



**ORDER NUMBER
G-66-21**

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

British Columbia Utilities Commission
General Cost of Capital Proceeding

BEFORE:

D. M. Morton, Panel Chair
A. K. Fung, QC, Commissioner
K. A. Keilty, Commissioner
T. A. Loski, Commissioner

on March 8, 2021

ORDER

WHEREAS:

- A. By Order G-20-12 dated February 28, 2012, the British Columbia Utilities Commission (BCUC) established a Generic Cost of Capital (GCOC) proceeding. The GCOC proceeding took place in two stages as established by Order G-148-12;
- B. By Order G-75-13 with accompanying decision dated May 10, 2013, the BCUC established, among other things, that FortisBC Energy Inc. will serve as the benchmark (Benchmark Utility) for any other utility in BC that uses a Benchmark Utility to set rates (Stage 1). The Benchmark Utility's common equity component was set at 38.5 percent and the return on equity (ROE) was set at 8.75 percent, effective January 1, 2013;
- C. By Order G-47-14 with accompanying decision dated March 25, 2014, the BCUC reviewed and determined the cost of capital for all other utilities that use the Benchmark Utility to set rates (Stage 2);
- D. By Order G-129-16 with accompanying decision dated August 10, 2016, the BCUC reaffirmed the Benchmark Utility's cost of capital and suspended use of the return on equity Automatic Adjustment Mechanism (AAM) formula;
- E. By letter dated January 18, 2021, the BCUC noted that significant time has passed since the 2013 and 2016 BCUC reviews and in that time changes have occurred in financial markets. The BCUC therefore issued a Notice of Initiating a GCOC Proceeding to all regulated entities for rate setting effective January 1, 2022; and
- F. The BCUC considers that the establishment of a GCOC proceeding and a regulatory timetable are warranted.

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

1. A GCOC proceeding is established.
2. A regulatory timetable is established, as set out in Appendix A to this order.
3. A preliminary list of the matters to be examined and determined in the GCOC proceeding is set out in the Preliminary Scoping Document attached as Appendix B to this Order. Parties that wish to provide submissions or letters of comments on the Preliminary Scoping Document to the BCUC must do so by Wednesday, March 31, 2021.
4. All public utilities regulated by the BCUC will be considered applicants in the GCOC Proceeding. Any public utility that does not wish to have applicant status must state so in its registration, provide an explanation for its request for an alternate status, whether as an intervener or interested party, and state why the alternate status should be granted.
5. Affected Utilities listed in Appendix C to this Order are expected to participate as applicants in the GCOC Proceeding and must register with the BCUC by Monday, March 22, 2021.
6. Other Utilities listed in Appendix C to this Order that intend to participate as applicants in the GCOC Proceeding must register their intention to participate with the BCUC by Monday, March 22, 2021. Any public utility not included in the list of Affected Utilities, may apply to the BCUC for status as one of the Affected Utilities.
7. Non-public utility participants that wish to participate as an intervener in the GCOC Proceeding must register with the BCUC by completing a [Request to Intervene Form](#), by Monday, March 22, 2021 as established in the regulatory timetable attached as Appendix A to this order and in accordance with the BCUC's Rules of Practice and Procedure.
8. Members of the public are invited to provide letters of comment on the Preliminary Scoping Document for the BCUC's consideration by Wednesday, March 31, 2021. Letters of comment must be in the [Letter of Comment Form](#) and be submitted on the BCUC's website, or submitted by email to commission.secretary@bcuc.com.

DATED at the City of Vancouver, in the Province of British Columbia, this 8th day of March 2021.

