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VIA EMAIL

July 12, 2012

BRITISH COLUMBIA UTILITIES COMMISSION
GENERIC COST OF CAPITAL PROCEEDING EXHIBIT A2-6

To: All Registered Parties
(*BCUC-GCOC*)

Re: British Columbia Utilities Commission
Project No. 3698659/G-20-12
Generic Cost of Capital Proceeding

Commission staff submits the following document for the record in this proceeding:

Response to Industrial Customer Group Information Requests
Re. Commission Consultant Survey

Yours truly,

Erica Hamilton

/dg
Attachment

RESPONSE TO INDUSTRIAL CUSTOMER GROUP INFORMATION REQUESTS

RE. COMMISSION CONSULTANT SURVEY

Generic Cost of Capital Proceeding

1. Reference: Evaluation Criteria, pages 11-12 in Survey

   Rationale: The Survey provides a list of criteria for assessing the pros and cons of various models.

   Request: Are the Dalbert Principle and best practices of corporate executives as identified in academic research relevant criteria? If so, please explain why they are not included. If not, please provide the authors' views explaining why not.

   Response:

   A response to this question is outside the scope of the work performed by *The Brattle Group*.

2. Reference: The Survey discusses the calculation of the market risk premium on page 15.

   Rationale: The Survey state: "Standard practice in the academic literature and among valuation practitioners is to use the income return (i.e., bond coupon payment dividend by bond price) on long-term bonds as opposed to the total return, because the total return includes capital gains or losses which are not risk-free". It references a study by Morningstar.

   Request: Please explain why Morningstar is cited as an academic reference. Please provide all academic references in support of this statement.

   Response:

   The survey stated "Standard practice in the academic literature *and among valuation practitioners* is to use the income return." [emphasis added] The footnote then referenced the Morningstar Ibbotson text. This specific text was cited for its common availability and readability.

   The survey authors are not aware of all academic references that support the statement, but the following texts all provide support:

   Jeffrey J. Diermeier, Roger G. Ibbotson, and Laurence B. Siegel, "The Supply of Capital Markets Returns," in *The Equity Risk Premium: Essays and Explorations* by William N. Goetzman and Roger G. Ibbotson, editors, Oxford University Press 2006.

   Leonardo R. Giacchino & Jonathan A. Lesser, "*Principles of Utility Corporate Finance*," Public Utilities Reports, Inc. 2011, pp. 234-235.

   Roger A. Morin, "*New Regulatory Finance*," Public Utilities Reports, Inc., 2006, pp. 157-158.

3. Reference: The Survey discusses the pros and cons of the comparable earnings model on

page 36-38.

Rationale: The ICG seeks to learn the overall assessment of this method by the Survey's authors.

Request: Is the comparable earnings method generally considered to be consistent with best regulatory practices in Canada? Please explain the authors' views.

Response:

The authors' task in the BCUC report was to report on the methods used by Canadian regulators but to avoid injecting the authors' views as much as possible. Responding to this part of the request would be inconsistent with the authors' charter in this proceeding.

In order to be responsive, please see the survey pages 44-46 for the BCUC's view on comparable earnings, pp. 91-92 for the Prince Edward Island Regulatory & Appeals Commission's (IRAC) view and p. 101 for the National Energy Board's view in decision RH-2-94.

4. Reference: The Survey briefly discusses capital structure on page 39.

   Rationale: On that page the Survey states: "While methodology relied upon to determine the capital structure differed among jurisdiction, a common theme was to look to the business risk (broadly defined) of the regulated entity."

   Request: Please explain the conceptual framework and methodology for determining capital structure based on business risk.

   Response:

   A response to this question is outside the scope of the work performed by *The Brattle Group*.

5. Reference: The Survey states that ATWACC is an alternative to setting capital structure based on business risk on page 39.

   Rationale: The ICG wishes to understand the authors' view on how widely ATWACC is accepted by Canadian regulators.

   Request: Please provide all other examples of the use of ATWACC by Canadian regulators. Please provide all examples of which the authors are aware in which Canadian regulators declined to attach significant weight to ATWACC.

   Response:

   The authors of the survey are aware that the National Energy Board in RH-1-2008

determine the cost of capital for Trans Quebec and Maritimes Pipeline using an ATWACC figure (RH-1-2008) and that the Alberta Energy and Utilities Board (AEUB) in Decision U99099 used both the traditional method and an ATWACC method based on book value capital structure to determine the fair return (Decision U99099 pp. 303-304). The AEUB in Decision U99099 rejected the use of ATWACC using market-value capital structure weights. The Régie de l'Énergie du Québec (Régie) in its Decision D-2009-156, p. 15 stated "the Régie will not adopt the After-Tax Weighted Average Cost of Capital (ATWACC) based on market value as the standard approach for determining the reasonable return on Gaz Métro's rate base."

6. Reference: The Survey discusses relevant capital structure decisions by the OEB on pages 67-69.

   Rationale: ICG wishes to test the completeness of the discussion.

   Request: Please confirm that the OEB examined the capital structure of Ontario Power Generation's nuclear and hydro in EB-2007-0905 and EB-2010-008. If this cannot be confirmed please explain why not.

   Response:

   EB-2007-0905: Not confirmed. The OEB decision summarized the capital structure used to set rates, but the OEB decision itself did not discuss how it determined the capital structure for Ontario Power Generation's nuclear operations.

   EB-2010-008: Confirmed.