

November 1, 2010

Via Email
Original via mail

Ms. Erica M. Hamilton
Commission Secretary
BC Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC V6Z 2N3

Dear Ms. Hamilton:

Re: *FortisBC Inc. ("FortisBC") 2011 Revenue Requirements Update*

Further to FortisBC's letter dated October 1, 2010, filing the Preliminary 2011 Revenue Requirements Application and Commission Order G-142-10, please find enclosed for filing 12 copies of the 2011 Updated Revenue Requirements.

FortisBC has made a number of adjustments to its 2011 Revenue Requirements as a result of updating its forecasts based on actual results to September 30, 2010. The required rate increase for 2011 has increased from 5.9 percent to 6.2 percent as a result of the updates.

The determination of final 2011 Revenue Requirements will be the result of a Settlement Agreement arising out of the 2011 Negotiated Settlement Process ("2011 NSP") to be held on November 17, 2010. Further updates to this Application may be agreed to by the Parties to the 2011 NSP.

As in previous years the Company requests approval to implement any BC Hydro Power Purchase rate changes by way of a flow-through adjustment at the time of a Commission decision approving a BC Hydro rate adjustment for 2011.

Accordingly, the Company requests, pursuant to Sections 60 and 61 of the Utilities Commission Act, and subject to the conditions stated above, that a general rate increase of 6.2 percent applicable to its existing tariff effective January 1, 2011, be approved as firm.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis Swanson", with a horizontal line extending to the right from the end of the signature.

Dennis Swanson
Director, Regulatory Affairs



Updated 2011 Revenue Requirements

November 1, 2010

1 **Introduction**

2 On October 1, 2010 FortisBC filed its Preliminary 2011 Revenue Requirements
3 Application (“October Filing”). The capital and operating forecasts were based on July
4 2010 actual and August to December forecast results. This update (“November
5 Update”) for the Company’s 2010 and 2011 capital and operating forecasts incorporates
6 actual results to September 30, 2010, along with adjustments to the 2011 forecast to
7 reflect more current information.

8 The required 2011 rate increase has increased from 5.9 to 6.2 percent primarily due to
9 a reduction in sales forecast and increased forecast 2011 Pension and Post Retirement
10 Benefits, partially offset by a decrease in forecast 2011 financial costs.

11 The following schedules provide a summary of the updated 2010 financial forecast and
12 2011 Revenue Requirements. Explanations of changes from the October Filing are
13 provided following the Revenue Requirements Overview Schedules.

14 Also included in this submission are updated Performance Standards, incorporating
15 actual results for the period October 1, 2009 to September 30, 2010. As in the October
16 Filing, FortisBC has met 10 of 13 targets.

		2010			Variance
		Approved	October Filing	November Update	
1	Sales Volume (GWh)	3,199	3,097	3,078	(19)
2	Rate Base	975,113	949,065	945,750	(3,315)
3	Return on Rate Base	7.73%	7.75%	7.79%	0.04%
4					
5	REVENUE DEFICIENCY				
6					
7	POWER SUPPLY				
					(\$000s)
8	Power Purchases	80,408	75,217	73,573	(1,644)
9	Water Fees	9,068	9,250	9,250	-
10		<u>89,476</u>	<u>84,467</u>	<u>82,823</u>	<u>(1,644)</u>
11	OPERATING				
12	O&M Expense	47,645	47,145	47,145	-
13	Capitalized Overhead	(9,529)	(9,529)	(9,529)	-
14	Wheeling	4,019	4,012	4,021	9
15	Other Income	(5,025)	(6,384)	(6,532)	(148)
16		<u>37,109</u>	<u>35,244</u>	<u>35,105</u>	<u>(139)</u>
17	TAXES				
18	Property Taxes	12,548	12,299	12,250	(49)
19	Income Taxes	5,407	4,564	5,100	536
20		<u>17,948</u>	<u>16,863</u>	<u>17,350</u>	<u>487</u>
21	FINANCING				
22	Cost of Debt	36,765	35,861	35,498	(363)
23	Cost of Equity	38,614	37,716	38,166	450
24	Depreciation and Amortization	42,028	41,785	41,788	3
25		<u>117,407</u>	<u>115,362</u>	<u>115,452</u>	<u>90</u>
26	INCENTIVE ADJUSTMENT				
27	Prior Year Incentive True Up	(322)	(322)	(322)	-
28	Flow Through Adjustments	(1,068)	801	1,061	260
29	ROE Sharing Incentives	(1,300)	(2,198)	(1,748)	450
30		<u>(2,690)</u>	<u>(1,718)</u>	<u>(1,009)</u>	<u>710</u>
31					
32	TOTAL REVENUE REQUIREMENT	<u>259,258</u>	<u>250,217</u>	<u>249,721</u>	<u>(496)</u>
33					
34	Carrying Cost on Non-Rate Base Deferral Account	17			
35	ADJUSTED REVENUE REQUIREMENT	<u>259,274</u>			

Note: Minor differences due to rounding.

