Diane Roy
Director, Regulatory Services

Gas Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.com

Electric Regulatory Affairs Correspondence
Email: electricity.regulatory.affairs@fortisbc.com

FortisBC
16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (604) 576-7349
Cell: (604) 908-2790
Fax: (604) 576-7074
Email: diane.roy@fortisbc.com
www.fortisbc.com

March 25, 2015

Via Email
Original via Mail

Industrial Customers Group
c/o #301 – 2298 McBain Avenue
Vancouver, BC V6L 3B1

Attention: Mr. Robert Hobbs

Dear Mr. Hobbs:

Re: FortisBC Inc. (FBC)

Multi-Year Performance Based Ratemaking Plan for 2014 through 2019 approved by British Columbia Utilities Commission (the Commission) Order G-139-14 - Annual Review for 2015 Rates (the Application)

Response to the Industrial Customers Group (ICG) Information Request (IR) No. 1

On February 6, 2015, FBC filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-21-15 setting out the Regulatory Timetable for the review of the Application, FBC respectfully submits the attached response to ICG IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC INC.

Original signed:

Diane Roy

Attachments

cc: Commission Secretary
Registered Parties (e-mail only)

1.0 Reference: Exhibit B-1, p. 1, Footnote 3

In its Order E-15-12, which determined that the WAX CAPA is in the public interest, the Commission recognized the potential for a disproportionate rate impact as the agreement takes effect.

1.1 Please provide the rate impact of the WAX CAPA that was forecast by FBC in the Order G-15-12 proceeding, together with a full breakdown of the calculation of such rate impact?

Response:

Please refer to the response to BCUC IR 1.8.2 and 1.8.2.1.

1.2 Please provide the rate impact of the WAX CAPA that is currently forecast by FBC, together with a full breakdown of the calculation of such rate impact?

Response:

Please refer to the response to BCUC IR 1.8.2 and 1.8.2.1.

1.3 Please comment on whether the disproportionate costs of the WAX CAPA continue beyond the initial year of the WAX CAPA?

Response:

In the response to BCUC IR 1.8.2, FBC identifies the rate impacts of the WAX CAPA to be 6.8 percent in 2015 and 3.2 percent in 2016. Because the WAX CAPA will become effective partway through 2015, there is a subsequent impact reflecting a full year of purchases in 2016. Following these initial rate impacts in 2015 and 2016, FBC anticipates any further rate impacts to be extremely small.

2.0 Reference: Exhibit B-1, section 1.2, p.2, lines 11-13

As an alternative, FBC proposes to collect the difference by way of a general rate increase to be in [sic] implemented as soon as reasonably possible following the Commission's decision.

2.1 Please explain whether the revenue deficiency, if any, that is approved for 2015 will be subject to YTD adjustments up to June 1, 2015?

Response:

No, the revenue deficiency will not be subject to adjustments in respect of 2015 actual results. Since revenue requirement items are forecast and approved on an annual basis, there would be no way to determine YTD adjustments up to June 1 or any other time period other than December 31. Any variances between 2015 forecast and actual results will be captured in the 2015 Flow-through deferral account for amortization into rates in 2016 (or other deferral account for future amortization, as appropriate). The PBR Plan contemplates that the Flow-through deferral account will be amortized in the subsequent year.

2.2 If a mid-year rate increase to be effective after July 1, 2015 is required, please explain the calculation of and the approval of such a mid-year rate increase?

Response:

The calculation of the July 1, 2015 rate change is shown in Section 11, Schedule 29 and can be used to illustrate a mid-year rate change effective on another date, as described below. Schedule 29 is reproduced for convenience.

FORTISBC INC. February 6, 2015 Section 11

CALCULATION OF 2015 PERMANENT RATES Schedule 29
EFFECTIVE JULY 1, 2015
($000s)

Line No.	Particulars	2015	Cross Reference
	(1)	(2)	(3)
1	2015 Revenue Requirement	$ 336,057	Section 11, Sch 1
2	2015 Revenue at Interim Rates	332,374	Section 11, Sch 30
3	Revenue Deficiency at Interim Rates	3,683	
4			
5	Revenue at 2015 Interim Rates, July 1 - December 31	165,876	Section 11, Sch 30
6			
7	Rate Increase effective July 1, 2015	2.2%	

The revenue deficiency at interim rates, $3.683 million, is the incremental revenue that must be collected between the date of implementing the final 2015 rate increase and December 31, 2015 ($3.683 million). This amount is unchanged regardless of the date of implementation.

