FORTISBC

Preliminary 2011 Revenue Requirements

Tab 3

Revenue Requirements

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3.0 Overview – Budgets & Forecasting

As presented in Table 3.0 on page 3 of this Tab, FortisBC is forecasting 2011 Revenue Requirements deficiency at 2010 rates of approximately $15.4 million, requiring a forecast rate increase of 5.9 percent effective January 1, 2011. A summary of the 2011 Revenue Requirements drivers when compared to 2010 approved values are as follows:

i. **Power Supply**: Increases in Power Supply Costs are primarily due to increases in the price of power purchases and provincial water fees resulting in a 0.5 percent rate increase or $1.4 million of increased Revenue Requirements;

ii. **Operating**: O&M Expense net of capitalized overhead plus wheeling expense and other income are forecast to require a 0.2 percent rate increase or $0.5 million of increased Revenue Requirements;

iii. **Taxes**: Increases in property taxes and income tax results in a $1.8 million increase in Revenue Requirements or a 0.6 percent rate increase;

iv. **Financing**: Financing the Company's ongoing investment in new and upgraded infrastructure continues to be a primary rate driver, resulting in a 4.4 percent rate increase or $12.7 million in Revenue Requirements;

v. **Incentive and Other Adjustments**: Prior year incentive true-up and flow through adjustments reduce Revenue Requirements by $1.6 million, a 0.6 percent decrease in rates, which is offset by a decrease in ROE Sharing Incentives of $2.2 million (or 0.8 percent increase in rates), resulting in an overall 0.2 percent rate increase or $0.6 million in Revenue Requirements.

Each of these components is discussed in detail in this Tab. All 2010 forecast operating and capital amounts including the Incentive Adjustment are based on July 31, 2010 financial results with a forecast for the August to December results. A full set of financial schedules supporting the Revenue Requirements calculations can be found in Tab 4 of this Application. On or before November 1, 2010, FortisBC will file updates to the 2010 and 2011 forecasts incorporating actual results to September 30, 2010.

Table 3.0: Overview of Revenue Requirements

		Actual 2009	Approved 2010	Increase or (Decrease)	Forecast 2011
			($000s)		
1	Sales Volume (GWh)	3,157	3,199		3,187
2	Rate Base	867,683	975,113		1,098,903
3	Return on Rate Base	7.83%	7.73%		7.71%
4					
5	**REVENUE DEFICIENCY**				
6					
7	**POWER SUPPLY**				
8	Power Purchases	70,776	80,408	837	81,245
9	Water Fees	8,656	9,068	532	9,600
10		79,432	89,476	1,369	90,845
11	**OPERATING**				
12	O&M Expense	46,017	47,645	1,717	49,362
13	Capitalized Overhead	(9,315)	(9,529)	(343)	(9,872)
14	Wheeling	4,003	4,019	(681)	3,338
15	Other Income	(5,187)	(5,025)	(233)	(5,258)
16		35,518	37,109	460	37,569
17	**TAXES**				
18	Property Taxes	11,573	12,548	1,085	13,633
19	Income Taxes	4,749	5,407	715	6,121
20		16,322	17,955	1,800	19,754
21	**FINANCING**				
22	Cost of Debt	33,411	36,765	4,443	41,208
23	Cost of Equity	34,499	38,614	4,902	43,517
24	Depreciation and Amortization	37,376	42,028	3,338	45,366
25		105,286	117,407	12,683	130,090
26					
27	Prior Year Incentive True Up	(1,443)	(322)	(767)	(1,089)
28	Flow Through Adjustments	1,068	(1,068)	(801)	(1,870)
29	ROE Sharing Incentives	2,389	(1,300)	2,198	898
30		2,014	(2,690)	629	(2,061)
31					
32	**TOTAL REVENUE REQUIREMENT**	238,572	259,258	16,941	276,199
33					
34	Carrying Cost on Rate Base Deferral Account		17	(17)	-
35	ADJUSTED REVENUE REQUIREMENT		259,274	16,925	276,199
36	**LESS: REVENUE AT APPROVED RATES**		242,031		260,823
37	**REVENUE DEFICIENCY for Rate Setting**		17,243		15,376
38					
39	**RATE INCREASE**				**5.90%**

Note: Minor differences due to rounding.

