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VIA EMAIL

August 31, 2012

BRITISH COLUMBIA UTILITIES COMMISSION
GENERIC COST OF CAPITAL PROCEEDING EXHIBIT A2-13

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

Re: British Columbia Utilities Commission
Project No. 3698660/G-20-12
Generic Cost of Capital Proceeding

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

Extract from Bloomberg News
(Report dated August 6, 2012)

Yours truly,

Erica Hamilton

/dg
Attachment

U.S. Loses AAA Credit Rating as S&P Slams Debt Levels, Political Process

By John Detrixhe - Aug 6, 2011 10:17 AM PT

Standard & Poor's downgraded the U.S.'s AAA credit rating for the first time, slamming the nation's political process and criticizing lawmakers for failing to cut spending or raise revenue enough to reduce record budget deficits.

S&P lowered the U.S. one level to AA+ while keeping the outlook at "negative" as it becomes less confident Congress will end Bush-era tax cuts or tackle entitlements. The rating may be cut to AA within two years if spending reductions are lower than agreed to, interest rates rise or "new fiscal pressures" result in higher general government debt, the New York-based firm said yesterday.

"The downgrade reflects our opinion that the fiscal consolidation plan that Congress and the Administration recently agreed to falls short of what, in our view, would be necessary to stabilize the government's medium-term debt dynamics," S&P said in a statement late yesterday after markets closed.

Lawmakers agreed on Aug. 2 to raise the nation's $14.3 trillion debt ceiling and put in place a plan to enforce $2.4 trillion in spending reductions over the next 10 years, less than the $4 trillion S&P had said it preferred. Even with the specter of a downgrade, demand for Treasuries surged as investors saw few alternatives amid concern global growth is slowing and Europe's sovereign debt crisis is spreading.

U.S. Response

On a conference call today with reporters, S&P analysts David Beers and John Chambers said that in their analysis, the "extremely difficult" political discussions in Washington over how to reduce the more than $1 trillion budget deficit carried more weight in their decision than the nation's outstanding debt. It said the talks weren't "consistent" with a AAA rating.

The U.S. immediately lashed out at S&P after the downgrade, with a Treasury Department spokesman saying the firm's analysis contains a $2 trillion error. The spokesman, who asked not to be identified by name, didn't elaborate, saying the mistake speaks for itself.

Moody's Investors Service and Fitch Ratings affirmed their AAA credit ratings on Aug. 2, the day President Barack Obama signed a bill that ended the debt-ceiling impasse that pushed the Treasury to the edge of default.

Moody's and Fitch also said that downgrades were possible if lawmakers fail to enact debt reduction measures and the economy weakens.

No 'Surprise'

"This move should not be much of a surprise to markets, though the timing is at a point where market sentiment is fragile after the drop in stocks this week," said Ajay Rajadhyaksha, the head of U.S. fixed-income strategy at Barclays Capital in New York. "What really matters is whether the markets are willing to 'downgrade' the U.S. bond market. As this week's move showed, U.S. Treasuries remain the flight-to-quality asset of choice."

Asian investors are likely to retain their Treasuries holdings for now, with options limited by the region's foreign- exchange rate policies. Japan, the second-largest international investor in American government debt, sees no problem with trust in the securities, a Japanese government official said on condition of anonymity. Russia said the one-step cut "can be ignored."

Debt 'Addiction'

Policy makers from China to Japan to Southeast Asia are lured to Treasuries as a result of efforts to stem gains in their currencies against the dollar, which would impair export competitiveness. China has accumulated $1.16 trillion in the securities and the nation's official Xinhua News Agency said in a commentary that the U.S. must cure its "addiction" to borrowing.

"They won't be happy about it, but Asian central banks will just have to hold on and stick it out," said Sean Callow, a senior currency strategist at Westpac Banking Corp. in Sydney. "There is pressure on them to hold on to liquid assets and there is nothing more liquid than the Treasury market. At least Treasuries have been doing well and they aren't holding on to distressed assets."

S&P's action may hurt the U.S. economy over time by increasing the cost of mortgages, auto loans and other types of lending tied to the interest rates paid on Treasuries. JPMorgan Chase & Co. estimated that a downgrade would raise the nation's borrowing costs by $100 billion a year. The U.S. spent $414 billion on interest expense in fiscal 2010, or 2.7 percent of gross domestic product, according to Treasury Department data.

Not 'Enough'

“It’s a reflection of the fact that we haven’t done enough to get our fiscal house in the order,” Anthony Valeri, market strategist in San Diego at LPL Financial, which oversees $340 billion, said in an interview before the cut. “Sovereign credit quality is going to remain under pressure for years to come.”

The agreement between Republicans and Democrats raised the nation’s debt ceiling until 2013 and threatens automatic spending cuts to enforce the $2.4 trillion in spending reductions over the next 10 years.