Line 5 of Schedule 29 is the revenue that is forecast to be collected between July 1 and December 31, 2015, based on the existing interim rate increase, and Line 2 minus Line 5 is the revenue that is forecast to be collected between January 1 and June 30, 2015 at the interim rates. The ratio of line 3 to line 5 is the percentage by which rates must increase to meet the total 2015 revenue requirement in line 1, when added to the revenue forecast to be collected between January 1 and June 30, 2015.

Thus for a July 1 2015 rate increase:

$$\frac{Line\ 3}{Line\ 5} = Line\ 7, \qquad and\ \ Line\ 5\ \times (1 + Line\ 7) + (Line\ 2 - Line\ 5) = Line\ 1$$

Or:

$$\frac{3{,}683}{165{,}876} = 2.2\%, \qquad and\ \ 165{,}876\ \times 1.022 + (332{,}374 - \ 165{,}876)\ = 336{,}023$$ [1]

If the implementation of final rates is delayed beyond July 1, 2015, then the revenue at interim rates for the period to year end (line 5) will be lower than in Schedule 29 and the final rate increase will be correspondingly higher.

Approval of the final rate increase calculation will be achieved through the Commission acceptance of FBC's compliance filing following the decision for 2015 rates. The compliance

[1] The calculated revenue differs slightly from Line 1 of Schedule 29 because the 2.2 percent rate increase is rounded.

filing will contain updated Schedules 29 and 30 showing final 2015 revenue requirements incorporating any changes resulting from the decision.

2.3 Please comment on whether a mid-year rate increase is necessary for customer classes not affected by the implementation of the Advanced Metering Infrastructure (AMI) Project?

Response:

FBC does not understand why ICG suggests that the AMI project should affect the applicability of revenue requirements by customer class.

Consistent with all capital expenditures undertaken by the utility, the costs and benefits of the AMI project are included in revenue requirements and incorporated into all customers' rates by way of general rate increases. The AMI project results in a net benefit to all customers, as evidenced by the AMI CPCN application and approval.

3.0 Reference: Exhibit B-1, section 1.5, p. 4, lines 11-13, and lines 19-21

Overall, the savings achieved in 2014 result in $0.330 million of earnings sharing that will be returned to customers in 2015, serving to reduce overall rates for FBC's customers.

The expected savings is an outcome of the regulatory uncertainty experienced in 2014 leading to savings from staff vacancies and timing of spending.

3.1 Please comment on whether FBC can distinguish "achieved savings" attributed to "savings" achieved by efficiency improvements from reduced "O&M expenses" attributed to staff vacancies and timing of spending?

Response:

Reduced O&M expenses, whether they result from staff vacancies, timing of spending, or specific productivity initiatives, reduce customer rates through achievement of the productivity improvement factor or through the earnings sharing mechanism. Please also refer to the response to BCOAPO 1.3.3.

3.2 Please provide any and all evidence available, including evidence of any and all initiatives by FBC, to support the contention that savings were achieved in 2014 due to efficiency improvements?

Response:

FBC states only that the O&M portion of the earnings sharing is the result of staff vacancies and timing of spending, and has not stated that the savings achieved were due to efficiencies. Please also refer to the response to ICG IR 1.3.1.

3.3 Please confirm that FBC's actual ROE in 2014 exceeded the approved ROE in 2014? If confirmed, please provide in table format the actual and approved ROE for the past 10 years?

Response:

The 2014 actual ROE information will be available when the Company files its 2014 Annual Report to the Commission at the end of April 2015.

Actual and Allowed ROE from 2004 - 2013 (10 Years) is provided in the table below.

