

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



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-20-12**

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

Generic Cost of Capital Proceeding

BEFORE: D.A. Cote, Commissioner February 28, 2012

O R D E R

WHEREAS:

- A. On December 16, 2009, the British Columbia Utilities Commission (Commission) issued its Decision on the Return on Equity and Capital Structure Application (2009 ROE Decision) for Terasen Gas Inc. (TGI), Terasen Gas (Vancouver Island Inc.), and Terasen Gas (Whistler) Inc. (TGW), (collectively, Terasen Utilities, now known as FortisBC Energy Utilities);
- B. By Order G-158-09 issued concurrently with the 2009 ROE Decision, the Commission ordered, among other things, that the Return on Equity Automatic Adjustment Mechanism (ROE AAM) in place since 1995 be eliminated; that the appropriate equity ratio for TGI would be 40 percent effective January 1, 2010; that the 9.5 percent ROE approved for TGI effective July 1, 2009 should continue to serve as the Benchmark ROE for FortisBC Inc. and any other utility in British Columbia that uses a Benchmark ROE to set rates; and that TGI was to complete its study of alternative formulas to an ROE AAM and report to the Commission by December 31, 2010;
- C. On December 8, 2010, Terasen Utilities filed their study on ROE alternative formulas with the Commission;
- D. Since the issuance of the 2009 ROE Decision, changes have occurred in the financial markets. On November 28, 2011, the Commission issued a Preliminary Notification of Initiation of Generic Cost of Capital (GCOC) Proceeding to all regulated entities;
- E. The Commission considers that a GCOC Proceeding should be initiated. The Commission intends to publish a Notice of the GCOC Proceeding in the form attached as Appendix D to this Order.

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-20-12

2

NOW THEREFORE pursuant to section 82 of the *Utilities Commission Act*, the Commission orders as follows:

1. A GCOC Proceeding will take place to review: (a) the setting of the appropriate cost of capital for a benchmark low-risk utility; (b) the possible return to an ROE AAM for setting an ROE for the benchmark low-risk utility; and (c) the establishment of a deemed capital structure and deemed cost of capital methodology, particularly for those utilities without third-party debt. The Initial Regulatory Timetable is attached as Appendix A to this Order.
2. A preliminary list of the matters to be examined and determined in the GCOC Proceeding is set out in the Preliminary Scoping Document attached as Appendix B to this Order. Registered participants who wish to provide submissions on the Preliminary Scoping Document must file their submissions by Wednesday, March 21, 2012.
3. All participating public utilities regulated by the Commission shall be considered applicants in the GCOC Proceeding. Any public utility that does not want applicant status must state so in its registration, provide an explanation for its request for an alternate status, whether as an Intervener or Interested Party, and state why the alternate status should be granted.
4. The Affected Utilities listed in Appendix C to this Order are expected to participate in the GCOC Proceeding and must register with the Commission by Wednesday, March 14, 2012.
5. The Other Utilities listed in Appendix C to this Order that intend to participate in the GCOC Proceeding must register with the Commission by Wednesday, March 14, 2012. Any public utility not included in the list of Affected Utilities, may apply to the Commission for status as one of the Affected Utilities.
6. Non-utility participants that wish to register as Interveners or Interested Parties during the First Round Registration for Intervener or Interested Party status must register with the Commission by Tuesday, March 20, 2012. Interveners must state the nature of their interest in the GCOC Proceeding. A date will be set for a further round of registrations for Intervener or Interested Party status prior the filing of evidence by the Affected Utilities.

DATED at the City of Vancouver, in the Province of British Columbia, this 28th day of February 2012.

BY ORDER

Original signed by:

D.A. Cote
Commissioner

Attachments

GENERIC COST OF CAPITAL PROCEEDING

INITIAL REGULATORY TIMETABLE

ACTIVITY	DATE (2012)
Registration of Affected Utilities	Wednesday, March 14
Registration of Other Utilities	Wednesday, March 14
First Round Registration of non-utility participants as Interveners or Interested Parties	Tuesday, March 20
Written Submissions from Affected Utilities, Other Utilities, and Interveners on the Preliminary Scoping Document	Wednesday, March 21



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

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

GENERIC COST OF CAPITAL PROCEEDING

PRELIMINARY SCOPING DOCUMENT

This Generic Cost of Capital (GCOC) Proceeding is initiated by the British Columbia Utilities Commission (Commission) pursuant to section 82 of the *Utilities Commission Act*.