BY ORDER

Original signed by:

D. M. Morton
Commissioner

Attachment

British Columbia Utilities Commission
Generic Cost of Capital Proceeding

REGULATORY TIMETABLE

Action	Date (2021)
Affected utilities registration	Monday, March 22
Other utilities registration	Monday, March 22
Intervener registration	Monday, March 22
Written submissions from affected utilities, other utilities, and interveners on Preliminary Scope Document	Wednesday, March 31
Letters of comment on Preliminary Scope Document	Wednesday, March 31
Further process	To be determined

British Columbia Utilities Commission
Generic Cost of Capital Proceeding

Preliminary Scoping Document

This Generic Cost of Capital (GCOC) Proceeding is initiated by the British Columbia Utilities Commission (BCUC) pursuant to section 82 of the *Utilities Commission Act*.

1.0 BACKGROUND

The BCUC, pursuant to section 59 of the *Utilities Commission Act*, is responsible for ensuring that shareholders of the utilities it regulates are afforded a reasonable opportunity to earn a fair return on their invested capital.

By Order G-75-13 with accompanying decision dated May 10, 2013, the BCUC established that FortisBC Energy Inc. will serve as the benchmark (Benchmark Utility) for any other utility in BC that uses a Benchmark Utility to set rates.¹ The Benchmark Utility's common equity component was set at 38.5 percent and the return on equity (ROE) was set at 8.75 percent, effective January 1, 2013.

By Order G-129-16 with accompanying decision dated August 10, 2016, the BCUC reaffirmed the Benchmark Utility's Cost of Capital, which remains in effect until otherwise determined by the BCUC.² The BCUC also suspended use of the return on equity Automatic Adjustment Mechanism (AAM) formula by that order.

By letter dated January 18, 2021, the BCUC noted that significant time has passed since the 2013 and 2016 reviews and in that time changes have occurred in financial markets, and issued a Notice of Initiating a GCOC Proceeding to all regulated entities for rate setting effective January 1, 2022.

2.0 PURPOSE OF THE PROCEEDING

The purpose of the GCOC proceeding is to establish a method to determine the appropriate Cost of Capital for regulated utilities in British Columbia for 2022 and onward. This proceeding may also review the appropriateness of continuing the use of a Benchmark Utility, and if so, how to determine the appropriate cost of capital for the benchmark.

3.0 PRELIMINARY SCOPE OF THE PROCEEDING

The Panel seeks written submissions from all registered participants to establish the scope for this proceeding. Members of the public are also invited to provide letters of comment on the scope for this proceeding. Note that at this time, the BCUC is not seeking specific responses to the items as outlined below, but rather submissions on what scoping items should be addressed in this GCOC Proceeding:

- a. Whether the BCUC should establish the Cost of Capital effective January 1, 2022, including public utilities' capital structure and return on common equity.

¹ BCUC, Generic Cost of Capital, Order G-75-13 and Decision dated May 10, 2013, <https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/item/111624/index.do>.

² FortisBC Energy Inc. Application for its Common Equity Component and Return on Equity for 2016, Order G-129-16 and Decision dated August 10, 2016, <https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/item/169142/index.do>.

- b. Should the BCUC continue to establish public utilities' Cost of Capital using a two-stage mechanism, where Stage 1 sets the Benchmark ROE based on a Benchmark Utility, and Stage 2 uses a generic methodology for each utility to determine its unique Cost of Capital in reference to the Benchmark Utility?
 - i. If so, should the Benchmark Utility continue to be FortisBC Energy Inc., a hypothetical utility, or some other entity?
 - ii. Otherwise, should all utilities have an independent review process to establish the Cost of Capital?
 - iii. Can certain public utilities be grouped together, where the BCUC establishes the Cost of Capital for the group? What are the characteristics for such grouping(s)?
- c. What considerations should be made for the initial transition year January 1, 2022 to December 31, 2022 (e.g. setting rates for all utilities that may be affected by the GCOC proceeding's decision on an interim basis until a final decision is rendered)?
- d. Whether re-establishment of a formulaic ROE AAM is warranted. If a return to the use of a formulaic ROE AAM is accepted, what are the specifications of such a formula and should it be implemented starting on January 1, 2023 on an annual basis?
- e. In certain circumstances for those utilities that require a deemed interest rate, should a methodology be established or a determination be made on a deemed interest rate and should the deemed interest rate be subject to an AAM (Interest AAM)? If warranted, the Interest AAM would be implemented for January 1, 2023. If not warranted, setting a future regulatory process on how the deemed interest would be adjusted in future years beyond December 31, 2022.