Return on Equity:

	Year	Allowed	Achieved
1	2004	9.55%	10.70%
2	2005	9.43%	9.88%
3	2006	9.20%	9.94%
4	2007	8.77%	9.23%
5	2008	9.02%	9.28%
6	2009	8.87%	9.41%
7	2010	9.90%	9.65%
8	2011	9.90%	10.67%
9	2012	9.90%	10.52%
10	2013	9.15%	10.21%

4.0 Reference: Exhibit B-1, section 1.5, p. 5, lines 12-13

"… the Company now has the regulatory certainty it requires to pursue and implement customer service and productivity related *initiatives* in the future." (emphasis added)

4.1 Please fully explain how the Company expects to pursue and implement customer service and productivity related initiatives in the future?

Response:

FBC intends to focus its efforts on finding opportunities for improving internal processes that simplify and improve customer facing processes and that may lead to increased productivity and efficiency. FBC does not consider productivity to be short-term cost cutting measures. Rather, FBC's goal is to create sustainable, long-term savings. Long-term, sustainable savings may be accomplished, for example, through the enablement of technology or the re-engineering of the type of work FBC does, how the work is done and how the Company engages with its customers.

4.2 Please identify all such initiatives and provide a full benefit cost analysis of two or three of such initiatives?

Response:

FBC does not have any such initiatives at this time.

5.0 Reference: Exhibit B-1, section 4.3, p. 25,lines 23-25 and p. 27, Table 4-3, and section 11, schedule 15

There remains additional surplus capacity available to FBC after the FBC load obligations and the obligations of the RCA are met, which FBC forecasts selling in the market in order to reduce power purchase expense, as discussed in Section 4.7 below.

5.1 Please provide a breakdown of the "Waneta Expansion" line item of $25.808 million forecast for 2015, including the forecast revenues and costs of surplus sales in the market, and the forecast revenues and costs of surplus sales to BC Hydro under the RCA?

Response:

Please refer to the response to BCUC IR 1.8.1.

6.0 Reference: Exhibit B-1, section 4.7, p. 28, lines 27-28

"these capacity-only sales are expected to only be made on a short-term basis to ensure adequate capacity is available to meet FBC loads as required."

6.1 Please comment on whether the capacity-only sales characteristics of the WAX CAPA eliminate or limit opportunities for sales in the market on a long-term basis?

Response:

The capacity-only characteristics of the WAX CAPA do not eliminate opportunities for sales in the market on a long-term basis. FBC has already sold a portion of the WAX capacity to BC Hydro under the RCA for a period of 10 years. As fully discussed in the review process for the RCA, however, FBC's view is that the size and term of the 50 MW block sold to BC Hydro under the RCA on a long term basis was appropriate but that further sales of WAX capacity would be expected to be done on a short term basis to maintain FBC's flexibility to optimize its portfolio and ensure that adequate capacity is available to meet FBC loads as required.

6.2 If so, please comment on whether the capacity-only characteristics of the WAX CAPA are relevant to the recommendation to sell into the market on a short-term basis instead of a long-term basis?

Response:

No, they are not. The relevant factor is that these sales are only expected to be made on a short-term basis to ensure adequate capacity is available to meet FBC loads as required.

7.0 Reference: Exhibit B-1, p. 31, lines 24-25

"FBC performs work under contract to third parties at the Waneta and Brilliant hydroelectric generating facilities."

7.1 Please comment on whether the contract work that is performed by FBC at the Waneta hydroelectric generating facility is with an entity that is controlled by an affiliate of FBC?

Response:

The work performed by FBC at the Waneta hydroelectric generating facility under contract is for FortisBC Pacific Holdings Inc. (FPHI), an affiliate of FBC that is not regulated by the Commission.

7.2 If so, please provide a copy of the contract and justification of the management fees for the work performed?

Response:

The Subcontractor Agreement between FBC and FPHI for services provided to FPHI at the Waneta hydroelectric generating facility is provided as Attachment 7.2.

8.0 Reference: Exhibit B-1, p. 85, lines 14-16

FBC requests that the debt financing of pension and OPEB funding be discontinued, to avoid stranded financing costs that will accumulate outside of rate base, and instead by included in rate base such that the utility and customers are appropriately compensated…

8.1 Please confirm that FBC is seeking a change to carrying costs for pension and OPEB funding based on the WACC instead of the WACD, and that such carrying costs based on WACD were approved by Order G-11-12?