3.1 Power Supply

3.1.1 Power Purchase Expense

The 2011 Power Purchase Expense is forecast at $81.2 million compared to $75.2 million currently estimated for 2010, an increase of 8.0 percent over the 2010 forecast amount as summarized in Table 3.1.1 below. The increase is primarily due to an increase in forecast load, greater use of the BC Hydro Power Purchase Agreement, and the BC Hydro rate increase, which is partially offset by reduced market requirements and a reduction in the Brilliant Base rate. The details of the 2011 Power Purchase forecast are discussed in Tab 6 of this Application.

Table 3.1.1: Power Purchase Expense

		Actual 2009	Forecast 2010	Forecast 2011
			GWh	
1	FortisBC	1,586	1,564	1,581
2	DSM	-	13	40
3	Power Purchases (net of surplus sales)	1,893	1,825	1,919
4	Total System Load (before DSM savings)	3,479	3,402	3,540
5	Less DSM	-	(13)	(40)
6	Total System Load (including DSM savings)	3,479	3,389	3,500
			($000s)	
7	Expense - Energy	59,148	63,591	67,209
8	Expense - Capacity	11,969	13,154	15,358
9	Capital Projects, Accounting & other Adjustments	(341)	(1,528)	(1,322)
10	Total Power Purchase Expense	70,776	75,217	81,245

Note: Minor differences due to rounding.

3.1.2 Water Fees

Water fees are assessed by the Province based on FortisBC's generation in the previous year and the rate is indexed to BC Hydro rate increases in the previous year. An increase in the provincial rate is primarily responsible for the $0.3 million increase in water fees in 2011, as shown in Table 3.1.2 below.

Table 3.1.2: Water Fees

		Actual 2009	Forecast 2010	Forecast 2011
1	Plant Entitlement Use (GWh) in previous year	1,608	1,585	1,548
2	Water Fees ($000s)	8,656	9,250	9,600

3.2 Operating

3.2.1 2010 Operating and Maintenance ("Gross O&M") Expense

Gross O&M Expense is primarily determined by formula under the PBR mechanism, with the addition of a small number of cost items that are forecast on an annual basis. The formula-driven portion of Base O&M is calculated as follows, and the components are defined below:

Base O&M	=	Base O&M per Customer
	x	[1 + (BC CPI – PIF)]
	x	Average Number of Customers

i. Base O&M Cost per Customer is defined as the 2006 Gross O&M Expense excluding Pension, Post Retirement Benefits, and the Trail Office lease costs divided by the Average Number of Customers in 2006, as adjusted annually for inflation and productivity.

The Base O&M Cost per Customer for the purposes of calculating Revenue Requirements under PBR is $382.64 in 2011. The Base O&M was derived by applying the above formula as approved by Commission Orders G-58-06 and G-193-08, adjusted by the HST savings per customer in 2011 (amounting to $1.33 per customer). The details of the 2011 HST savings are discussed in Section 3.3.3 of this Tab.

ii. The BC Consumer Price Index ("CPI") for 2010 has been forecast at 2.3 percent based on the following sources:

BC Ministry of Finance	March 2010	2.3%
Conference Board of Canada	July 2010	2.8%
Toronto Dominion Bank	July 2010	2.1%
Bank of Montreal	July 2010	2.0%
Average:		**2.3%**

(FortisBC previously included a forecast by the Royal Bank in its CPI forecast for Revenue Requirements. The Royal Bank has been replaced by the Bank of Montreal for the term of the PBR pursuant to Order G-162-09.)

iii. The 2011 Productivity Improvement Factor is 1.5 percent when CPI is less than 3 percent, pursuant to the 2009 NSA.

The calculation of the 2011 O&M Expense is presented in Table 3.2.1 below.

