cost of Capital (GCOC) Proceeding;
- E. By Order G-20-12 dated February 28, 2012, the Commission established a Generic Cost of Capital (GCOC) Proceeding. Appended to Order G-20-12 were: (a) an Initial Regulatory Timetable, (b) a Preliminary Scoping Document containing a list of matters to be examined and determined; (c) a non-exhaustive List of Utilities regulated by the Commission characterized as either Affected Utilities or Other Utilities; and (d) a Public Notice of the GCOC Proceeding. Order G-20-12 also established that registered participants who wish to provide

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submissions on the Preliminary Scoping Document must file their submissions by March 21, 2012;

- F. FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., FortisBC Energy (Whistler) Inc. and FortisBC Inc. (collectively, FBCU); Corix Multi-Utility Services Inc. (Corix); and Pacific Northern Gas Ltd. and Pacific Northern Gas (N.E.) Ltd. (collectively, PNG) registered as Affected Utilities;
- G. British Columbia Hydro and Power Authority (BC Hydro) and River District Energy Limited Partnership (RDE) registered as Other Utilities; and
- H. By Order G-47-12, the Commission issued its Final Scoping Document for the GCOC Proceeding.

NOW THEREFORE pursuant to section 82 of the *Utilities Commission Act*, the Commission orders as follows:

1. The further procedural matters to be addressed in the GCOC Proceeding are set out in the List of Further Procedural Matters attached as Appendix A to this Order.
2. The Preliminary Minimum Filing Requirements for Affected Utilities is attached as Appendix B to this Order.
3. A Regulatory Timetable for matters requiring action by registered participants on or before May 9, 2012 is attached as Appendix C to this Order.
4. A Draft Preliminary Regulatory Timetable for matters requiring action by registered participants after May 9, 2012 is attached as Appendix D to this Order.
5. Registered participants who wish to file submissions on the Preliminary Minimum Filing Requirements for Affected Utilities must file their submissions by Thursday, May 3, 2012.
6. Registered participants who wish to file submissions, on the allocation of Participant Assistance/Cost Awards, Participant Assistance/Cost Award eligibility, and/or Draft Preliminary Regulatory Timetable must file their submissions by Wednesday, May 9, 2012.

DATED at the City of Vancouver, in the Province of British Columbia, this 19th day of April 2012.

BY ORDER

Original signed by:

D.A. Cote
Commissioner

Attachments

GENERIC COST OF CAPITAL PROCEEDING LIST OF FURTHER PROCEDURAL MATTERS

1.0 Preliminary Minimum Filing Requirements for Affected Utilities

Based on the Commission's Final Scoping Document for the GCOC Proceeding, Appendix B to Order G-50-12 contains the Preliminary Minimum Filing Requirements for Affected Utilities.

Registered participants who wish to file submissions on the Preliminary Minimum Filing Requirements for Affected Utilities must file their submissions by Thursday, May 3, 2012.

2.0 Allocation of Participant Assistance/Cost Awards

In section 3.4 of Appendix A to Order G-47-12, the Commission Panel outlined the need to deal with the issue of Participant Assistance/Cost Award (PACA) costs. Accordingly, registered participants are invited to make submissions on the allocation of PACA costs arising from the GCOC Proceeding. Registered participants are requested to address the following questions.

1. What criteria should the Commission use to determine which utility would be affected by a Decision arising from the GCOC Proceeding?
2. Should the Participant Assistance/Cost Awards be allocated on the same basis as that outlined in Commission Order G-5-06? If not, on what other basis should allocation be made?

Registered participants who wish to file submissions regarding the allocation of Participant Assistance/Cost Awards must file their submissions by Wednesday, May 9, 2012.

3.0 Participant Assistance/Cost Awards Eligibility

This Commission-initiated generic proceeding will have relevance to many of the Commissions' regulated utilities. The Commission has generally made awards to customer group interveners in accordance with the PACA Guidelines pursuant to Order G-72-07. In this GCOC Proceeding, the Commission Panel recognizes that a number of smaller utilities with a small customer base may be impacted but at the same time these utilities may have valuable input that would provide a better understanding of the issues for the Commission Panel.

Section 118 of the *Utilities Commission Act* states:

"Participant costs

- 118 (1) The commission may order a participant in a proceeding before the commission to pay all or part of the costs of another participant in the proceeding.
- (2) If the commission considers it to be in the public interest, the commission may pay all or part of the costs of participants in proceedings before the commission that were commenced on or after April 1, 1993 or that are commenced after June 18, 1993.
- (3) Amounts paid for costs under subsection (2) must not exceed the limits prescribed for the purposes of this section."