Response:

Please refer to the responses to the BCUC IR 1.17 series.

8.2 Please comment on whether the PBR Decision adopted Order G-11-12 for the term of the PBR Plan? If so, please explain why reconsideration of this direction in the PBR Decision meets the reconsideration criteria established by the Commission? In particular, has there been a change in circumstances since the PBR Decision that might justify a reconsideration of the PBR Decision?

Response:

FBC is seeking to establish a workable treatment for the Pension/OPEB Funding Liability that will return to ratepayers the financing credits that are recorded and will continue to be recorded in this account. Since 2012, FBC has sought to apply to Pension/OPEB Funding Liability the treatment for deferral accounts arising out of Order G-110-12, which was applicable to FBC's 2012 and 2013 revenue requirements application, and which was continued for 2014. However, this treatment was designed for deferral accounts and cannot be logically applied to Pension/OPEB Funding Liability, which is not a deferral account as usually defined. FBC has concluded it is incorrect to attempt to treat the Pension/OPEB Funding Liability account as if it were a deferral account and that the Commission could not have intended for FBC to apply the treatment that it has applied. Given the credit balance of this account, FBC also concluded that it was incumbent on it to bring this issue to the Commission's attention in this Application and seek a workable treatment for the Pension/OPEB Funding Liability going forward.

The genesis of the issue is the Commission's September 17, 2012 clarification letter for Order G-110-12, which stated: "The Commission confirms the following: i) With respect to financing costs applicable during the test period, financing costs are to be added to the deferred account and amortized concurrently with principal amounts". This treatment cannot be applied to the

Pension/OPEB Funding Liability because it is not a deferral account, and because the principal does not amortize.

The Pension/OPEB Funding Liability account exists under US GAAP and the amounts recorded in it are liabilities that exist due to the accrual of pension and OPEB expenses for current employees that will not be paid out for many years. As long as FBC continues to hire employees, the liability is expected to grow and not reverse. By requiring that a debt return be added into the balance in the account, the liability will be greater than had it been held in rate base, as is the normal practice for these liabilities. Moreover, as the contributions paid by the Company have been less than the amounts recovered in rates, a large credit balance has accumulated that should be used to reduce rates for customers. However, as there is no amortization of the Pension/OPEB Funding Liability account, there is no approved mechanism in place to return to customers the financing credits that have accumulated and will continue to accumulate.

Because the Commission's past directions have been directed towards deferral accounts and cannot logically be applied to the Pension/OPEB Funding Liability account, it is unclear whether there is in fact any approved treatment for Pension/OPEB Funding Liability financing at all. As noted above and in section 12.3.2 of the Application, the Pension/OPEB Funding Liability account is not a deferral account as usually defined and therefore the Commission's directions with respect to deferral accounts may not be applicable to it. Furthermore, FBC does not believe that the Commission intended to order that customers be deprived of a rate base credit return that would otherwise reduce their rates. FBC has concluded therefore that the Pension/OPEB Funding Liability has been improperly swept up in the issue of the treatment of deferral accounts and that a rational treatment of the Pension/OPEB Funding Liability needs to be established going forward.

FBC therefore considers that it is appropriately seeking to establish a treatment for the Pension/OPEB Funding Liability and that it is not seeking reconsideration of any Commission determination in the PBR Decision with respect to deferral accounts. Bringing this matter forward in the Annual Review for 2015 rates is the most efficient and timely forum for FBC to raise this issue.

9.0 Reference: Exhibit B-1, p. 86, lines 25-27

FBC anticipates that it will incur $0.461 million ($0.339 million after tax) of costs in 2015 to begin preparing the 2016 LTERP.

9.1 Please provide the total budgeted amount for preparing and seeking approval for the 2016 LTERP?

Response:

Please refer to the response to BCUC IR 1.20.2.

9.2 Please comment on whether FBC would object to recovery of annual forecasts of the 2016 LTERP expenditures outside of the PBR Plan, instead of establishing a deferral account for such expenditures?