Table 3.2.1: 2011 O&M Expense

		Approved 2010	Forecast 2011
1	O&M, Formula-Driven		
2	Base O&M Cost per Customer (Note-2)	$ 379.04	$ 379.60
3	Consumer Price Index (British Columbia)	2.0%	2.3%
4	Productivity Improvement Factor	-1.5%	-1.5%
5	O&M per Customer, Escalated	$ 380.93	$ 382.64
6	Average Number of Customers (Line 17)	112,051	113,355
		($000s)	
7	Base O&M (Line 5 times Line 6)	42,684	43,374
8	Pension and Post-Retirement Benefits (Note 1)	3,749	3,926
9	Mandatory Reliability Compliance (Note 1)	-	850
10	Trail Office Lease (Note 1)	1,212	1,212
11	Total Operating and Maintenance Expense for Base O&M	47,645	49,362
12	Capitalized Overhead	(9,529)	(9,872)
13	Net Operating & Maintenance Expense	38,116	39,489
14	Number of Customers		
15	Opening Count	111,190	112,456
16	Ending Count	112,911	114,254
17	Average Number of Customers	112,051	113,355

Note 1:

Under the terms of the 2006 NSA and Commission Order G-58-06, Pension and Post-Retirement Benefits and the Trail Office Lease costs are excluded from the formula in calculating Base O&M. The O&M costs for Mandatory Reliability Compliance has also been treated similarly starting 2011.

Note 2:

The Base O&M Cost per Customer for the purposes of calculating Revenue Requirements under PBR has been adjusted downward by $1.33/ Customer effective January 1, 2011 to $379.60 to rebase for the HST savings of approximately $151,000.

Note: Minor differences due to rounding.

3.2.2 Mandatory Reliability Standards

On June 4, 2009 the Commission, by Order G-67-09, adopted for British Columbia the Mandatory Reliability Standards ("MRS") developed by the North American Electric Reliability Corporation ("NERC") and the Western Electricity Coordinating Council ("WECC"). Utilities were ordered to file by December 31, 2009 a Mitigation Plan outlining plans to come into compliance with applicable reliability standards.

The requirements of MRS compliance meet the definition of a "Z" Factor under the terms of the PBR mechanism as defined in the 2006 NSA:

> "A "Z" factor provision is proposed to permit recovery or refund of extraordinary costs outside of the "steady state" operations as determined by the formula described for Base O&M expenses. "Z" factor circumstances limited to the following:
>
> - Directives of the BCUC or other competent regulatory agencies;
> - Acts of legislation or regulation of government;
> - Changes due to Generally Accepted Accounting Principles;
> - Changes to actuarial evaluations;
> - Force Majeure events;
> - Other extraordinary events as agreed to by the parties in the Negotiated Settlement Process."

Order G-67-09 set out an expected date of compliance of November 1, 2010. FortisBC has forecast its O&M requirements for MRS compliance for 2011 and has treated the related set-up costs as deferred charges as discussed in Section 3.7.2 (xiii) of this tab. The treatment is similar to that of the Trail Office Lease & Pension & Post Retirement Benefit costs in accordance with the terms of the 2006 NSA and Commission Order G-58-06, excluding them from the formula in calculating the Base O&M.

3.2.3 Capitalized Overheads

As presented in Table 3.2.1 above, Capitalized Overhead has been set at 20 percent of Gross O&M for the term of the PBR Plan (Orders G-58-06 and G-193-08).

3.2.4 Wheeling

Wheeling expense is forecast to decrease in 2011 by $0.7 million primarily due Duck Lake Wheeling Revenue of $0.8 million in 2011 pursuant to the Duck Lake Wheeling Agreement between BC Hydro (formerly BCTC) and FortisBC approved by the Commission per Order No. G-19-10. This increase in revenue is offset by increased wheeling nominations at the Okanagan Interconnection Point of $0.1 million.

The wheeling expense includes wheeling service provided by BC Hydro (formerly BCTC) under the General Wheeling Agreement (“GWA”) and the Open Access Transmission Tariff (“OATT”), as well as payments to Teck Metals Ltd. (“Teck”) for the use of its 71 Line.

Wheeling expense is summarized in Table 3.2.4 below and further discussed in Tab 6.