1

Revenue Requirements Overview – 2011 Forecast

		2011		
		October	November	
		Filing	Filing	Variance
1	Sales Volume (GWh)	3,187	3,159	(28)
2	Rate Base	1,098,903	1,096,252	(2,651)
3	Return on Rate Base	7.71%	7.66%	-0.05%
4				
5	REVENUE DEFICIENCY			
6			(\$000s)	
7	POWER SUPPLY			
8	Power Purchases	81,245	80,941	(304)
9	Water Fees	9,600	9,510	(90)
10		90,845	90,451	(394)
11	OPERATING			
12	O&M Expense	49,362	50,064	702
13	Capitalized Overhead	(9,872)	(10,013)	(141)
14	Wheeling	3,338	3,338	-
15	Other Income	(5,258)	(5,455)	(197)
16		37,569	37,934	365
17	TAXES			
18	Property Taxes	13,633	13,940	307
19	Income Taxes	6,121	5,857	(264)
20		19,754	19,797	43
21	FINANCING			
22	Cost of Debt	41,208	40,572	(636)
23	Cost of Equity	43,517	43,412	(105)
24	Depreciation and Amortization	45,366	45,329	(37)
25		130,090	129,312	(778)
26	INCENTIVE ADJUSTMENT			
27	Prior Year Incentive True Up	(1,089)	(1,089)	-
28	Flow Through Adjustments	(1,870)	(2,129)	(259)
29	ROE Sharing Incentives	898	448	(450)
30		(2,061)	(2,770)	(710)
31				
32	TOTAL REVENUE REQUIREMENT	276,199	274,724	(1,475)
33				
34	ADJUSTED REVENUE REQUIREMENT	276,199	274,724	(1,475)
35	LESS: REVENUE AT APPROVED RATES	260,823	258,680	(2,143)
36	REVENUE DEFICIENCY for Rate Setting	15,376	16,044	668
37				
38	RATE INCREASE	5.90%	6.20%	0.30%

Note: Minor differences due to rounding.

2

1 **Rate Base - (Tab 3)**

2 The \$3.315 million reduction in the 2010 Rate Base Forecast is primarily due to reduced
 3 net capital additions and timing of capital projects placed in service. The forecast net
 4 plant additions for 2010 decreased by \$3.5 million from the October Filing, while the
 5 timing of projects within 2010 reduced the Adjustment to Rate Base for Capital
 6 Expenditures by approximately \$1.4 million.

2010 Rate Base Forecast

Parameter	2010		
	October Filing	November Update	Change
	(\$000s)		
Mid Year Rate Base	949,065	945,750	(3,315)

7 The \$2.651 million reduction in the 2011 Rate Base Forecast is primarily due to the
 8 reduced Plant in Service at January 1, 2011 and the reduction in Prior Year Depreciated
 9 Utility Rate Base offset by an increase in Deferred and Preliminary Charges related to
 10 increased pension costs.

2011 Rate Base Forecast

Parameter	2011		
	October Filing	November Update	Change
	(\$000s)		
Mid Year Rate Base	1,098,903	1,096,252	(2,651)

11

1 **Operating** - (Tab 3)

2 The Operating Cost Forecast for 2010 has decreased by \$0.139 million from the
 3 October Filing primarily as a result of an increase in the forecast of Other Income. The
 4 increase in Other Income of \$0.148 million is primarily due to Zellstoff Celgar Wheeling
 5 Revenue.

2010 Operating Cost

		2010 Forecast		
		October Filing	November Update	Change
		(\$000s)		
1	O&M Expense	47,145	47,145	-
2	Capitalized Overhead	(9,529)	(9,529)	-
3	Wheeling	4,012	4,021	9
4	Other Income	(6,384)	(6,532)	(148)
5	Total	35,244	35,105	(139)

Note: Minor differences due to rounding.

6 The increase to the Operating Cost Forecast for 2011 of \$0.365 million is largely due to
 7 increases in O&M offset by the related 20 percent of Capitalized Overhead, as well as
 8 an increase in Other Income.