Response:

FBC would not object to recovery of these costs outside of the PBR formula, but believes that establishing a deferral account for the LTERP expenditures is the most appropriate means of capturing and recovering the costs of the plan. It is consistent with FBC's past practice and it is accepted regulatory practice to defer these costs for review and recovery following the regulatory review of the plan, and for the recovery term of such deferral accounts to align with the planning horizon of the LTERP. This is consistent with the principle that the amortization period for a deferral account should consider the timing of associated benefits.

10.0 Reference: Exhibit B-1, p. 87, Table 12-1 and Section 11, Schedule 29

10.1 Please explain the rate increases forecast under "After Amortization of 2014 Interim Rate Variance" in Table 12-1 and the rate increase that is the subject of the Section 11, Schedule 29?

Response:

The 2015 rate increase shown in Table 12-1 of 4.6 percent is the final rate increase calculated at the rates in effect at December 31, 2014. It does not consider the January 1, 2015 interim increase of 3.5 percent approved by Order G-163-14.

Schedule 29 shows the rate increase as of July 1, 2015 that, in addition to the 3.5 percent interim rate increase, is required to collect the 2015 revenue requirement requested in the Application. Please refer to the response to ICG IR 1.2.2 explaining the derivation of the increase in Schedule 29.

10.2 Does the rate increase of 2.2% in Schedule 29 include amortization of 20 percent of the 2014 Interim Rate Variance deferral account balance in 2015? If not, please identify the rate impact of approval of item 4 of the draft order?

Response:

Yes, the rate increase in Schedule 19 is based on the amortization of 20 percent of the 2014 Interim Rate variance deferral account during 2015. The pre-tax amortization amount of $(5.928) million is shown in Table 12-1. Schedule 22 in Section 11 shows at column 8 the amortization of the after-tax amount ($5.928 million x (1-.26) = $4.387 million) plus amortization of financing charged to the non-rate base deferral account ($4.387 million + $0.170 million = $4.556 million).

10.3 Please identify the 2015 rate impact, if any, of approval of item 5 of the draft order?

Response:

Please refer to the response to BCUC IR 1.17.2.1.

10.4 If the rate increases forecast in Table 12-1 are not forecasts of the final general rate increases for 2016 and 2017, please provide such forecasts?

Response:

The final rates for 2016 and 2017 have not yet been approved by the Commission. The rate increase forecasts for 2016 and 2017 shown in Table 12-1 are FBC's forecasts of the general rate increases for those years, based on currently available information. These forecasts do not include the impacts of any CPCN projects that FBC may file during the term of the PBR as the scope and timing of future CPCN projects has not been determined.

11.0 Reference: Decision and Order G-186-14 dated December 3, 2014, p. 11, p. 19, and p. 26

As a result, while accepting this DSM expenditure schedule, the Panel is concerned about its adequacy. The Panel encourages FBC to make supplemental DSM expenditure requests to the Commission as opportunities arise to bring DSM planned energy savings and expenditures (in particular for the residential and industrial customer class) back up to those levels accepted in the 2012 LTRP. **FBC is directed to include in its next DSM Annual Report an update on its efforts to increase DSM expenditures and plan savings back to the levels included in the 2012 LTRP ($9 million and 34 GWh/year)**. (p. 11)

The Panel is concerned that insufficient focus may have been given to identifying and addressing DSM opportunities for its industrial customers. (p.19)

To address these concerns, the Commission Panel directs FBC to include in its next DSM Annual Report a review and discussion of whether opportunities exist in expanding DSM funding to 2013 approved levels for industrial customers while continuing to obtain cost-effective energy savings. (p. 26)

11.1 Please provide the DSM Annual Report for 2014?

Response:

The 2014 DSM Annual Report will be filed with the Commission by March 31st, 2015. Interested parties may request a copy at electricity.regulatory.affairs@fortisbc.com.

11.2 Please provide an update on efforts to increase DSM expenditures in the industrial customer class for 2015?

Response:

Please refer to the response to BCUC IR 1.4.3.2.1.

11.3 Please comment on whether FBC expects to make supplemental DSM expenditure requests to the Commission as opportunities arise to bring DSM planned energy savings and expenditures back up to those levels accepted in the 2012 LTRP?