If parties wish to bring forward any other specific items that should be included in the scope of this proceeding, please provide reasons in support.

British Columbia Utilities Commission
Generic Cost of Capital Proceeding

List of Utilities

The following utilities (Affected Utilities) are expected to participate as applicants in the GCOC Proceeding:

Corix Multi-Utilities Services Inc.	Pacific Northern Gas Ltd.
FortisBC Energy Inc.	Pacific Northern Gas (N.E.) Ltd.
FortisBC Inc.	

The Affected Utilities have been designated given their active participation in previous Cost of Capital proceedings that set a benchmark ROE or their anticipated interest in the GCOC Proceeding as investor-owned utilities. These Affected Utilities are expected to take a lead role in filing evidence for cost of capital matters that may impact them.

Other utilities (Other Utilities) that are also expected to participate as applicants in the GCOC Proceeding include, but are not limited to:

Big White Gas Utility Ltd.	Hemlock Valley Electrical Services Limited
Boralex Ocean Falls Limited Partnership	Kyuquot Power Ltd.
British Columbia Hydro and Power Authority	Nelson Hydro
Cal-Gas Inc.	River District Energy Limited Partnership
CB Powerline Ltd.	Resort Gas Ltd.
Creative Energy Vancouver Platforms Inc.	Stargas Utilities Ltd.
Dockside Green Energy LLP	Shannon Estates Utility Ltd.
FortisBC Alternative Energy Services	Superior Propane

These Other Utilities have not actively participated in previous GCOC proceedings but should note that the BCUC decision resulting from this GCOC Proceeding may impact their ROE effective January 1, 2022. Other Utilities are also invited to file evidence in this GCOC Proceeding.

Affected Utilities and Other Utilities are encouraged to collaborate and/or combine their efforts, if appropriate.



We want to hear from you

BCUC Generic Cost of Capital Proceeding

The British Columbia Utilities Commission (BCUC) is responsible for ensuring that shareholders of the utilities we regulate are afforded a reasonable opportunity to earn a fair return on their invested capital.

In 2013, the BCUC established that FortisBC Energy Inc. (FEI) will serve as the benchmark (Benchmark Utility) for any other utility in BC that uses a Benchmark Utility to set rates. The Benchmark Utility's common equity component was set at 38.5 percent and the return on equity (ROE) was set at 8.75 percent. In 2016, the BCUC reaffirmed the Benchmark Utility's Cost of Capital, which remains in effect until otherwise determined by the BCUC.

The BCUC has initiated a Generic Cost of Capital (GCOC) Proceeding, as changes have occurred in financial markets since the BCUC's 2013 and 2016 reviews. On January 18, 2021, the BCUC issued a Notice of Initiating a GCOC Proceeding to all regulated utilities for rate setting effective January 1, 2022. On March 8, 2021, the BCUC established a regulatory timetable for participant registration and is seeking comments from parties on the Preliminary Scoping Document.

HOW TO PARTICIPATE

- **Submit a letter of comment**
- **Register as an interested party**
- **Request intervener status**

IMPORTANT DATES

1. **Monday, March 22, 2021** – Deadline to register as an affected utility, other utility, or intervener with the BCUC
2. **Wednesday, March 31, 2021** – Deadline to provide written submissions on Preliminary Scoping Document

For more information about the proceeding, please visit the [Proceeding Webpage](#) on bcuc.com under "Regulatory Activities – Current Proceedings". To learn more about getting involved, please visit our website at www.b cuc.com/get-involved or contact us at the information below.

GET MORE INFORMATION

British Columbia Utilities Commission



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