




Other Utilities – Miscellaneous Order U2006-292 (Errata)

MADE at the City of Calgary, in the Province of Alberta, on 30th day of November 2006.	 ALBERTA ENERGY AND UTILITIES BOARD
Board Initiated Proceeding 2007 Generic Return on Equity Formula Result	Application No. 1487360

The Alberta Energy and Utilities Board (Board) released *Order U2006-292: 2007 Generic Return on Equity Formula Result*, on November 27, 2006. Order 2006-292 correctly set the 2007 Generic Return on Equity at 8.51%. However, the Board has discovered that one of the inputs that it used in the formula was incorrect. The difference between the 10-year and the 30-year Canada bond yields for the month of October 2006, as reported in the National Post, was actually 0.07% rather than the 0.08% that the Board used. However, due to the effects of rounding, this input error did not affect the final result.

The corrected derivation of the formula result, with changes highlighted, is as follows:

The 3-month-out and 12-month-out forecasts of 10-year Government of Canada (Canada) yields as reported in the November 2006 Consensus Forecasts issue were 4.1% and 4.2% respectively, resulting in an average forecast 10-year Canada bond yield of 4.15% for 2007. To this forecast, the EUB added **0.07%**, representing the average of the daily difference between the 10-year and the 30-year Canada bond yields for the month of October 2006, as reported in the National Post. This calculation resulted in a forecasted 2007 long-term Canada bond yield (YLD₂₀₀₇) of **4.22%**, which is **1.46%** lower than the Board approved forecast long-term Canada bond yield of 5.68%, for the base year, 2004. Multiplying this **1.46%** differential by 0.75 produced a downward adjustment of **1.095%**. Applying this downward adjustment of **1.095%** to the 2004 ROE of 9.60% results in a generic ROE of 8.51% (**rounded to two decimal places**) for 2007. This is 0.42% lower than the 2006 generic ROE of 8.93%.

Accordingly, the amended Order U2006-292 is appended as Appendix A.

END OF DOCUMENT

APPENDIX A – AMENDED ORDER U2006-292

1 BACKGROUND AND DETAILS

The Alberta Energy and Utilities Board (Board) released *Decision 2004-052: Generic Cost of Capital*, on July 2, 2004. Decision 2004-052 set a generic rate of return on common equity (Return on Equity or ROE) of 9.60% for 2004.¹ Decision 2004-052 also approved an annual adjustment mechanism or formula for the purpose of establishing the generic ROE for 2005 and later years.

The adjustment formula set out in Decision 2004-052, at page 32, is as follows:

$$\text{ROE}_t = 9.60\% + [0.75 \times (\text{YLD}_t - 5.68\%)]$$

where YLD_t = the forecast long-term Canada bond yield for year t.

Consistent with the approach used by the NEB, the forecast long-term Canada bond yield for year t shall be calculated as the average of the 3-month-out and 12-month-out forecasts of 10-year Canada yields as reported in the Consensus Forecasts² issue in November of the previous year, plus the average of the daily difference between the 10-year and the 30-year Canada bond yields for the month of October in the previous year, as reported in the National Post.

The 3-month-out and 12-month-out forecasts of 10-year Government of Canada (Canada) yields as reported in the November 2006 Consensus Forecasts issue were 4.1% and 4.2% respectively, resulting in an average forecast 10-year Canada bond yield of 4.15% for 2007. To this forecast, the EUB added 0.07%, representing the average of the daily difference between the 10-year and the 30-year Canada bond yields for the month of October 2006, as reported in the National Post. This calculation resulted in a forecasted 2007 long-term Canada bond yield (YLD_{2007}) of 4.22%, which is 1.46% lower than the Board approved forecast long-term Canada bond yield of 5.68%, for the base year, 2004. Multiplying this 1.46% differential by 0.75 produced a downward adjustment of 1.095%. Applying this downward adjustment of 1.095% to the 2004 ROE of 9.60% results in a generic ROE of 8.51% (rounded to two decimal places) for 2007. This is 0.42% lower than the 2006 generic ROE of 8.93%.

The 2007 generic ROE is applicable to any adjudicated determination of a 2007 revenue requirement, for each of the Applicants listed in Decision 2004-052, as presented below. The Board may also apply the 2007 generic ROE to any other utility that is currently, or that subsequently comes under its jurisdiction. For greater certainty, the Board notes that the 2007 generic ROE would not apply to any utility that continues to operate under final rates from a previous test year and for which there is no proceeding to establish revised final rates for 2007.