Response:

Please refer to the responses to BCUC IRs 1.4.2.1.1 and 1.4.3.2.1. The Company is not planning a supplemental DSM expenditure request at this time. FBC is awaiting the results of the BC Conservation Potential Review (CPR), which will be used to develop several DSM scenarios for discussion with stakeholders. The CPR and other program research activities will provide the foundation of the next long-term DSM Plan to be filed with the Company's LTERP in June 2016, and will inform the next DSM expenditure filing for 2017 and subsequent years.

Attachment 7.2

SUBCONTRACTOR AGREEMENT

THIS AGREEMENT made as of the 1st day of October, 2010

BETWEEN:

FORTISBC PACIFIC HOLDINGS INC. (formerly Fortis Pacific Holdings Inc.), a company incorporated under the laws of the Province of British Columbia, having its registered office at 25th Floor, 700 West Georgia Street, Vancouver, British Columbia, V7Y 1B3

("FPHI")

AND:

FORTISBC INC., a company incorporated under the laws of the Province of British Columbia, having its offices at Suite 100, 1975 Springfield Road, Kelowna, British Columbia, V1Y 7V7

("FortisBC")

WITNESSES THAT WHEREAS:

A. Pursuant to a Services Agreement made as of the 1st day of October, 2010 between Waneta Expansion Limited Partnership ("WELP") and FPHI, FPHI agreed to provide to and on WELP's behalf certain services in connection with the commissioning, start up, operation and maintenance of WAX (as defined in the Services Agreement);

B. The Services Agreement contemplates that any of the services to be provided thereunder by FPHI may be subcontracted or assigned to an Affiliate (as defined in the Services Agreement) of FPHI without the consent of WELP; and

C. FPHI wishes to engage FortisBC, and FortisBC wishes to be engaged by FPHI, to provide to and on behalf of WELP the Pre-SCD Services and the O&M Services contemplated by the Services Agreement;

NOW THEREFORE in consideration of the premises, the mutual covenants and agreements herein contained, and for other good and valuable consideration (the sufficiency of which is hereby mutually acknowledged), the parties hereto covenant and agree as follows:

1. INTERPRETATION

1.1 Definitions

Unless otherwise indicated herein, the terms set forth below as used in this Agreement shall have the following respective meanings:

"**Business Day**" means a day other than a Saturday, Sunday or statutory holiday in British Columbia or Newfoundland and Labrador;

"**Commencement Date**" means the effective date of this agreement;

"**Intellectual Property**" means any or all discoveries, improvements, enhancements, ideas, concepts, patents, copyrights, trade marks, industrial designs, goodwill, trade secrets, know-how, techniques, processes and the like, including, without limitation, technical writings, pictorial reproductions, drawings and other graphic representations, whether or not copyrighted or patented or registered or protected, or capable of such registration or protection;

"**O&M Services**" has the meaning given to it in the Services Agreement;

"**Pre-SCD Services**" has the meaning given to it in the Services Agreement;

"**Services**" means, together, the Pre-SCD Services and the O&M Services;

"**Services Agreement**" means the Services Agreement made as of the 1st day of October, 2010 between WELP and FPHI, as amended and supplemented from time to time; and

"**Term**" shall have the meaning attributed thereto in section 3.

1.2 **Number and Gender**

All words contained in this Agreement shall be read as the singular or the plural and as the masculine, feminine or neuter gender as may be applicable in the particular context, and shall result in the particular clause being given the most reasonable interpretation.

1.3 **References**

The words "herein", "hereby", "hereunder", "hereof", "hereto", and words of similar import, refer to this Agreement as a whole and not to any particular section, paragraph or clause of this Agreement. References to sections, paragraphs or clauses refer to the sections, paragraphs and clauses of this Agreement unless otherwise stated.

1.4 **Currency**

Unless otherwise indicated herein, all sums of money expressed in this Agreement are expressed in and shall be paid in Canadian dollars.

1.5 **Entire Agreement**

This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether written or oral. There are no conditions, covenants, agreements, representations, warranties or other provisions, express or implied, collateral, statutory or otherwise, relating to the subject matter hereof except as expressly herein provided.