9 The increase in O&M is due to increases in Pension and Post Retirement benefits. The
 10 increase in Other Income has resulted primarily from an increase in Sundry Revenue
 11 relating to wheeling revenue partially offset by a reduction in income from Fortis Pacific
 12 Holdings Inc.

2011 Operating Cost

		2011 Forecast		
		October Filing	November Update	Change
		(\$000s)		
1	O&M Expense	49,362	50,064	702
2	Capitalized Overhead	(9,872)	(10,013)	(141)
3	Wheeling	3,338	3,338	-
4	Other Income	(5,258)	(5,455)	(197)
5	Total	37,569	37,934	365

Note: Minor differences due to rounding.

1 **Taxes** - (Tab 3)

2 Income tax for 2010 has increased from the October Filing by \$0.536 million primarily
 3 due to higher taxable income resulting from increased sales margin in 2010, and
 4 reduced Capital Cost Allowance due to a decrease to plants in service. In total, Tax
 5 expense is forecast to increase by \$0.487 million.

2010 Taxes Forecast

		2010		
		October Filing	November Update	Change
		(\$000s)		
1	Property Tax	12,299	12,250	(49)
2	Income Tax	4,564	5,100	536
3	Total	16,863	17,350	487

6 There is a small net change in the Tax forecast for 2011. An increase in Property Tax is
 7 offset by a reduction in Income Tax. Property Tax increased by \$0.307 million due to
 8 anticipated changes in Assessment Rates recently proposed by BC Assessment.
 9 Income tax has decreased by \$0.264 million largely due to a reduced sales margin.

2011 Taxes Forecast

		2011		
		October Filing	November Update	Change
		(\$000s)		
1	Property Tax	13,633	13,940	307
2	Income Tax	6,121	5,857	(264)
3	Total	19,754	19,797	43

- 1 **Financing** - (Tab 3)
- 2 Financing costs for 2010 have not changed materially as increased earnings have been
- 3 offset by a decrease in the cost of debt.

2010 Financing Forecast

		2010		
		October Filing	November Update	Change
		(\$000s)		
1	Cost of Debt	35,861	35,498	(363)
2	Cost of Equity	37,716	38,166	450
3	Depreciation and Amortization	41,785	41,788	3
4	Total	115,362	115,452	90

- 4 Financing costs in 2011 decreased by \$0.778 million due to a reduction in the forecast
- 5 long and short term interest rates.

2011 Financing Forecast

		2011		
		October Filing	November Update	Change
		(\$000s)		
1	Cost of Debt	41,208	40,572	(636)
2	Cost of Equity	43,517	43,412	(105)
3	Depreciation and Amortization	45,366	45,329	(37)
4	Total	130,090	129,312	(778)

Note: Minor differences due to rounding.

1 **Incentive Adjustments** - (Tab 3)

2 The 2010 Incentive Adjustment Forecast has increased by \$0.71 million from the
 3 October Filing with a consequent reduction in 2011 by an equivalent amount. This is
 4 due to the flow-through adjustments resulting from the forecast reduction of Interest
 5 Expense and the lower ROE Sharing Incentive in 2010.

2010 Incentive Adjustment Forecast

		2010		
		October Filing	November Update	Change
		(\$000s)		
1	Prior Year Incentive True Up	(322)	(322)	-
2	Flow Through Adjustments	801	1,061	260
3	ROE Sharing Incentives	(2,198)	(1,748)	450
4	Total	(1,718)	(1,009)	710

2011 Incentive Adjustment Forecast

		2011		
		October Filing	November Update	Change
		(\$000s)		
1	Prior Year Incentive True Up	(1,089)	(1,089)	-
2	Flow Through Adjustments	(1,870)	(2,129)	(260)
3	ROE Sharing Incentives	898	448	(450)
4	Total	(2,061)	(2,770)	(710)

Note: Minor differences due to rounding.

1 **Load and Revenue Forecast - (Tab 5)**

2 Changes to the 2010 and 2011 load forecasts between the October Filing and the
 3 November Update are due to the inclusion of normalized sales in August and
 4 September, an updated population forecast for the service area of FortisBC and an
 5 updated DSM savings forecast that decreased savings overall in 2011 by 11 GWh. The
 6 updated 2010 and 2011 energy and revenue forecasts and the changes are
 7 summarized in two tables below.

