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BRITISH COLUMBIA UTILITIES COMMISSION

LETTER NO. L-75-06

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VIA E-MAIL

November 23, 2006

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Dear Sirs:

Re: Return on Common Equity for a
Low-Risk Benchmark Utility for the Year 2007

Pursuant to the Commission's Decision dated June 10, 1994 regarding Return on Common Equity and Order No. G-35-94, and as amended by Order No. G-80-99, Order No. G-109-01 and Order No. G-14-06, the Commission has determined that the current ROE automatic adjustment mechanism results in an allowed return on common equity of 8.37 percent for a low-risk benchmark utility in 2007. The calculation and other documentation in support of this finding are attached.

The appropriate ROE in 2007 for individual utilities will incorporate the risk premium for each utility relative to the low-risk benchmark.

Yours truly,

Original signed by:

Robert J. Pellatt

RG/cms
Attachment

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Calculation of Allowed 2007 Rate of Return on Common Equity
For A Low-Risk Benchmark Utility
(Per Commission Order No. G-35-94,
Amended by Order No. G-80-99, Order No. G-109-01 and Order No. G-14-06)

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).

1.	Ten Year Canada Bond Yield – end of February, 2007 (Consensus Economics, November 2006 Consensus Forecast)	4.1%	
	Ten Year Canada Bond Yield – end of November, 2007 (Consensus Economics, November 2006 Consensus Forecast)	4.2%	
	Average of 3 and 12 Month Forecasts	4.15%	
2.	Add average yield spread between 10-year and 30-year bonds as reported in the Financial Post for all trading days in October, 2006.	0.069%	
3.	Equals forecast yield on long-term Canada bonds		4.219%

As per Commission Order No. G-14-06, the approved benchmark return on equity (ROE) is 9.145 percent assuming a 30-year long Canada bond yield of 5.25 percent. Where the forecast yield is greater or less than 5.25 percent, a sliding scale adjustment raises or lowers the benchmark ROE by 75 percent of the change in the forecast yield on long-term Canada Bonds (step 4). The unrounded allowed ROE in percentage terms is rounded to the nearest 2 decimal places (step 5).

4.	Unrounded allowed ROE based on sliding scale adjustment: 9.145 – (0.75 * (5.25 – 4.219))	8.372%
5.	Allowed ROE	8.37%