The Commission Panel seeks submissions from registered participants regarding eligibility for PACA funding. Specifically, the Panel requests submissions on the following questions.

1. Which registered participants intend to make Participant Assistance/Cost Award applications?
2. Which registered participants should plan to join together to share resources including retaining of expert witness(es)?
3. If applicable, which registered participants plan to join together?
4. Should utilities, particularly the smaller utilities, be eligible for Participant Assistance/Cost Award funding?

Registered participants who wish to file submissions regarding Participant Assistance/Cost Award eligibility must file their submissions by Wednesday, May 9, 2012.

The Commission Panel anticipates that upon reviewing the submissions received, it will provide a further procedural order on eligibility for the GCOC Proceeding and set a deadline for the Participant Assistance/Cost Award budget estimate.

4.0 Regulatory Timetable

The Regulatory Timetable for matters requiring action by registered participants on or before May 9, 2012, is attached as Appendix C to Order G-50-12.

5.0 Draft Preliminary Regulatory Timetable

In addition, Appendix D to Order G-50-12 sets out a Draft Preliminary Regulatory Timetable for matters requiring action by registered participants after May 9, 2012. The Draft Preliminary Regulatory Timetable is intended: (1) to assist in future planning for the registered participants in the GCOC Proceeding; and (2) to allow registered participants to provide submissions on the Draft Preliminary Regulatory Timetable.

The Commission Panel seeks submissions from the registered participants on the Draft Preliminary Regulatory Timetable. These may include submissions on the timing of the Procedural Conference, timing between activities, and whether there is a need for Information Request No. 2 on Affected and Other Utilities' Evidence and Submissions. If the Procedural Conference is held, the Commission may at that time seek further submissions on the need for Information Request No. 2 since the Utility Evidence and Submissions would be available at that time. It may also seek submissions on whether the GCOC Proceeding should proceed by way of an Oral Public Hearing or Written Hearing process. Additionally, the exact timing of the activities is subject to successfully meeting the target dates for the issuance of the Final Minimum Filing Requirements for Affected Utilities and the release of the Commission Consultant Survey.

Registered participants who wish to file submissions regarding the Draft Preliminary Regulatory Timetable must file their submissions by Wednesday, May 9, 2012.

**GENERIC COST OF CAPITAL PROCEEDING
PRELIMINARY MINIMUM FILING REQUIREMENTS FOR AFFECTED UTILITIES**

Participant Evidence

Participant evidence must be relevant to the Scope of the Proceeding as set out in the Final Scoping Document.

Preliminary Minimum Filing Requirements for Affected Utilities

The Commission requests that each registered utility listed as one of the Affected Utilities in Appendix B to Order G-20-12 file the following Company-related Documents listed under the heading ‘Company-Related Documents’ in Section A of this Appendix.

In addition, the Commission requests that each registered utility listed as one of the Affected Utilities in Appendix B to Order G-20-12 file the information listed under the heading ‘Other Filing Requirements’ in Section B of this Appendix.

The list provided is not intended to restrict a utility’s evidence. Utilities may provide additional evidence that support their position with regards to matters relevant to the Final Scoping Document. A utility listed under Affected Utilities but engaged in certain services that are not regulated by the Commission may customize its financial reports and file only the relevant information on the operational divisions that are regulated. All other Affected Utilities are requested to provide information on operational divisions, if applicable.

A registered utility that is classified as an Other Utility and chooses to file utility evidence and/or submissions should address the matters outlined in the Minimum Filing Requirements for Affected Utilities where they are applicable and relevant to the Other Utility.

A. COMPANY-RELATED DOCUMENTS

The Commission requests that each of the Affected Utilities file the following documents, if applicable:

1. Most recent annual report.
2. Credit rating agency reports for the utility and corporate parent since 2008:
 - a. Debt rating,
 - b. Schedule showing the history of any debt rating changes since 2002,
 - c. Interest coverage ratio and other agency’s key debt ratios since 2008.
3. Reports by investment analysts for the utility and corporate parent since 2008, where applicable.
4. All Prospectuses of Debt Offerings of the utility and/or its corporate parent within the last five years, if applicable:
 - a. Monthly (month end) spread data (market yield minus the yield on a Government of Canada bond with a similar time to maturity remaining) from 2008 to present date for a representative long-term bond issued by the utility:

- i. The time to maturity of both the utility bond and the government bond,
 - ii. The trading liquidity of both bonds,
 - iii. The ratings on the bond for each quarter,
 - iv. For the latest placement of bond, the spread over the corresponding Government bond yields, the current spread and the maturity date.
5. Full listing of each bond issue applicable for the 2012 Test Year including any future anticipated issues with full details (e.g. principal face value, nominal interest rate, effective rate if issued at discount or premium, relevant benchmark Government of Canada bond, credit spread from benchmark, date of issue, date of maturity, length of maturity, etc.).
6. All Prospectuses of Equity Offerings of the utility and/or its corporate parent within the last five years, if applicable:
 - a. Details of any new equity issues from the financial market for the utility and/or corporate parent, if applicable.
7. Latest annual filing to the Commission of Operational and Financial Results.
8. Historical (2002-2011) regulatory financial information by year:
 - a. Capital Structure Components: common equity, preferred equity, long and short-term debt:
 - i. Rate Base: opening, closing and mid-year,
 - ii. Gross rate base if different from rate base that is subject to debt and equity return,
 - iii. Income statement:
 - Revenue (includes miscellaneous revenue)
 - Operations and maintenance
 - Depreciation and amortization
 - Earnings before Interest and taxes (EBIT)
 - Interest
 - Current income tax
 - Future income tax, if applicable
 - Total income taxes and Net income
 - Annual actual return on equity (mid-year) and allowed return on equity
 - Actual and approved (test year) return on invested capital.
 - b. Summary and full detailed description of all deferral and reserve accounts:
 - i. Average percentage of delivery revenue covered by each account,
 - ii. Average percentage of total revenue (including commodity/energy cost) covered by each account.
9. Price to Book Value Ratios (including supporting calculations) since 2000 when the utility or its corporate parent has been acquired by another firm:
 - a. Interpretation of the Price to Book Value Ratios.

10. Full explanation of any significant changes in accounting policy in the last 10 years.

Note:

All reports should be filed in searchable electronic format. Items regarding the regulatory financial information should also be filed in a fully functional Excel spreadsheet.

B. OTHER FILING REQUIREMENTS

The Commission requests that each of the Affected Utilities file submissions on the following matters with regards to the Final Scoping Document, if applicable:

ROE Matters:

1. Proposed Benchmark ROE going forward from 2013 and, if applicable, beyond.
2. Business risks faced by a utility in British Columbia.
 - a. Present business risks:
 - i. Itemized listing of each risk with full explanation,
 - ii. significance and impact of each risk to the utility,
 - iii. ranking of the business risks,
 - iv. business risks faced by all utilities in Canada, and
 - v. business risks unique to British Columbia.
 - b. Changes in business risks in the last 5 years and explanation.
3. Changes in:
 - a. the global financial markets,
 - b. provincial legislative and policy environment in BC, and
 - c. the utility's business and operations since the last Commission Decision on the capital structure and return on equity for a benchmark utility (December 16, 2009 Decision on Terasen Utilities).
4. Should the Commission return to a formula approach to setting a benchmark ROE, and if so, what should the formula be and for what period of time?
5. Should the GCOC Proceeding set a provision for the future review of a Benchmark ROE?
6. Capital Asset Pricing Model (CAPM) inputs – Risk-free rate forecasts for 2012, market equity risk premium forecasts or estimates, Beta estimates and flotation allowance and resulting CAPM results.
7. Discounted Cash Flow Model (DCF) inputs – dividend yields, stage 1 growth rate estimates, stage 2 or terminal growth rate estimates, stage 2 or terminal period nominal GDP growth rate estimates, flotation allowance and resulting DCF result.
8. Comparable Investments – Estimates of the ROE (on a market value and not a book value basis) available to investors in the public and private markets for investments of similar risk.

9. Returns on the book value of equity awarded by other Canadian regulators.
10. Price to Book Value Inputs – The price to book value at which the equity in relatively pure play North American utilities trades on stock markets and in utility purchase transactions. The past and forecast ROE of such companies and an estimate of the ROE that can reasonably be expected to be earned by a purchaser of these investments.
11. Market yields and credit spreads on high-grade utility and other corporate bonds.
12. Pension, investment manager and economist estimates of the prospective equity market returns available to investors buying equities at market prices.
13. Equity analyst investment reports on comparable utilities.

Capital Structure Matters:

1. Proposed capital structure/equity component for a benchmark low-risk utility in 2013 and, if applicable, beyond.
2. Should the GCOC Proceeding set a provision for the future review of a benchmark low-risk utility capital structure?
3. Investment and business risks and any other risks faced by the utility's shareholders and customers.
4. Credit ratings and reports on comparable utilities that the credit ratings are based on and credit metrics (including interest coverage ratio and funds from operations coverage ratio, and the funds from operations to debt ratio).
5. Business risk ranking and rationale by industry sector – electricity, natural gas, alternative energy providers.
6. Change in business risks as a result of changes to business profile.
7. Generic company-specific adjustments for: effective income tax rates, size of utility, level of contributed assets, and other utility-specific or sector-specific factors.
8. The credit environment and how it has changed and the extent to which it is already reflected in the market data above.