Table 3.2.4: Wheeling Expense

		Actual 2009	Forecast 2010	Forecast 2011
1	**Wheeling Nomination**		(MW)	
2	Okanagan	2,115	2,160	2,220
3	Creston	420	420	420
4	**Expense**		($000s)	
5	Vernon/Okanagan	3,500	3,536	3,663
6	Creston	453	448	451
7	Other	50	28	24
8	Duck Lake Wheeling Revenue			(800)
9	Total Wheeling Expense	4,003	4,012	3,338

Note: Minor differences due to rounding.

3.2.5 Other Income

Other income is revenue, other than income from the sale of electricity, and is derived from apparatus and facilities rentals (primarily pole contact rentals), contract work performed for third parties and miscellaneous revenue. Other Income is forecast to decrease by $1.1 million in 2011 as shown in Table 3.2.5 below. The higher 2010 revenue is primarily due to the considerable effort expended during 2010 to address questionable pole contacts and pole maintenance costs with Licensees.

Waneta and Brilliant Management Fees associated with non-routine O&M and capital work varies from year to year, as can be seen in Table 3.2.5 below.

Table 3.2.5: Other Income

		Actual 2009	Forecast 2010	Forecast 2011
1	Apparatus and Facilities Rental			
2	Electric Apparatus Rental	2,755	3,848	2,744
3	Lease Revenue	169	140	140
4		2,924	3,988	2,884
5	Contract Revenue			
6	Waneta Management Fee	311	404	421
7	Waneta Management Fee Capital	2	22	8
8	Waneta Carrying Costs	94	94	94
9				
10	Brilliant Management Fee	174	204	196
11	Brilliant Management Fee Capital	289	246	306
12				
13	Fortis Pacific Holdings Inc.	530	624	570
14		1,400	1,594	1,595
15	Miscellaneous Revenue			
16	Connection Charges	482	490	507
17	NSF Cheque Charges	10	10	10
18	Sundry Revenue	183	93	93
19		675	593	610
20				
21	Investment Income	188	209	169
22				
23	Total	5,187	6,384	5,258

Note: Minor differences due to rounding.

3.3 Taxes

3.3.1 Property Tax

Property tax for 2011 is based on the Company's forecasts of the assessed value of taxable assets, municipal mill rates, and taxes from revenues earned from electricity consumed within the Municipalities. The growth in assessed values is due to annual plant additions and is forecast to increase over the next several years.

Table 3.3.1 below summarizes Property Tax by plant type for the years 2009 through 2011.

Table 3.3.1: Property Tax

		Actual 2009	Forecast 2010	Forecast 2011
			($000s)	
1	Generating Plant	2,548	2,816	2,956
2	Transmission and Distribution	5,405	5,570	6,216
3	Substation Equipment	3,000	3,371	3,912
4	Land and Buildings	620	542	549
5	Total Property Tax	11,573	12,299	13,633

Note: Minor differences due to rounding.

3.3.2 Income Tax

2011 Income Tax is forecast to increase by $1.6 million from the 2010 forecast. The increase is primarily attributable to an increase in accounting income, partially offset by increasing Capital Cost Allowance ("CCA") deductions as a result of the Company's added capital expenditures, as well as a 2.0 percent reduction in the statutory income tax rate from 2010 to 2011.

FortisBC is continuously reviewing opportunities to mitigate customer rates. During 2010, the Company conducted an analysis which determined that certain costs of removal relating to capital expenditures qualified as a deduction in the year incurred thereby decreasing income tax expense. In the 2010 Revenue

Requirements NSA Order G-162-09, 2009 and 2010 forecast income tax expense treated all costs of removal as an addition to Undepreciated Capital Cost (“UCC”) tax balances that are deducted over time through CCA at an approximate annual rate of 8 percent.

During 2009 and 2010, certain capital expenditure accounting processes were implemented to better track costs of removal. This improved recordkeeping permitted the Company to evaluate and substantiate the position to deduct certain qualifying costs of removal. As these processes and support did not exist to the same extent in the taxation years prior to 2009, the Company has not undertaken a retroactive treatment relating to costs of removal for prior years.

