



LETTER NO. L-41-04

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Log. No. 6899

VIA FACSIMILE/VIA E-MAIL

August 3, 2004

To: Regulated Utilities
Interested Parties

Dear Sirs:

Re: Review of the Automatic Adjustment Mechanism for determining the Return on Equity

The attached letter from Terasen Gas Inc. ("Terasen") dated July 22, 2004 outlines the history of the current mechanism for establishing the Return on Common Equity ("ROE") for larger gas and electric utilities regulated by the BCUC. The Terasen letter cites a July 2, 2004 Decision by the Alberta Energy and Utilities Board ("EUB") with respect to the Generic Cost of Capital and notes "...the disparity between this decision and the ROE and Capital Structure percentages for Terasen Gas." (The EUB Decision may be accessed on the EUB website at <http://www.eub.gov.ab.ca/BBS/decisions/utilitydecisions/2004/default.htm>.) Terasen is requesting that the Commission hold a hearing to review the ROE and capital structure and determine appropriate percentages for the period beginning January 1, 2005.

Because of the wide-ranging implications of such a review for ratepayers and other regulated utilities, the Commission is requesting the views of other parties on whether the Commission should review utilities' ROE or capital structure or both in a public hearing. Specifically, the Commission requests the comments of parties on the following questions:

- Should there be a review of the current mechanism for setting the ROE for a low-risk benchmark utility?
- Should there be a review of the size of the risk premium used to establish the ROE for specific utilities?
- Should there be a review of the capital structure appropriate for a low-risk benchmark utility?
- Should there be a review of the capital structure for utilities individually?
- Are there any other issues related to ROE and capital structure that should be reviewed at this time?
- If the Commission determines that a review should be conducted on one or more of the above issues should the review take place in an oral public hearing or a written hearing?

Parties are asked to provide their views, in writing, to the Commission Secretary by Tuesday, August 24, 2004.

Yours sincerely,

Original signed by:

Robert J. Pellatt

JWF/rt
Attachment