2010 Normalized Forecast Energy Sales & Revenue Including DSM

	Energy sales (GWh)	2010		
		October Filing	November Update	Change
		(\$000s)		
1	Residential	1,242	1,247	5
2	General Service	671	661	(10)
3	Wholesale	921	921	-
4	Industrial	248	231	(17)
5	Lighting	13	13	-
6	Irrigation	44	42	(2)
7	Net Load	3,138	3,115	(23)
8	Gross Load	3,443	3,417	(26)
9	Gross Loss (%)	8.84	8.84	-
10	Winter Peak (MW)	698	698	-
11	Summer Peak (MW)	560	560	-
12	Total Revenue (\$000s)	250,217	249,721	(496)

2011 Normalized Forecast Energy Sales & Revenue Including DSM

	Energy sales (GWh)	2011		
		October Filing	November Update	Change
		(\$000s)		
1	Residential	1,248	1,259	11
2	General Service	675	671	(4)
3	Wholesale	938	940	2
4	Industrial	269	233	(36)
5	Lighting	13	12	(1)
6	Irrigation	44	44	-
7	Net Load	3,187	3,159	(28)
8	Gross Load	3,500	3,469	(31)
9	Gross Loss (%)	8.94	8.94	-
10	Winter Peak (MW)	724	723	(1)
11	Summer Peak (MW)	579	578	(1)
12	Total Revenue (\$000s)	260,823	258,680	(2,143)

1 Gross system loads for the November Filing of the 2010 and 2011 forecasts are down
2 by 26 GWh and 31 GWh respectively, from the October Filing. These variances are
3 explained below:

4 In 2010, the Residential normalized loads in August and September were higher than
5 forecast and an increased population forecast for 2011 results in higher 2011
6 Residential growth. The forecast for the Industrial load is reduced for both 2010 and
7 2011, mainly because Zellstoff Celgar will purchase 20 GWh less than previously
8 expected for the remainder of 2010 and 34 GWh less in 2011 as compared to the
9 October filing. This leads to an overall decline in the Industrial load of 17 and 36 GWh
10 for 2010 and 2011 respectively. The August and September actual loads for the
11 General Service sector were less than previously expected, leading to reduced loads of
12 10 GWh for the remainder of the 2010 year and 4 GWh in 2011. A drop in the actual
13 irrigation load in September drove the 2010 load down by 2 GWh.

- 1 Peak demands are forecast based on historical peaks which are escalated according to Net
- 2 Energy growth rates. The November update correct an error in the October Filing that
- 3 results in a 22 MW higher Winter peak load forecast and a 17 MW higher Summer peak
- 4 load forecast. Table 5A, Tab 5 in the 2011 Preliminary Revenue Requirements Application
- 5 is updated accordingly, please refer to Errata 3.

- 1 **Power Purchases** - (Tab 6)
- 2 The November Update 2010 Power Purchase Forecast is lower by \$1.6 million than the
- 3 October Filing while 2011 is lower by \$0.3 million.

2010 Power Purchases Forecast

		2010		
		October Filing	November Update	Change
		(\$000s)		
1	Surplus Revenues	(1,011)	(1,000)	11
2	Brilliant	33,217	33,216	(1)
3	BC Hydro	38,293	35,678	(2,615)
4	Market Spot Purchase & Capacity Purchases	4,526	5,689	1,163
5	Independent Power Purchasers	709	881	172
6	Capital Projects	(289)	(331)	(42)
7	Special Accounting Adjustments	539	517	(21)
8	Balancing Pool	(766)	(1,077)	(311)
9	Total	75,217	73,573	(1,644)

- 4 The primary reasons for the reduction in the 2010 Power Purchase forecast in the
- 5 November Update is due to actual loads being lower than those forecast in the October
- 6 Filing. The loads for the November Filing are actual loads through September with an
- 7 updated forecast through to the end of the year. Overall, loads declined by 35.3 GWh
- 8 (net of DSM). This does not compare directly to the normalized reduction of 26 GWh on
- 9 Page 11, Row 8 of this Update filing, since those are normalized numbers. Costs for
- 10 2010 declined by \$1.6 million of which approximately \$1.3 million is due to reduced load
- 11 (the combined total of the BC Hydro, Market and IPP changes) with the remainder due
- 12 to Balancing Pool adjustments of \$0.3 million.