Even with the accord, S&P said the U.S.’s debt may rise to 74 percent of gross domestic product by year-end, to 79 percent in 2015 and 85 percent by 2021.

S&P also changed its assumption that the 2001 and 2003 tax cuts enacted under President George W. Bush would expire by the end of 2012 “because the majority of Republicans in Congress continue to resist any measure that would raise revenues.”

American Policymaking

“More broadly, the downgrade reflects our view that the effectiveness, stability, and predictability of American policymaking and political institutions have weakened at a time of ongoing fiscal and economic challenges to a degree more than we envisioned when we assigned a negative outlook to the rating,” S&P said.

S&P put the U.S. government on notice on April 18 that it risked losing the AAA rating it had since 1941 unless lawmakers agreed on a plan by 2013 to reduce budget deficits and the national debt. It indicated last month that anything less than $4 trillion in cuts would jeopardize the rating.

“There was still a very narrow cross section of common ground between the parties and we don’t think that this agreement really changes that equation,” David Beers, a managing director of sovereign credit ratings at S&P said in a Bloomberg Television interview.

Capital Weightings

The treatment of Treasuries and other securities backed by the U.S. in terms of risk-based capital weightings for banks, savings associations, credit unions and bank and savings and loan companies won’t change, the Federal Reserve and bank regulators said in a statement following the downgrade.

Obama has said a rating cut may hurt the broader economy by increasing consumer borrowing costs tied to Treasury rates. An increase in Treasury yields of 50 basis points would reduce U.S. economic growth by about 0.4 percentage points, JPMorgan said in a report, citing Fed research and data.

"The minute you start downgrading away from AAA, you take small steps toward credit risk and that is something any country would like to avoid," Mohamed El-Erian, chief executive and co- chief investment officer at Pacific Investment Management Co., said in a Bloomberg Television interview before the announcement.

Ten-year Treasury yields fell to as low as 2.33 percent in New York yesterday, the least since October. Yields for the nine sovereign borrowers that have lost their AAA ratings since 1998 rose an average of two basis points in the following week, according to JPMorgan.

Relative Yields

Treasury yields average about 0.70 percentage point less than the rest of the world's sovereign debt markets, Bank of America Merrill Lynch indexes show. The difference has expanded from 0.15 percentage point in January.

Investors from China to the U.K. are lending money to the U.S. government for a decade at the lowest rates of the year. For many of them, there are few alternatives outside the U.S., no matter what its credit rating.

"Yields are low in the face of a downgrade because there is nowhere else for people to go if they don't buy Treasuries because they want to be in safe dollar assets," Carl Lantz, head of interest-rate strategy at Credit Suisse Group AG, one of 20 primary dealers that trade directly with the Fed, said before the announcement.

The committee of bond dealers and investors that advises the U.S. Treasury said the dollar's status as the world's reserve currency "appears to be slipping" in quarterly feedback presented to the government on Aug. 3.

Currency Reserves

The U.S. currency's portion of global currency reserves dropped to 60.7 percent in the period ended March 31, from a peak of 72.7 percent in 2001, data from the International Monetary Fund in Washington show.

"The idea of a reserve currency is that it is built on strength, not typically that it is 'best among poor choices'," page 35 of the presentation made by one member of the Treasury Borrowing Advisory Committee, which

includes representatives from firms ranging from Goldman Sachs Group Inc. to Pimco. “The fact that there are not currently viable alternatives to the U.S. dollar is a hollow victory and perhaps portends a deteriorating fate.”

Members of the TBAC, as the committee is known, which met Aug. 2 in Washington, also discussed the implications of a downgrade of the U.S. sovereign credit rating. “None of the members thought that a downgrade was imminent,” according to minutes of the meeting released by the Treasury.

Remaining AAAs

S&P gives 18 sovereign entities its top ranking, including Australia, Hong Kong and the Isle of Man, according to a July report. The U.K. which is estimated to have debt to GDP this year of 80 percent, 6 percentage points higher than the U.S., also has the top credit grade. In contrast with the U.S., its net public debt is forecast to decline either before or by 2015, S&P said in the statement yesterday.

New Zealand is the only country other than the U.S. that has a AA+ rating from S&P and an Aaa grade from Moody’s. Belgium has an equivalent AA+ grade from S&P, Moody’s and Fitch.

A U.S. credit-rating cut would likely raise the nation’s borrowing costs by increasing Treasury yields by 60 basis points to 70 basis points over the “medium term,” JPMorgan’s Terry Belton said on a July 26 conference call hosted by the Securities Industry and Financial Markets Association.

“That impact on Treasury rates is significant,” Belton, global head of fixed-income strategy at JPMorgan, said during the call. “That $100 billion a year is money being used for higher interest rates and that’s money being taken away from other goods and services.”

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