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

and

Rate of Return on Common Equity

BEFORE: L.R. Barr, Deputy Chair, and)
Acting Chair) April 24, 1997
K.L. Hall, Commissioner)

O R D E R

WHEREAS:

- A. In its Decision dated June 10, 1994, the Commission set out a mechanism by which the rate of return on common equity ("ROE") allowed to regulated utilities could be adjusted annually on an automatic basis; and
- B. The Commission has judged that the mechanism has performed well and has used it to set the ROE for the regulated utilities for the years 1995, 1996 and 1997; and
- C. In its letter advising the parties as to the 1997 ROE determinations, the Commission asked for comments as to whether any adjustments were desirable; and
- D. The Commission received replies from BC Gas Utility Ltd., Pacific Northern Gas Ltd., West Kootenay Power Ltd., Kanelk Transmission Company Ltd., certain Large Industrial Customers and the Consumers Association of Canada (B.C. Branch) *et al.*; and
- E. The Commission has reviewed the submissions and finds that amendments to the formula are appropriate.

NOW THEREFORE the Commission orders as follows:

- 1. The Commission directs that the 50 basis point trigger contained in the automatic adjustment mechanism set forth in the June 10, 1994 Decision be dropped.

2. The Commission directs that the benchmark rate for Long-Term Government of Canada bonds be reset to 9.25 percent from 7.75 percent.
3. The Commission directs that the change in ROE in response to a change in the forecast Long Canada bond rate be at a rate of an 80 basis point change in the ROE for each 100 basis point change in the forecast Long Canada bond rate.
4. The Commission directs that in calculating the upcoming year ROE, the reference be to the previous year's unrounded ROE rather than the ROE which has been rounded to the nearest 25 basis points.
5. The Commission directs that the range of forecast Long Canada bond interest rates over which the automatic adjustment mechanism will apply will be 6.0 percent to 12.0 percent.

A sample calculation showing what the rates would have been in 1997 for each of the four utilities if the revised mechanism had been in place is attached as Appendix A to this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 29th day of April, 1997.

BY ORDER

Original signed by:

Lorna R. Barr
Deputy Chair and
Acting Chair

Attachment

**Sample Calculation of Allowed 1997 Rate of Return on Common Equity
if Revised Automatic Adjustment Mechanism were in Place**

	<u>3 month Ahead (Feb. 1997)</u>	<u>12 month Ahead (Nov. 1997)</u>
1. 10 Year Canada Bond Yield Forecast Average: (Consensus Economics, November 1996 Consensus Forecast)	6.5	6.5
2. Average of 3 and 12 Month Forecasts		6.50
3. Add Yield Spread Between 10 Year (7.0%, December 1, 2006) and 30 Year (9.0%, June 1, 2025) Canada Bonds:		0.697
4. Equals Projected 1997 Yield on Long Term Canada Bond		7.197
5. Less BCUC Benchmark Forecast		9.25
6. Initial Adjustment Factor		-2.053
7. Sliding Scale Adjustment Factor		-1.642
8. Allowed 1997 Rate of Return Common Equity:		

	<u>Benchmark ROE</u>	<u>Initial Adjustment Factor</u>	<u>Initial 1997 ROE</u>	<u>Rounded 1997 ROE</u>
BC Gas	12.25	-1.642	10.608	10.50
Centra-FSJ	12.625	-1.642	10.983	11.00
PNG	13.0	-1.642	11.358	11.25
WKP	12.5	-1.642	10.858	10.75