2011 Power Purchase Forecast

		2011		
		October Filing	November Update	Change
		(\$000s)		
1	Surplus Revenues	(814)	(689)	125
2	Brilliant	32,282	32,282	-
3	BC Hydro	47,189	45,847	(1,342)
4	Market Spot Purchase & Capacity Purchases	2,941	3,253	312
5	Independent Power Purchasers	155	168	14
6	Capital Projects	(371)	(377)	(6)
7	Special Accounting Adjustments	-	-	-
8	Balancing Pool	(136)	457	593
9	Total	81,245	80,941	(305)

- 1 2011 Power Purchase expense is forecast to be \$0.3 million lower than the October
2 filing. The Load forecast decreased by approximately 31 GWh (net of DSM), which
3 accounts for a decrease of approximately \$1.0 million (The combined total of the BC
4 Hydro and Market changes) offset by reduced surplus sales (\$0.1 million) and
5 Balancing Pool adjustments of \$0.6 million.

1 **Capital Expenditures** - (Tab 7)

2 Forecast capital expenditures have decreased from the October Filing by \$0.49 million
 3 in 2010 and increased by \$0.131 million in 2011. The updated estimates reflect actual
 4 capital expenditures to September 30, 2010 with forecast expenditures to year-end and
 5 updated estimates for 2011.

6 The following tables provide the changes in forecast capital expenditures between the
 7 October Filing and November Update for 2010 and 2011 respectively. A discussion of
 8 the reasons for the changes precedes each table.

9 The overall decrease in the 2010 Capital Expenditures is driven primarily by decreases
 10 in the forecasts for Transmission and Stations and Distribution expenditures. The
 11 Transmission and Stations forecast reduction stems primarily from the shift in
 12 Okanagan Transmission Reinforcement work from 2010 to 2011, as well as a reduction
 13 in the Small Sustaining work and cost reductions in the Benvoulin Substation Project.
 14 Distribution Growth has forecast decreased expenditures, due to labour, tender and
 15 other related efficiencies, and lower than forecast labour, equipment and commodity
 16 costs. These decreases are partially offset by an increased forecast for General Plant.

2010 Capital Expenditure Forecast

		2010		
		October Filing	November Update	Change
		(\$000s)		
1	Generation	19,655	19,587	(68)
2	Transmission and Stations	88,913	85,448	(3,465)
3	Distribution	27,349	25,912	(1,437)
4	Telecom, SCADA, Protection and Control	2,452	2,407	(45)
7	General Plant	10,639	10,876	237
8	Demand Side Management	2,772	2,646	(126)
9	Total	151,780	146,876	(4,904)

- 1 The increase in 2011 Capital Expenditures is primarily the result of re-scheduling of
- 2 OTR work to 2011 from 2010 as noted above.

2011 Capital Expenditure Forecast

		2011		
		October Filing	November Update	Change
		(\$000s)		
1	Generation	18,669	18,669	-
2	Transmission and Stations	29,047	30,359	1,312
3	Distribution	23,604	23,604	-
4	Telecom, SCADA, Protection and Control	7,140	7,140	-
7	General Plant	13,563	13,563	-
8	Demand Side Management	5,764	5,764	-
9	Total	97,787	99,099	1,312

- 3 **Totals in the above tables differ from Table 7 in the October 1, 2010 filing by the amount of Cost of*
- 4 *Removal, which has been omitted for comparison purposes.*

- 1 **Performance Standards** - (Tab 8)
- 2 FortisBC has updated its target and forecast results for the 2010 Performance
- 3 Standards based on actual results to September 30, 2010. The following table has
- 4 been updated to reflect actual results for 2010. As in the October filing, FortisBC has
- 5 met 10 of 13 targets.

Updated 2010 Performance Standard Results

Performance Standard	Target	Forecast	Actual Result	Result
All Injury Frequency Rate	1.92	2.00	1.98	x
Injury Severity Rate	17.53 ⁽¹⁾	12.88	12.78	✓
Vehicle Incident Rate	1.44	2.03	2.26	x
System Average Interruption Duration Index	2.50	2.53	2.94	x
System Average Interruption Frequency Index	2.18	1.50	2.16	✓
Generator Forced Outage Rate	0.35%	0.14%	0.09%	✓
Billing Accuracy – percentage of bills rejected by system	0.072%	0.050%	0.049%	✓
Meters Read as Scheduled	97%	98%	98%	✓
Contact Center – percentage of calls answered within 30 seconds	70%	70%	70%	✓
Emergency Response Time – percentage of calls responded to within 2 hours	85%	94%	94%	✓
Residential Service Connections – percentage connected within 6 working days	85%	94%	95%	✓
Residential Extensions – percentage quoted within 35 working days	94%	98%	98%	✓
Residential Extensions – percentage connected within 30 working days	92%	99%	98%	✓

✓ = target met

x = target not met

- 6 ⁽¹⁾ Target as per the Negotiated Settlement Agreement, Commission Order No. G-162-09.