The Board may also provide additional clarification to address circumstances not covered in the preceding paragraph.

¹ Page 31

² Published by Consensus Economics Inc., London, England

The Applicant utilities for Decision 2004-052 were:

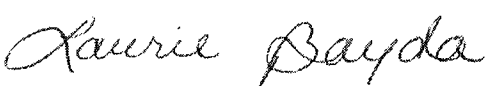
AltaGas Utilities Inc.
AltaLink Management Ltd. (AltaLink, L.P.)
ATCO Electric Ltd. (Distribution)
ATCO Electric Ltd. (Transmission)
ATCO Gas
ATCO Pipelines
ENMAX Power Corporation (Distribution)
EPCOR Distribution Inc.
EPCOR Transmission Inc.
FortisAlberta Inc.
NOVA Gas Transmission Ltd.

2 ORDER

The Board hereby approves, in accordance with Decision 2004-052, a 2007 Generic Return on Equity of 8.51%.

END OF DOCUMENT

Other Utilities – Miscellaneous Order U2006-292

MADE at the City of Calgary, in the Province of Alberta, on 27th day of November 2006.	 ALBERTA ENERGY AND UTILITIES BOARD
Board Initiated Proceeding 2007 Generic Return on Equity Formula Result	Application No. 1487360

1 BACKGROUND AND DETAILS

The Alberta Energy and Utilities Board (Board) released *Decision 2004-052: Generic Cost of Capital*, on July 2, 2004. Decision 2004-052 set a generic rate of return on common equity (Return on Equity or ROE) of 9.60% for 2004.¹ Decision 2004-052 also approved an annual adjustment mechanism or formula for the purpose of establishing the generic ROE for 2005 and later years.

The adjustment formula set out in Decision 2004-052, at page 32, is as follows:

$$ROE_t = 9.60\% + [0.75 \times (YLD_t - 5.68\%)]$$

where YLD_t = the forecast long-term Canada bond yield for year t.

Consistent with the approach used by the NEB, the forecast long-term Canada bond yield for year t shall be calculated as the average of the 3-month-out and 12-month-out forecasts of 10-year Canada yields as reported in the Consensus Forecasts² issue in November of the previous year, plus the average of the daily difference between the 10-year and the 30-year Canada bond yields for the month of October in the previous year, as reported in the National Post.

The 3-month-out and 12-month-out forecasts of 10-year Government of Canada (Canada) yields as reported in the November 2006 Consensus Forecasts issue were 4.1% and 4.2% respectively, resulting in an average forecast 10-year Canada bond yield of 4.15% for 2007. To this forecast, the EUB added 0.08%, representing the average of the daily difference between the 10-year and the 30-year Canada bond yields for the month of October 2006, as reported in the National Post. This calculation resulted in a forecasted 2007 long-term Canada bond yield (YLD_{2007}) of 4.23%, which is 1.45% lower than the Board approved forecast long-term Canada bond yield of 5.68%, for the base year, 2004. Multiplying this 1.45% differential by 0.75 produced a downward adjustment of 1.09% (rounded to two decimal places). Applying this downward adjustment of

¹ Page 31

² Published by Consensus Economics Inc., London, England

1.09% to the 2004 ROE of 9.60% results in a generic ROE of 8.51% for 2007. This is 0.42% lower than the 2006 generic ROE of 8.93%

The 2007 generic ROE is applicable to any adjudicated determination of a 2007 revenue requirement, for each of the Applicants listed in Decision 2004-052, as presented below. The Board may also apply the 2007 generic ROE to any other utility that is currently, or that subsequently comes under its jurisdiction. For greater certainty, the Board notes that the 2007 generic ROE would not apply to any utility that continues to operate under final rates from a previous test year and for which there is no proceeding to establish revised final rates for 2007.

The Board may also provide additional clarification to address circumstances not covered in the preceding paragraph.

The Applicant utilities for Decision 2004-052 were:

- AltaGas Utilities Inc.
- AltaLink Management Ltd. (AltaLink, L.P.)
- ATCO Electric Ltd. (Distribution)
- ATCO Electric Ltd. (Transmission)
- ATCO Gas
- ATCO Pipelines
- ENMAX Power Corporation (Distribution)
- EPCOR Distribution Inc.
- EPCOR Transmission Inc.
- FortisAlberta Inc.
- NOVA Gas Transmission Ltd.

2 ORDER

The Board hereby approves, in accordance with Decision 2004-052, a 2007 Generic Return on Equity of 8.51%.

END OF DOCUMENT