

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-75-13**

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/Panel Chair
M.R. Harle, Commissioner May 10, 2013
L.A. O'Hara, Commissioner
R. Giammarino, Commissioner

O R D E R

WHEREAS:

- A. By Order G-20-12 dated February 28, 2012, the British Columbia Utilities Commission (Commission) established a Generic Cost of Capital (GCOC) proceeding to review: (a) the setting of the appropriate cost of capital for a benchmark low-risk utility; (b) the possible return to a Return on Equity Automatic Adjustment Mechanism (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;
- B. Appendix C to Order G-20-12 divided public utilities into two categories for the purpose of the proceeding: "Affected Utilities" and "Other Utilities;"
- C. FortisBC Energy Inc. (FEI), FortisBC Energy (Vancouver Island) Inc., FortisBC Energy (Whistler) Inc. and FortisBC Inc. (FortisBC)[collectively (FBCU)]; Corix Multi-Utility Services Inc. (Corix); and Pacific Northern Gas Ltd. and Pacific Northern Gas (N.E.) Ltd. (PNG) registered as Affected Utilities. The British Columbia Hydro and Power Authority (BC Hydro) and the River District Energy (RDE) registered as Other Utilities;
- D. Among the Interveners who registered for the proceeding, the Association of Major Consumers of BC (AMPC), British Columbia Pensioners' and Seniors' Organization (BCPSO), Commercial Energy Consumers (CEC) [collectively B.C. Utility Customers], and the Industrial Customers Group of FortisBC Inc. (ICG) actively participated;
- E. By Order G-47-12 dated April 18, 2012, the Commission issued the Final Scoping Document for the proceeding. The Scoping Document sets out the purpose and the scope of the proceeding. Matters within the scope of the proceeding included, among others, the appropriate cost of capital and its effective date for a benchmark low-risk utility, the establishment of a benchmark ROE, the consideration of an automatic adjustment mechanism, and the deemed capital structure and deemed cost of capital for small utilities without third-party debt;

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- F. By Order G-50-12 dated April 19, 2012, the Commission, among other matters, set out the further procedural matters to be addressed in the proceeding and a Preliminary Minimum Filing Requirements (MFR) for Affected Utilities document. Parties were invited to make submissions on the Preliminary MFR for Affected Utilities by May 3, 2012, and on the allocation of Participant Assistance/Cost Awards (PACA), PACA eligibility, and/or the Draft Preliminary Regulatory Timetable by May 9, 2012;
- G. By Order G-72-12 dated June 1, 2012, the Commission, among other matters, issued the Final Minimum Filing Requirements for Affected Utilities and the Preliminary Regulatory Timetable for the proceeding;
- H. On June 8, 2012, the Commission released "A Survey of Cost of Capital Practices in Canada" prepared by The Brattle Group for the Commission (Brattle Report). Utilities and Interveners were provided with the opportunity to ask Information Requests on the Brattle Report;
- I. By Order G-84-12 dated June 20, 2012, the Commission amended the Preliminary Regulatory Timetable, establishing, among other things, a Procedural Conference for October 2, 2012 and the commencement date for an oral hearing, if required, on December 12, 2012. The Procedural Conference was subsequently rescheduled to October 4, 2012;
- J. At the Procedural Conference the Commission received, among others, submissions on the following items: (1) the appropriate benchmark utility for the determination of the generic cost of capital; (2) whether a Stage 2 for the purpose of determining an appropriate cost of capital for Affected and Other Utilities to immediately follow Stage 1 was desirable; (3) whether an oral phase was required and (4) the proposed timetable going forward;
- K. By Order G-148-12 dated October 11, 2012, the Commission determined that : (1) FEI in its present pre-amalgamation state, would serve as the benchmark for the proceeding and whether FEI in 2012 is a pure play gas distribution utility would be determined following the hearing of further evidence; (2) a Stage 2 would be added to the proceeding with the schedule to be determined prior to the end of Stage 1; and (3) the review of the proceeding would continue by way of an oral hearing commencing on December 12, 2012;
- L. By Order G-187-12 dated December 10, 2012, the Commission ordered that: (1) the current ROE and capital structure for FEI, the designated benchmark utility, and all regulated entities in B.C. that rely on the benchmark utility, except British Columbia Hydro and Power Authority, are to be maintained and made interim, effective January 1, 2013; and (2) any determinations of the premiums on the benchmark ROE and capital structure of regulated utilities that depend on the benchmark utility for rate setting will be made following the decision in Stage 2; M. The oral public hearing took place over a period of seven days between December 12, 2012 and December 21, 2012. A total of eight witness panels from FBCU and Interveners gave evidence;
- N. FBCU, PNG, Corix, AMPC/CEC, ICG and BCPSO filed Final Submissions. FBCU filed a Reply Submission; and
- O. The Commission has considered the evidence and the submissions of the Parties all as set forth in the Decision issued concurrently with this Order.

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NOW THEREFORE, the Commission orders as follows:

1. The common equity component appropriate for the benchmark utility, FEI, effective January 1, 2013 is 38.5 percent.
2. A Return on Equity (ROE) for the benchmark utility, FEI, is established at 8.75 percent effective January 1, 2013.
3. An Automatic Adjustment Mechanism (AAM) formula for annually setting the ROE of the benchmark utility between ROE proceedings is adopted commencing January 1, 2014. The AAM formula will operate until December 31, 2015. The implementation of the model will be subject to conditions outlined in the Decision.
4. FEI is directed to file an application for the review of the common equity component and the ROE approved in Paragraphs 1 and 2 of this Order by no later than November 30, 2015.
5. The common equity component and the ROE approved in Paragraphs 1 and 2 of this Order will continue to serve as the Benchmark cost of capital for any other utility in British Columbia that uses a Benchmark Utility to set rates.
6. Within 30 days of the date of this Order, FEI is to file:
 - (a) a document setting out how and when it will implement the change to its capital structure;
 - (b) amended rate schedules in accordance with paragraphs 1 and 2 of this Order as well as a proposal on the treatment of the refundable portion of the rates collected since January 1, 2013.
7. Small utilities without third-party debt are to include a deemed component of short-term debt of 4 percent.

DATED at the City of Vancouver, in the Province of British Columbia, this 10th day of May 2013.

BY ORDER

Original signed by:

D.A. Cote
Commissioner/Panel Chair