2. ENGAGEMENT OF FORTISBC

2.1 FPHI hereby engages FortisBC, and FortisBC hereby accepts such engagement, as an independent contractor, to provide to WELP, on behalf of FPHI, the Services as requested by FPHI from time to time during the Term.

2.2 FPHI agrees to pay to FortisBC the aggregate of:

(a) the actual cost to FortisBC of providing the Services; and

(b) the applicable loadings and profit margin contemplated by the transfer pricing policy of FortisBC approved by the British Columbia Utilities Commission and in effect from time to time (the "Policy"), for the Services provided,

all in accordance with the terms of the Policy.

2.3 FortisBC will submit to FPHI on or before the seventh Business Day of each month during the Term, invoices for all work actually performed by FortisBC in the immediately preceding month to provide the Services as contemplated herein.

2.4 FPHI will pay each such invoice submitted by FortisBC by no later than the fifteenth Business Day of the month that is two months after the month to which the invoice applies, without reduction or set-off.

3. TERM

Unless earlier terminated pursuant to the provisions hereof, the term of this Agreement shall commence on the Commencement Date and remain in effect for such period of time as the Services Agreement remains in effect (the "Term").

4. STANDARD OF FORTISBC'S PERFORMANCE

4.1 FortisBC covenants, warrants and agrees that all the Services provided by it hereunder will meet or exceed the standards normally met by FortisBC for similar work performed by it for its other clients or customers and, in any event, will meet the standards for providing the Services as contemplated in the Services Agreement.

5. TERMINATION

5.1 In the event that:

(a) either party is in breach of any material provision of this Agreement and such breach continues to exist after thirty (30) days from the date of the giving by the non-defaulting party (the "Other Party") of written notice (in reasonable detail) of that breach;

(b) either party ceases or threatens to cease carrying on its business or a resolution is passed for the winding up or liquidation of such party;

(c) a petition is filed or an order is made for the winding up or liquidation of either party;

(d) either party becomes insolvent or makes a bulk sale of its assets or a general assignment for the benefit of its creditors or a proposal under the applicable bankruptcy legislation, or if a bankruptcy petition shall be filed and presented against either party or if a custodian or receiver/manager or any other officer with similar powers is appointed in respect of either party or its respective properties, or any substantial part thereof;

(e) any proceedings are commenced in respect of either party under creditors arrangement legislation; or

(f) an encumbrancer shall lawfully take possession of the property of either party or any substantial part thereof, or if a distress or execution or any similar process is levied or enforced against either party and remains unsatisfied for such period as would permit such property or substantial part thereof to be sold thereunder;

then in addition to all other remedies available to it in law or in equity the Other Party may, at its sole option, elect to terminate this Agreement.

5.2 In the event that the Services Agreement is terminated for any reason, this Agreement will also terminate, and all the rights and opportunities granted to FortisBC hereunder shall forthwith terminate and automatically revert to FPHI. If the Services Agreement is terminated for any reason other than the default of FortisBC in the performance of its obligations hereunder, then upon termination of this Agreement, FortisBC shall be at liberty to enter into an agreement directly with WELP for the provision of the Services to WELP.

5.3 Upon any breach of this Agreement (whether or not giving rise to termination) neither party shall be entitled to claim, or shall be responsible for, indirect or consequential damages or losses (including, without limitation, business and economic losses, loss of profits and of expected savings) even if the defaulting party has been advised of the possibility of such damages or losses.

6. INDEMNITY

6.1 FPHI shall indemnify and save harmless FortisBC, together with its respective directors, officers, employees or those persons for whom FortisBC is responsible at law (collectively, the "Indemnitees") from and against any and all:

(a) liabilities, direct (not indirect or consequential) losses, claims, demands, actions, causes of action, suits or proceedings whatsoever, including but not limited to those arising in respect of personal injury, death or property damage (collectively, the "Liabilities"), and

(b) costs and expenses (including reasonable lawyers' fees and expenses on a solicitor and his own client basis) whatsoever, reasonably and actually incurred (collectively, the "Expenses"), made, brought or claimed against any of the Indemnitees or to which any of the Indemnitees may become subject, as a direct result of:

(c) the provision by FortisBC of the Services pursuant to this Agreement; or

(d) the breach or non-performance by FPHI (or any other persons for whom it is responsible at law) of any term, covenant or condition of this Agreement.