The Company filed its 2009 Corporate Tax Return in June 2010 taking the position that certain costs of removal qualify as a 100 percent deduction in the year incurred, rather than deducting the annual composite 8 percent CCA as per prior years. This position resulted in a tax savings of approximately $0.7 million of which the Company proposes to flow 100 percent of these savings through to customers as a Flow-Through Adjustment to 2011 rates, as shown in Section 3.5 of Tab 3.

In addition, the Company has forecast its 2010 Income Tax expense using a similar tax deduction for certain forecast costs of removal that qualify. This will result in a forecast tax savings of approximately $0.4 million in 2010, of which 100 percent of these forecast savings are also included as part of the Flow-Through Adjustment to 2011 rates, as shown in Section 3.5 of Tab 3.

Forecast 2011 Income Tax expense also includes a similar tax deduction based on forecast costs of removal that qualify which results in reduced income tax expense of approximately $0.4 million in 2011.

Table 3.3.2 below summarizes the impact of the tax timing differences and tax rate.

Table 3.3.2: Income Tax Expense

		Actual 2009	Forecast 2010	Forecast 2011
			($000s)	
1	UTILITY INCOME BEFORE TAX	72,659	78,140	90,846
2	Deduct:			
3	Interest Expense	33,411	35,861	41,208
4				
5	ACCOUNTING INCOME	39,248	42,279	49,638
6				
7	Deductions			
8	Capital Cost Allowance	50,764	52,255	57,791
9	Capitalized Overhead	9,315	9,529	9,872
10	Incentive & Revenue Deferrals	(2,014)	1,718	2,061
11	Financing Fees	910	615	619
12	All Other (net effect)	1,048	1,980	2,297
13		60,023	66,097	72,640
14				
15	Additions			
16	Amortization of Deferred Charges	2,521	3,703	3,073
17	Depreciation	34,855	38,082	42,293
18		37,376	41,785	45,366
19				
20	TAXABLE INCOME	16,601	17,967	22,364
21				
22	Tax Rate	30.0%	28.5%	26.5%
23				
24	Taxes Payable	4,980	5,121	5,926
25	Prior Years' Overprovisions/(Underprovisions)	(487)	(738)	-
26	Deferred Charges Tax Effect	256	181	195
27				
28	REGULATORY TAX PROVISION	4,749	4,564	6,121

Note: Minor differences due to rounding.

3.3.3 Harmonized Sales Tax

On July 23, 2009, the Government of Canada and the Province of British Columbia announced a proposal to harmonize the provincial sales tax (“PST”) of 7 percent with the federal goods and services tax (“GST”) of 5 percent to create an HST with a combined rate of 12 percent effective July 1, 2010.

During the 2010 Revenue Requirements process, the Company had not recognized the impacts of transition to HST because the large business restrictions and transitional rules had not yet been finalized. In addition, the changes required to accounting and information systems could not be reasonably determined for FortisBC at that time. All legislation related to the implementation of HST has been enacted as of April 29th, 2010. The implementation of the HST meets the definition of a “Z” factor under the PBR mechanism.

Under the new HST legislation, certain goods and services, which were previously subject to PST of 7 percent and not recoverable for tax filing purposes, will instead be subject to HST and therefore permit the Company to claim a full Input Tax Credit (“ITC”) for HST on these costs. Over time this may result in a 7 percent savings on costs such as materials, legal fees, office supplies, software licenses, expenses relating to vehicles over 3,000 kg and maintenance contracts for office, computer equipment and software. However, the HST rules also restrict or recapture ITCs for the 7 percent provincial portion of HST on certain expenses which are already subject to PST. Therefore, no savings are expected to be achieved on certain telecommunication expenses, passenger vehicle costs and certain energy use. Meals and entertainment expenses which were not subject to PST are now subject HST and a recapture of ITC on the 7 percent portion of HST, resulting in an increase in these expenses.

