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Via Email

March 21, 2012 Our File: 7501

Alanna Gillis
Acting Commission Secretary
BC Utilities Commission
6th Floor 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Mesdames/Sirs:

Re: BCUC Generic Cost of Capital, Scope of Proceeding

We make the following submissions regarding the Preliminary Scoping Document (attached as Appendix B to Order G-20-12), on behalf of our clients, known in this process as BCOAPO et al.

Purpose of Proceeding

The purpose of the proceeding as set out on page 1 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.*

However, the matters subsequently proposed for review as part of the GCOC Proceeding do not fully align with this stated purpose. Item #4 includes "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. If this is to be part of the overall scope, the Commission may wish to revise (broaden) the stated purpose of the proceeding.

TGI/FEI as Benchmark Utility

Both the Purpose Statement and the Proposed Matters for Review speak to the determination of the cost of capital (and Benchmark ROE) for a "benchmark low risk utility" in BC for 2013. Currently TGI/FEI's ROE serves as the Benchmark ROE for a low-risk utility. It is not clear whether the intent of the Commission is to:

a) Use TGI/FEI as the low-risk utility and base the determination of matters described in Items #1 and #2 using TGI/FEI's circumstances; or

b) Determine the matters described in Items #1 and #2 for a generic low-risk utility and then (as part of Item 4 and subsequent proceedings) determine the premium required for each utility, including TGI.

From a practical perspective, Items #1 and 2 may be easier to accomplish if they are dealing with an actual utility as suggested by the first of the two approaches. However, we are concerned with an approach that uses TGI/FEI as the benchmark low-risk utility because of potential changes in their business.

Time Frame Covered

It is not immediately clear what Item #2 covers that is not already covered by Item #1. A simple reading suggests that Item #1 will consider the appropriate return on common equity for a low-risk utility as of January 1, 2013 while Item #2 does the same but for the overall period January 1 to December 31, 2013. It is not at all clear why such a distinction is necessary and further explanation would be helpful.

Meaning of "Generic Methodology"

Item #4 speaks of 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". However, the proposed scope also states that "the GCOC Proceeding is not intended to set each utility's risk premium on the Benchmark ROE". Given this qualification, it is unclear exactly what is to be accomplished under Item #4.

Part of the uncertainty likely arises from the use of the term "generic methodology" and how it should be interpreted. On the one hand, a methodology can be "formulaic" such that given the necessary inputs it yields a single result. On the other hand, a methodology could be general framework for decision making. In this case the latter interpretation appears appropriate and what Item #4 should deal with is the appropriate range for the risk premium, the factors that should be considered in determining the risk premium for each utility relative to the low-risk benchmark utility and relative importance of the various factors noted.

The application of this framework to each individual utility could be dealt with in a separate future proceeding.

Affiliated Debt Holders

Item #5 speaks to a "methodology to establish a deemed capital structure and deemed cost of capital for those utilities without third party debt" which involves "setting a methodology on how to calculate a deemed interest rate". It is important that this item also deal with the situation where there is third party debt but the debt holder is not "arms-length" from the utility (e.g. the debt holder may be an affiliate, either regulated or unregulated by the BCUC). In such circumstances, it is necessary that a deemed interest cost ceiling be established so as to ensure that the cost of debt is reasonable and represents what would otherwise have been attainable in the market.

Sincerely,
BC Public Interest Advocacy Centre

Tannis Braithwaite
Barrister & Solicitor