FPHI's obligations under this section 6 are subject to (i) prompt written notification to FPHI by the Indemnitee(s) of the subject matter of the Liabilities and (ii) the FPHI's sole right to conduct the defense and all negotiations for settlement thereof.

7. ASSIGNMENT

7.1 Neither this Agreement nor any of the rights or obligations of FortisBC hereunder may be subcontracted or assigned by FortisBC without the prior written consent of FPHI, which consent may be arbitrarily withheld. Any attempted subcontracting or assignment of this Agreement or any of the rights or obligations of FortisBC hereunder in contravention of this paragraph 7.1 shall be void and a material breach of this Agreement.

7.2 This Agreement and any of the rights or obligations of FPHI hereunder may be assigned by FPHI without the prior written consent of FortisBC.

8. RELATIONSHIP OF THE PARTIES

This Agreement does not constitute either party the agent or partner of the other, or create a partnership, joint venture or similar relationship between the parties, and neither party shall have the power to obligate or bind the other party in any manner whatsoever. This Agreement is not intended to and does not create any third party beneficiaries to the rights and obligations set forth herein, nor are any third party beneficiaries to be inferred by operation of law or otherwise.

9. WAIVER

Any waiver by either party of a breach of any provision of this Agreement shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Agreement. Any waiver must be in writing. Failure by either party to insist upon strict adherence to any term of this Agreement on one or more occasions shall not be considered a waiver or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement. Time is of the essence of this Agreement.

10. SEVERABILITY OF PROVISIONS

The determination that any provision of this Agreement is invalid or unenforceable shall not invalidate this Agreement, and this Agreement shall be construed and performed in all respects as if such invalid or unenforceable provisions were omitted, provided that in so doing the primary purpose of this Agreement is not impeded.

11. NOTICES

All notices, requests or offers required or permitted to be made under this Agreement shall be in writing and shall be deemed to have been duly given and received either (a) on the day of delivery, if delivered to either of the parties at the respective address below:

If to FPHI, to:

FortisBC Pacific Holdings Inc.
25th Floor, 700 West Georgia Street
Vancouver, British Columbia
V7Y 1B3

Attention: President

If to FortisBC, to:

Suite 100, 1975 Springfield Road
Kelowna, British Columbia
V1Y 7V7

Attention: Vice President, Engineering & Operations

or such other address as each party may designate in writing to the other party for this purpose, or (b) on the fifth (5th) day after the date sent, when sent by prepaid registered mail to the addresses above, or (c) on the next business day following when actually sent by facsimile transmission.

12. HEADINGS

The headings of the sections in this Agreement are for convenience only and shall not affect in any way the meaning of the provisions to which they refer.

13. GOVERNING LAW AND ENUREMENT

This Agreement shall be governed by and interpreted under the laws of the Province of British Columbia, Canada and the laws of Canada having application therein. This Agreement shall be binding on and shall enure to the benefit of each of the parties and their respective successors and permitted assigns.

14. OWNERSHIP OF INTELLECTUAL PROPERTY

FPHI and FortisBC hereby confirm that it is their mutual intent that as between them, FortisBC will be the owner of any and all Intellectual Property (the "Subject Intellectual Property") of which FPHI is, pursuant to the terms of the Master Agreement, stated to be the owner. In furtherance of such intent, FPHI agrees that it will from time to time, as necessary, transfer and assign to FortisBC any such Subject Intellectual Property and will at all times pending such transfer, hold such Subject Intellectual Property for the sole use and benefit of FortisBC. FPHI agrees further that it will, at the request of FortisBC, make, do and execute or cause to be made, done and executed all such further acts, instruments and assurances for the more effectual vesting in FortisBC of title to the Subject Intellectual Property as shall reasonably be required by FortisBC.

15. AMENDMENT

No amendment of any provision of this Agreement will be binding on either party unless consented to in writing by such party.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective duly authorized officers as of the day and year first above written.

FORTISBC PACIFIC HOLDINGS INC.

By: ______________________________

FORTISBC INC.

By: ______________________________