The Company assessed the impact of the new HST rules on O&M expected to be incurred for the last six months of 2010 and for the full 2011 year. The analysis considered actual 2008 and 2009 PST paid as well as the impact on meals and entertainment, self assessment of PST on own-use electricity and removal of the Innovative Clean Energy Fund ("ICE") levy. The result of the analysis is an estimate of approximately $0.1 million in 2010 O&M savings, effective July 1, 2010, which has been included as a Flow-through Adjustment to 2011 rates, as shown in Section 3.5 of Tab 3. In addition, the Company has estimated approximately $0.2 million savings related to HST impacts in 2011 O&M, or $1.33 per Base O&M Cost per customer, as shown in Section 3.2.1 of Tab 3.

The Company also assessed the impact of the new HST rules on the remaining 2010 capital expenditures expected to be incurred between July 1, 2010 and December 31, 2010. The analysis considered the removal of labour, material to be procured internally versus external vendors, inventory turnover, the timing of plants in service, the estimated number of months in rate base and the weighted value of PST savings in rate base. The 2010 rate base included in the approved 2010 Negotiated Settlement Agreement was compared to the 2010 rate base adjusted for potential PST savings which resulted in a variance that was considered to be immaterial; therefore, there are no adjustments to the 2011 Revenue Requirements relating specifically to capital expenditures.

In addition, the Company incurred costs to implement HST, including information system changes and obtaining tax consulting advice, of approximately $0.2 million ($0.3 million before tax) included as a deferred charge as described in Section 3.7.2 of Tab 3.

On September 13th, 2010 it was announced that a referendum on the continuation of the HST will be held in British Columbia on September 24, 2011. Although the referendum is non-binding, the BC government has pledged that if a simple majority of 50 percent vote against the HST they will remove the tax. Should the HST be removed, the impact, including the implementation costs, will be assessed and reflected in a subsequent application.

The summary of the savings and costs relating to the implementation of HST is as follows:

Table 3.3.3: Summary of HST Savings and Deferral

		($000s)	Treatment
ESTIMATED HST IMPACTS			
1	2010 O&M Reduction	(76)	Flowthrough Adjustment (see section 3.5)
2	2011 O&M Reduction	(151)	Recognized in 2011 O&M Expense (see section 3.2)
3	2010 Capital Expenditures	-	Immaterial - no impact
4	HST Implementation Costs (net of tax)	179	Deferred Charges (see section 3.7.2)

3.4 Financing Costs

FortisBC's financing costs for the purpose of Revenue Requirements are based on a deemed capital structure of 60 percent debt and 40 percent equity, as confirmed by Commission Order G-58-06. The Company's capital structure and Return on Capital is summarized in Table 3.4 below:

Table 3.4: Return on Capital

		Actual 2009	Forecast 2010	Forecast 2011
1	CAPITALIZATION			
2	Debt	502,279	569,439	659,342
3	Common Equity	366,528	379,626	439,561
4		868,808	949,065	1,098,903
5	Equity as a % of Total	42%	40%	40%
6	EARNED RETURN			
7	Interest Expense	33,411	35,861	41,208
8	Net Earnings	34,499	37,716	43,517
9		67,909	73,577	84,724
10	RETURN ON CAPITAL			
11	Weighted Average Cost of Debt	6.65%	6.30%	6.25%
12	Return on Equity	9.41%	9.94%	9.90%
13	Weighted Average Cost of Capital	7.82%	7.75%	7.71%

Note: Minor differences due to rounding.

3.4.1 Cost of Debt

Approximately 95 percent of FortisBC's 2011 interest expense is associated with embedded long-term debt. The Company expects to issue approximately $110 million of senior unsecured Medium Term Note debentures in the last quarter of 2010 to pay down the operating credit facility that it has been using to finance the Company's capital expenditure program. The MTN debentures will be issued pursuant to Commission Order G-51-09, approving FortisBC's application to issue up to $300 million from time to time, according to the terms of a Shelf Prospectus, until June 11, 2011.

On April 30, 2010, the Company amended its operating credit facility pursuant to Order G-74-10. The amended operating credit facility is comprised of a $100.0 million, three-year revolving facility maturing on May 8, 2013 and a $50.0 million, 364-day revolving facility maturing on May 5, 2011.

