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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-73-14**

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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 (Stage 2) Decision and Order G-47-14
Central Heat Distribution Limited
Return on Equity and Capital Structure Compliance Filing and Approval of Permanent Rates**

BEFORE: D.A. Cote, Commissioner/Panel Chair
L.A. O'Hara, Commissioner June 12, 2014
C. van Wermskerken, Commissioner

O R D E R

WHEREAS:

- A. On December 10, 2012, the British Columbia Utilities Commission (Commission) issued Order G-187-12 in the Generic Cost of Capital (GCOC) Stage 1 proceeding, directing that the Return on Equity (ROE) and capital structure for all regulated entities in B.C. that rely on the benchmark utility to establish rates were to be maintained and made interim, effective January 1, 2013, pending a decision in Stage 2 of the proceeding;
- B. On May 10, 2013, the Commission issued its Decision and accompanying Order G-75-13 in the GCOC Stage 1 proceeding (the Stage 1 Decision), setting for the benchmark utility, FortisBC Energy Inc. (FEI), the common equity component at 38.5 percent, and established a Return on Equity at 8.75 percent effective January 1, 2013;
- C. On March 25, 2014, the Commission issued its Decision and its accompanying Order G-47-14 in the GCOC Stage 2 proceeding (the Stage 2 Decision), establishing, among other things, effective January 1, 2013, the common equity component of the capital structure at 42.5 percent and the equity risk premium over the Benchmark ROE of 75 basis points for Central Heat Distribution Limited (CHDL). The common equity component and the equity risk premium for CHDL are determined to be transitional until a decision on its next revenue requirement application (RRA);
- D. Directive 5 of Order G-47-14 directed CHDL to file, within 40 days, a document setting out: (a) how and when it would implement the change to its capital structure; (b) a permanent Steam Tariff Schedule of charges that reflects the changes to the cost of equity as determined in the GCOC Stage 2 Decision, as well as (c) a proposal on the treatment of the difference between the interim rates being charged to customers and the permanent rates established by Order G-47-14;
- E. On June 2, 2014, CHDL filed its compliance filing;

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- F. In the compliance filing, CHDL submits that it proposes to achieve the target equity thickness by the end of 2015 through retention of all earnings in 2014 and 2015 until it reaches the target equity thickness of 42.5 percent, which is expected no later than December 31, 2015. CHDL applies for the recovery of additional return on equity (ROE) pursuant to Order G-47-14 be deferred to its 2015 rate case;
- G. CHDL proposes no immediate changes in current steam tariff schedules as filed in the 2014 Revenue Requirement RRA and which is still before the Commission. CHDL calculates the cumulative deferred gross revenue requirement for 2013 and 2014 to be \$329,484; and proposes that the updated Steam Tariff Schedules be dealt with as part of the 2015 multi-year RRA that CHDL expects to file later in 2014;
- H. CHDL requests approval for a deferral account, the GCOC-2 Deferral Account, to flow through in future rates the increases in the 2013 and 2014 revenue requirements, with the amortization period to be determined in the 2015 RRA proceeding;
- I. The Commission reviewed the filing and determined that approval of the proposals from CHDL is warranted.

NOW THEREFORE pursuant to sections 59-61 of the *Utilities Commission Act*, the Commission orders as follows:

1. Central Heat Distribution Limited's (CHDL) proposed implementation of changes to its equity component in its capital structure through retention of all earnings in 2014 and 2015 is approved.
2. CHDL's calculation of the gross deferrals arising from Order G-47-14, which deems CHDL's ROE and capital structure as transitional, and the proposed recovery of the deferral to be reviewed in its anticipated 2015 Revenue Requirement Application is approved.
3. CHDL's proposed deferral account, the GCOC-2 Deferral Account, is approved. The GCOC-2 Deferral Account will be subject to rate base treatment and financing.

DATED at the City of Vancouver, in the Province of British Columbia, this 12th day of June 2014.

BY ORDER

Original signed by:

D.A. Cote
Commissioner/Panel Chair