Benchmark Low-risk Utility Matters:

1. Is it most appropriate that FortisBC Energy Inc. or some other utility be the benchmark utility for purpose of setting a benchmark low-risk utility capital structure and cost of capital or should a hypothetical utility be established to set a benchmark low-risk utility capital structure and cost of capital?

Deemed Capital Structure and Deemed Debt Issue Matters:

1. What are the appropriate applicable circumstances for a utility to utilize a deemed capital structure with a deemed debt?

2. What is an appropriate basis to calculate a deemed interest rate (long and short-term) for a utility without third-party debt or non-arms length debt?
3. Should the deemed long-term interest rate be based on a 10-year, 30-year, or other term-to-maturity Government of Canada bond and/or other term-to-maturity Canadian corporate bond?
4. What is the appropriate credit spread on the Government of Canada bond and/or the Canadian corporate bond for a benchmark low-risk utility?
5. How does the deemed capital structure impact and relate to the credit spreads?
6. What is an appropriate portion of short-term debt and long-term debt on the debt portion of the deemed capital structure?
7. What is an appropriate basis to calculate the deemed interest rate for short-term debt?
8. Should a deemed short-term interest rate be based on 3-month Bankers' Acceptance rate and short-term 90-day loan?
9. What methodology should be applied to calculate the deemed short-term interest rate?

Additional Matters:

1. Information on any other purpose or matter relevant to the Final Scoping Document not addressed above.

Note:

The Commission recognizes the differences amongst the Affected Utilities. The Affected Utilities may have different interests and some of the topic matters for which the Commission seeks information may have less or more relevance to them. In some cases an Affected Utility may not have the resources to fully address a topic matter. Despite providing an explanation that the submission topic matter has less relevance to it, the Affected Utility may still state its position, if any, on that matter.

GENERIC COST OF CAPITAL PROCEEDING

REGULATORY TIMETABLE

ACTIVITY	DATE (2012)
Written submissions from Affected Utilities, Other Utilities, and Interveners on the Preliminary Minimum Filing Requirements for Affected Utilities	Thursday, May 3
Written submissions from Affected Utilities, Other Utilities, and Interveners on cost allocation of Participant Assistance/Cost Awards for the GCOC Proceeding	Wednesday, May 9
Written submissions from Affected Utilities, Other Utilities, and Interveners on Participant Assistance/Cost Awards eligibility	Wednesday, May 9
Written submissions from Affected Utilities, Other Utilities, and Interveners on the Draft Preliminary Regulatory Timetable	Wednesday, May 9

GENERIC COST OF CAPITAL PROCEEDING

DRAFT PRELIMINARY REGULATORY TIMETABLE

ACTIVITY	DATE (2012)
Target date for issuance of Final Minimum Filing Requirements for Affected Utilities	Tuesday, May 22
Target date for release of the Commission Consultant Survey	Wednesday, May 23
Information Requests (IRs) on the Commission Consultant Survey from Utilities and Interveners	Wednesday, June 6
Response to IRs on Commission Consultant Survey from Commission Consultant	Monday, June 25
Second Round Registration Deadline of non-utility participants as Interveners or Interested Parties	Thursday, July 5
Filing of Evidence and Submissions by Affected Utilities and Other Utilities	Monday, July 9
Participant Assistance/Cost Award Budget Estimate deadline	Monday, July 16
Procedural Conference, if required	Tuesday, July 31
IR No. 1 on Affected and Other Utilities' Evidence and Submissions	Wednesday, August 8
Response to IR No. 1 from Affected and Other Utilities	Wednesday, Sept 5
<u>Without IR No. 2 on Affected and Other Utilities' Evidence and Submissions</u>	
Intervener Evidence and Submissions, if any	Tuesday, Sept 18
IR No. 1 on Intervener Evidence and Submissions, if any	Thursday, October 4
Response to IR No. 1 on Intervener Evidence and Submissions from Interveners, if any	Thursday, October 25
<u>With IR No. 2 on Affected and Other Utilities' Evidence and Submissions</u>	
IR No. 2 on Affected and Other Utilities' Evidence and Submissions	Wednesday, September 19
Response to IR No. 2 from Affected and Other Utilities	Wednesday, October 3
Intervener Evidence and Submissions, if any	Thursday, Oct 11
IR No. 1 on Intervener Evidence and Submissions, if any	Wednesday, October 24
Response to IR No. 1 on Intervener Evidence and Submissions from Interveners, if any	Friday, November 9