BACKGROUND

On December 16, 2009, the Commission issued a decision on the application by Terasen Gas Inc. (TGI), Terasen Gas (Vancouver Island) Inc. (TGVI), and Terasen Gas (Whistler) Inc. (TGW) (collectively, Terasen Utilities, now known as FortisBC Energy Utilities¹) on rates of return on common equity and capital structure (2009 ROE Decision). The 2009 ROE Decision and the accompanying Order G-158-09 eliminated the ROE Automatic Adjustment Mechanism (ROE AAM) and established an ROE of 9.5 percent and a debt to equity ratio of 60:40 for TGI. Order G-158-09 determined that the TGI ROE should continue to serve as the Benchmark ROE for FortisBC Inc. and any other utility in British Columbia that uses the Benchmark ROE to set rates.

On December 8, 2010, Terasen Utilities filed a report to comply with paragraph 10 of Order G-158-09 which ordered TGI to complete a study of alternative formulas and report to the Commission by December 31, 2010. In its report, Terasen Utilities did not propose a return to a formulaic ROE AAM and submitted that should a new ROE AAM be considered, then the ROE for TGVI and TGW should continue to be set with reference to the Benchmark ROE established for TGI by adding a utility specific risk premium.

Since the issuance of the 2009 ROE Decision, changes have occurred in the financial markets. On November 28, 2011, the Commission issued a Preliminary Notification of Initiation of Generic Cost of Capital Proceeding.

PURPOSE OF THE PROCEEDING

The purpose of the GCOC Proceeding is to establish a method to determine the appropriate cost of capital for a benchmark low-risk utility in British Columbia for 2013 and to establish how the benchmark rate of return will be reviewed and, if required, adjusted on a regular basis.

PRELIMINARY SCOPE OF THE PROCEEDING

At this time, the Commission has identified the following matters that it would like to review as part of the GCOC Proceeding:

¹ FortisBC Energy Utilities comprise of FortisBC Energy Inc. [formerly Terasen Gas Inc.], FortisBC (Vancouver Island) Inc. [formerly Terasen Gas (Vancouver Island) Inc.], and FortisBC Energy (Whistler) Inc. [formerly Terasen Gas (Whistler) Inc.].

1. The appropriate cost of capital for a benchmark low-risk utility effective January 1, 2013. Cost of capital includes capital structure, return on common equity, and interest on debt.
2. Establishment of a Benchmark ROE based on a benchmark low-risk utility effective January 1, 2013 to December 31, 2013, for the initial transition year.
3. Whether re-establishment of an ROE AAM is warranted. If a return to the use of a formulaic ROE AAM is accepted as a result of this GCOC Proceeding, it would be implemented January 1, 2014. If not, a future regulatory process will be set to review the ROE for a benchmark low-risk utility beyond December 31, 2013.
4. A generic methodology on how to establish each utility's cost of capital based on the cost of capital for a benchmark low-risk utility.
5. A methodology to establish a deemed capital structure and deemed cost of capital, particularly for those utilities without third-party debt. This would involve setting a methodology on how to calculate a deemed interest rate.
6. A methodology to establish a deemed interest rate automatic adjustment mechanism (Interest AAM). If warranted, the Interest AAM would be implemented for January 1, 2014. If not warranted, setting a future regulatory process on how the deemed interest for a benchmark low-risk utility would be adjusted in future years beyond December 31, 2013.

The GCOC Proceeding is not intended to set each utility's risk premium on the Benchmark ROE. It is anticipated that any adjustment to an individual utility's premium that is effective after December 31, 2013, will be set in a separate future proceeding for that utility. In the alternative, individual utilities could apply to have their premiums set at the same time in a future Multi-Utility Cost of Capital proceeding to establish their respective rates of return beyond December 31, 2013.

COMMISSION CONSULTANT SURVEY

As the GCOC Proceeding is a Commission initiated generic proceeding, the Commission plans to retain an independent consultant to undertake a survey of the regulatory practices regarding cost of capital in all Canadian regulatory jurisdictions in the utility and pipeline sectors (Consultant Survey). The Consultant Survey will form part of the record of the GCOC Proceeding and will be made available on the Commission's website.

