SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. V6Z 2N3 CANADA
web site: http://www.bcuc.com

BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-62-01

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

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

and

A Generic Hearing into Aspects of the Adjustment Mechanism
for Setting the Rate of Return on Common Equity for a Benchmark Utility

BEFORE:	P. Ostergaard, Chair	)	
	B.L. Clemenhagen, Commissioner	)	
	R.D. Deane, Commissioner	)	June 14, 2001
	K.L. Hall, Commissioner	)	
	N.F. Nicholls, Commissioner	)	

O R D E R

WHEREAS:

A. In its Decision dated June 10, 1994, the Commission established rates of return on common equity ("ROE") for BC Gas Utility Ltd. ("BC Gas"), Pacific Northern Gas Ltd. ("PNG"), West Kootenay Power Ltd. ("WKP"), and Centra Gas Fort St. John Inc. ("Centra FSJ"); and

B. In the same Decision the Commission established a mechanism for varying the ROE on an annual basis; and

C. The Commission, by Order No. G-49-97, amended the mechanism to correct for certain problems and to make it more consistent with the practices of other public utility tribunals; and

D. In 1998 there were requests from various parties to re-examine the mechanism to determine if further amendments were required. The Commission, by Letter No. L-73-98, advised interested parties that the Commission, in 1999, would be establishing a process for a comprehensive review of all issues surrounding the setting of the ROE; and

E. On April 7 1999, the Commission issued Order No. G-38-99 establishing an oral public hearing into the appropriate ROE for a low-risk benchmark utility and into future processes or mechanisms that may be employed to improve the determination of the ROE for the utilities in future years; and

F. Following a public hearing held in June 1999 the Commission issued a Decision dated August 26, 1999 and Order No. G-80-99 amending the automatic adjustment formula for establishing the ROE for a low-risk benchmark utility; and

G. On November 1, 2000, BC Gas applied to the Commission to adjust the application of the automatic adjustment formula to address the situation of yields on 10-year Government of Canada bonds exceeding the yields on 30-year Government of Canada bonds; and

H. In Letter No. L-55-00, dated November 3, 2000, the Commission requested the comments of other parties on the BC Gas request and what changes, if any, the Commission should make to its calculation of the 2001 low-risk benchmark ROE; and

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I. On December 21, 2000, following a review of the submissions of interested parties, the Commission issued Letter No. L-61-00 stating that the ROE adjustment mechanism would not be amended at that time, and would continue to be applied in accordance with Order No. G-80-99; and

J. In Letter No. L-61-00 the Commission also stated that it intended to further review the yield spread between medium and long-term bonds in 2001, as well as its practice of rounding the benchmark ROE to the nearest 25 basis points (0.25 percent), in order to consider whether amendments should be made to the mechanism prior to the calculation of the low-risk benchmark ROE for 2002; and

K. The Commission has determined that it is in the public interest to establish a written public hearing to review these aspects of the automatic adjustment formula;

NOW THEREFORE the Commission orders as follows:

1. The Commission will hold a written public hearing regarding the automatic adjustment formula for setting the ROE for a low-risk benchmark utility, limited to the following issues:

   (a) The appropriate treatment of the yield spread when the yields on 10-year Government of Canada bonds exceed the yields on 30-year Government of Canada bonds.

   (b) Whether the Commission should continue to round the ROE to the nearest 25 basis points (or any other number) and, if so, if it should apply the rounding to the low-risk benchmark ROE or the utility-specific ROE.

2. Parties who wish to intervene in the hearing should advise the Commission Secretary in writing by Friday, July 9, 2001.

3. Intervenors are to file submissions with the Commission and with other Intervenors by Friday, August 24, 2001 and reply submissions by Friday, September 14, 2001.

DATED at the City of Vancouver, in the Province of British Columbia, this 28th day of June 2001.

BY ORDER

Original signed by:

Peter Ostergaard
Chair