The average balance of revolving debt outstanding for 2011 is forecast to be $9.3 million. The estimated average cost of revolving debt for 2011 is based on a combination of prime rate borrowings, Bankers Acceptance rate borrowings and bank charges and fees.

Table 3.4.1 summarizes FortisBC's annual weighted debt balances and cost of debt for 2010 and 2011.

Table 3.4.1: Weighted Average Cost of Debt

			2010 Forecast			2011 Forecast		
			Weighted Average Balance	Interest Expense	Weighted Average Cost of Debt	Weighted Average Balance	Interest Expense	Weighted Average Cost of Debt
				($000s)			($000s)	
1	Long Term Debt							
2	Series F	9.65%	15,000	1,448		15,000	1,448	
3	Series G	8.80%	25,000	2,200		25,000	2,200	
4	Series H	8.77%	25,000	2,193		25,000	2,193	
5	Series I	7.81%	25,000	1,953		25,000	1,953	
6	Series 1 - 04	5.48%	140,000	7,672		140,000	7,672	
7	Series 1 - 05	5.60%	100,000	5,600		100,000	5,600	
8	Series 1 - 07	5.90%	105,000	6,195		105,000	6,195	
9	MTN-09	6.10%	105,000	6,405		105,000	6,405	
10	MTN-10	5.50%	13,863	762		110,000	6,050	
11			553,863	34,427	6.22%	650,000	39,715	6.11%
12								
13	Short Term Debt		15,576	1,434	9.21%	9,342	1,493	15.99%
14								
15	Total Debt		569,439	35,861	6.30%	659,342	41,208	6.25%

Note: Minor differences due to rounding.

Interest expense of $35.9 million in 2010 is forecast to be approximately $0.9 million lower than the amount approved in rates and, under the terms of the PBR mechanism, is included as a flow-through reduction to 2010 rates as described in Section 3.5 of this Tab.

3.4.2 Cost of Equity

The Company expects to issue, subject to Commission approval, an additional $10 million of common share equity in 2011 in order to maintain its deemed capital structure of 60 percent debt and 40 percent equity.

In previous revenue requirement applications, the FortisBC's Allowed Return on Equity has been forecast using the most recent Consensus Economics forecast, in accordance with the BCUC's Automatic Adjustment Mechanism. Terasen Gas Inc. is the benchmark utility for purposes of applying FortisBC's risk premium of 40 basis points which was confirmed by Commission Order G-58-06.

On May 15, 2009, Terasen Utilities submitted a Return on Equity and Capital Structure Application, which proposed eliminating the use of an ROE Automatic Adjustment Mechanism in the determination of the ROE for the Terasen Utilities.

On December 17, 2009, the BCUC issued its decision on the Terasen Utilities' Return on Equity and Capital Structure Application which determined an ROE for Terasen Gas Inc of 9.50 percent that would continue to serve as the Benchmark ROE for FortisBC. The impact of this decision on FortisBC is an Allowed ROE for 2010 and 2011 of 9.90 percent.

Table 3.4.2: Return on Equity

		Approved 2010	Forecast 2011
1	Benchmark ROE	9.500	9.500
2	FortisBC Risk Premium	0.400	0.400
3	FortisBC Allowed ROE	9.900	9.900
4	Rate Base ($000s)		1,098,903
5	Equity Ratio		40%
6	ROE		9.90%
7	Net Earnings ($000s)		43,517

The ROE as determined in the decision will apply until changed by the BCUC. FortisBC's equity component of capital structure remains unchanged at 40 percent.

3.4.3 Depreciation and Amortization

Depreciation and Amortization expense consists of Depreciation on Plant and Equipment, and the Amortization of Deferred Charges. Depreciation Expense for 2011 has been calculated according to the rates agreed to in the 2006 NSA. The detailed calculations can be found in Tab 4 of this Application. Details on the Amortization of Deferred Charges can be found in Section 3.7.2 of this Tab and in Tab 4.

Table 3.4.3 summarizes Depreciation and Amortization Expense for the years 2009 to 2011.