FUTURE REGULATORY PROCESS

The Commission plans to issue a Final Scoping Document following its review of the submissions it received by Wednesday, March 21, 2012, as provided for in the Initial Regulatory Timetable. Additionally, the Commission plans to issue a Preliminary Minimum Filing Requirements from Affected Utilities document. The Commission also plans to issue a further Regulatory Timetable that includes a filing date for the Consultant Survey.

GENERIC COST OF CAPITAL PROCEEDING

LIST OF UTILITIES

Specific affected utilities (Affected Utilities) expected to participate in the GCOC Proceeding are:

Corix Multi-Utilities Services Inc.	FortisBC Inc.
FortisBC Energy Inc.	Pacific Northern Gas Ltd.
FortisBC Energy (Vancouver Island) Inc.	Pacific Northern Gas (N.E.) Ltd.
FortisBC Energy (Whistler) Inc.	

The Affected Utilities have been designated given their active participation in previous return on equity proceedings that set a benchmark ROE or their anticipated interest in the GCOC Proceeding as investor-owned utilities. These Affected Utilities are expected to take a lead role in filing evidence for cost of capital matters that may impact them.

Other utilities (Other Utilities) that may wish to participate in the GCOC Proceeding include, but are not limited to:

Big White Gas Utility Ltd.	Kyuquot Power Ltd.
British Columbia Hydro and Power Authority	River District Energy Limited Partnership
Central Heating Distribution Ltd.	Stargas Utilities Ltd.
Dockside Green Energy LLP	Sun Peaks Utilities Co., Ltd.
Hemlock Valley Electrical Services Limited	

These Other Utilities have not actively participated in previous ROE proceedings that set a benchmark ROE and are not expected to file evidence in the GCOC Proceeding. Other Utilities, in determining whether or not to participate in the GCOC Proceeding, should note that the Commission decision resulting from this GCOC Proceeding may be considered by the Commission with respect to cost of capital related matters in future proceedings relating to Other Utilities.

Subject to a Commission Order granting a public utility alternate status, all participating public utilities regulated by the Commission shall be considered as applicants in this GCOC Proceeding. Any participating utility may apply to the Commission to be added as one of the Affected Utilities.

PUBLIC NOTICE

BRITISH COLUMBIA UTILITIES COMMISSION

FEBRUARY 28, 2012



GENERIC COST OF CAPITAL PROCEEDING

The British Columbia Utilities Commission (Commission) has initiated a Generic Cost of Capital (GCOC) Proceeding pursuant to section 82 of the *Utilities Commission Act* by Commission Order G-20-12. The purpose of the GCOC Proceeding is to establish a method to determine the appropriate cost of capital for a benchmark low-risk utility in British Columbia for 2013 and to establish how the benchmark cost of capital will be reviewed and, if required, adjusted on a regular basis. The Preliminary Scoping Document for the GCOC Proceeding is contained in Appendix B to Order G-20-12 which is available on the Commission's website.

HOW TO GET INVOLVED

Subject to a Commission Order granting a public utility an alternate status, all participating utilities regulated by the Commission shall be considered as applicants in the GCOC Proceeding. Affected Utilities listed in Appendix C to Order G-20-12 are expected to take a lead role in filing evidence. Affected Utilities and Other Utilities must register by Wednesday, March 14, 2012.

During the First Round Registration for Intervener or Interested Party status: (1) any person who wishes to participate actively in the GCOC Proceeding must register as an Intervener by Tuesday, March 20, 2012; (2) any person who does not wish to participate actively, but who has an interest in the GCOC Proceeding, must register as an Interested Party by Tuesday, March 20, 2012. Interveners must state the nature of their interest in the GCOC Proceeding.

All submissions and/or correspondence received relating to the GCOC Proceeding will be placed on the public record and posted to the Commission's website.

For registration or further information, please visit the Commission's website (www.bcuc.com) or contact Ms. Alanna Gillis, Acting Commission Secretary, by telephone at 604-660-4700 or BC Toll Free at 1-800-663-1385; by fax at 604-660-1102; by email at Commission.Secretary@bcuc.com or by mail at: 6th Floor, 900 Howe Street, Box 250, Vancouver, BC V6Z 2N3.

SUBMISSIONS ON THE PRELIMINARY SCOPE OF THE PROCEEDING

Registered participants may provide their submissions on the Preliminary Scoping Document by Wednesday, March 21, 2012.