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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-75-14**

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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
Pacific Northern Gas Ltd.
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 Wermeskerken, 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 BC 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 (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 (Stage 2 Decision), establishing, among other things, effective January 1, 2013, the common equity component of the capital structure at 46.5 percent and the equity risk premium over the Benchmark ROE of 75 basis points for Pacific Northern Gas Ltd. West Division (PNG-West);
- D. Directive 4 of Order G-47-14 directed PNG-West to file, within 40 days, a document setting out: (a) how and when it would implement the change to its capital structure; (b) the amended rate schedules in accordance with the 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 the Stage 2 Decision;
- E. On May 5, 2014, PNG-West filed its compliance filing;
- F. In the compliance filing, PNG-West submits that the change to its capital structure is already in place. PNG proposes that the 2013 rates filed on September 19, 2013 in compliance with Order G-114-13 and acknowledged by the Commission in Letter L-56-13 be made permanent as filed and the net impact effect arising from the Stage 2 GCOC Decision be recorded in a deferral account to be amortized over an amortization period of appropriate length, to be established as part of the 2014 Revenue Requirements Application Negotiated Settlement Process (RRA NSP). PNG-West estimates that the net impact of the increase in the common equity component of the capital structure and

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the decrease in the ROE for the year 2013 is \$319,000 and represents an average refund owing to PNG's residential customers of less than \$10.00;

- G. PNG-West also indicates that as the proceeding on the 2014 RRA is in progress, PNG will be filing its 2014 Gas Tariff Rate Schedules to reflect the revised cost of capital as determined in the Stage 2 GCOC Decision in the schedules to be prepared for the RRA NSP and in the subsequent final Regulatory Schedules; and
- H. The Commission has reviewed the filing and determined that approval is warranted.

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

1. Pacific Northern Gas Ltd.'s proposal that its 2013 rates that were filed on September 19, 2013 in compliance with Commission Order G-114-13 and acknowledged by Commission Letter L-56-13, are made permanent.
2. The net impact effect arising from the Generic Cost of Capital Stage 2 Decision and the permanent 2013 rates are to be recorded in a deferral account to be amortized, the length of the amortization to be established as part of its 2014 Revenue Requirement Application Negotiated Settlement Process. The deferral account will bear interest at Pacific Northern Gas Ltd.'s short term debt rate.
3. Incorporation of the impact of Pacific Northern Gas Ltd.'s 2014 rates in the schedules prepared for the Negotiated Settlement Process and in the subsequent final Regulatory Schedules.

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