ROBERT J. PELLATT
COMMISSION SECRETARY
Commission.Secretary@bcuc.com
web site: http://www.bcuc.com

LETTER NO. L-55-04

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. CANADA V6Z 2N3
TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

VIA FACSIMILE/E-MAIL

November 18, 2004

Mr. C.P. Donohue
Director, Regulatory Affairs & Gas Supply
Pacific Northern Gas Ltd.
950 - 1185 West Georgia Street
Vancouver, B.C. V6E 4E6

Mr. George Isherwood
Director, Regulatory Affairs
FortisBC Inc.
P.O. Box 130
Trail, B.C. V1R 4L4

Mr. Scott Thomson
Vice President, Finance and Regulatory Affairs
Terasen Gas Inc.
16705 Fraser Highway
Surrey, B.C. V3S 2X7

Dear Sirs:

Re: Return on Common Equity for a
Low-Risk Benchmark Utility for the Year 2005

Pursuant to BCUC Decision dated June 10, 1994 regarding Return on Common Equity and Order No. G-35-94 as amended by Order No. G-80-99 and Order No. G-109-01, the Commission has determined that 9.03 percent is the appropriate return on common equity for a low-risk benchmark utility in the year 2005. The calculation and other documentation in support of this finding are attached.

The appropriate ROE in 2005 for individual utilities will incorporate the risk premium for each utility relative to the low-risk benchmark.

Each utility is required to submit an application for approval to the Commission to vary its rates in line with the determinations made in this letter.

Yours truly,

Original signed by:

Robert J. Pellatt

RG/chm
Attachments

Misc_Corresp/ROE to Utilities

cc: Mr. R. Brian Wallace
Bull, Housser & Tupper

Mr. Richard Gathercole
Executive Director
The British Columbia Public Interest
Advocacy Centre

Mr. Cameron Lusztig
Director, Regulatory Affairs
British Columbia Transmission Corporation

Mr. Richard Stout
Chief Regulatory Officer
British Columbia Hydro and Power Authority

Mr. John B. Hall
President and CEO
Princeton Light & Power Company, Limited

Calculation Of Allowed 2005 Rate Of Return On Common Equity
For A Low-Risk Benchmark Utility
(Per Commission Order No. G-80-99, As Amended By Order No. G-109-01)

A forecast of long-term Canada bonds is developed based on the Consensus Economics forecast of 10-year bonds (Step 1) and the observed spread between 10- and 30-year bonds over a defined period (Step 2). This establishes a forecast yield for long Canada bonds (Step 3).

Step 1:	Ten Year Canada Bond Yield – end of February, 2005 (Consensus Economics, November 2004 Consensus Forecast)	4.900%
	Ten Year Canada Bond Yield – end of November, 2005 (Consensus Economics, November 2004 Consensus Forecast)	5.200%
	Average of 3 and 12 Month Forecasts	5.050%
Step 2:	Add Average Yield Spread Between 10-Year (June 1, 2014; 5.00%) and 30-Year (June 1, 2033; 5.75%) for all Trading Days in October, 2004. See Table 1 below.	0.478%

Table 1: Derivation of Average Spread between 10-yr and 30-yr Canada Bonds

Trading Days in October	10 yr. Yield	30 yr. Yield	Spread (bp)
1-Oct-04	4.67	5.12	45
4	4.65	5.11	46
5	4.64	5.10	46
6	4.69	5.13	44
7	4.71	5.16	45
8	4.63	5.09	46
12	4.58	5.06	48
13	4.57	5.05	48
14	4.52	5.02	50
15	4.55	5.04	49
18	4.53	5.02	49
19	4.50	5.00	50
20	4.46	4.97	51
21	4.48	4.97	49
22	4.45	4.94	49
25	4.44	4.94	50
26	4.47	4.95	48
27	4.52	5.00	48
28	4.49	4.97	48
29	4.47	4.94	47
Average Spread			47.80

Note:	Source:
10 yr. Bond is Canada June 1, 2014; 5.00%	Financial Post
30 yr. Bond is Canada June 1, 2033; 5.75%	October 1, 2004 - October 30, 2004

Step 3:	Equals Forecast Yield on Long-Term Canada Bonds	5.528%

Where the forecast yield is greater than 6.0 per cent, the sliding scale applies to the difference between 6.0 per cent and the forecast yield, and this amount is added to 9.5 per cent. Where the forecast yield is 6.0 percent or below, no sliding scale adjustment is applied and the equity risk premium is fixed at 3.50 percent (Step 4). The equity risk premium is added to the forecast Long Canada yield to determine the unrounded allowed ROE (Step 5).

The unrounded ROE in percentage terms is rounded to the nearest 2 decimal places (Step 6).

Step 4.	Equity Risk Premium when the forecast Long Canada Yield is 6.0% or below	3.500%
Step 5.	Unrounded Allowed ROE	9.028%
Step 6.	Rounded Allowed ROE	9.03%