Table 3.4.3: Depreciation and Amortization Expense

		Actual 2009	Forecast 2010	Forecast 2011
1	Depreciation of Plant & Equipment	34,856	38,082	42,293
2				
3	Amortization of Deferred Charges	2,520	3,703	3,073
4				
5	Depreciation & Amortization Expense	37,376	41,785	45,366

3.4.4 Allowance for Funds Used During Construction (“AFUDC”)

On March 9, 2007 Commission Order G-20-07 directed the Company to exclude Construction Work in Progress (“CWIP”) subject to AFUDC from Rate Base for the purpose of determining Revenue Requirements.

During construction, the Company applies AFUDC to projects that are greater than $100,000 and more than three months in duration. The AFUDC rate is equal to the weighted Return on Equity plus the after tax cost of debt. The estimated AFUDC rate for 2011 is 6.7 percent (rounded), as calculated in Table 3.4.4 below.

Table 3.4.4: Calculation of AFUDC Rate for 2011

		Approved 2009	Approved 2010	Forecast 2011
1	Proportion of Debt	60.00%	60.00%	60.00%
2	Weighted Average Cost of Debt	6.39%	6.28%	6.25%
3	Income Tax Rate	30.00%	28.50%	26.50%
4	Tax-Effected Debt Component	2.68%	2.70%	2.76%
5	Proportion of Equity	40.00%	40.00%	40.00%
6	Return on Equity	8.87%	9.90%	9.90%
7	Equity Component	3.55%	3.96%	3.96%
8	AFUDC Rate (rounded)	6.20%	6.70%	6.70%

Approved 2010 reflects the December 17, 2009 Terasen ROE Decision Order G-158-09 which created an allowed ROE of 9.90 percent in 2010 and 2011.

Table 3.4.5 below shows actual and forecast capital expenditures and AFUDC for 2009 through 2011.

Table 3.4.5: AFUDC

	Actual 2009	Forecast 2010	Forecast 2011
Gross Capital Expenditure	112,723	156,559	102,604
AFUDC Rate	6.20%	6.70%	6.70%
AFUDC	3,234	4,200	3,016

3.5 Flow-through Adjustments

Flow-through adjustments (including a 2009 incentive true-up) are forecast to decrease 2011 Revenue Requirements. The flow-through adjustments are shown in Table 3.5.1 below:

a. A flow-through decrease to 2011 of approximately $1.1 million to recognize a true-up from the forecast to actual 2009 incentive;

b. A flow-through decrease to 2011 of approximately $0.7 million to reflect lower Interest Expense than approved in 2010 rates;

c. A flow-through decrease to 2011 of approximately $0.09 million as a result of a partial recovery of Pope & Talbot loss incurred in 2009;

d. A flow-through decrease to 2011 of approximately $0.7 million for 2009 Cost of Removal tax savings as discussed in Section 3.3.2;

e. A flow-through decrease to 2011 of approximately $0.4 million for 2010 Cost of Removal tax savings as discussed in Section 3.3.2; and

f. A flow-through decrease to 2011 of approximately $0.05 million representing Harmonized Sales Tax (HST) savings, as described in section 3.3.3.

Table 3.5.1: True Up and Flow-through Adjustments

		Approved	Forecast	Variance	Income Tax Shield	Customer Share	Flow Through Adjustment
				($000s)			
1	2009 Incentive True Up	2,368	3,457	(1,089)	-	100%	(1,089)
2	Interest Expense	36,782	35,861	(921)	262	100%	(658)
3	Pope & Talbot (Payment from Customer)	-	-	(123)	35	100%	(88)
4	2009 Cost of Removal Tax Savings	-	-	(705)	-	100%	(705)
5	2010 Cost of Removal Tax Savings	-	-	(364)	-	100%	(364)
6	2010 HST Savings	-	-	(76)	22	100%	(54)
7	Flow Through Adjustment						(1,870)

Note: Minor differences due to rounding.

3.6 ROE Sharing Mechanism Adjustment

The ROE Sharing Mechanism Adjustment provides for equal sharing, after the flow-through adjustments listed above, of any variance within a 2 percent band above or below the approved return on equity. The 2010 Approved figures are pursuant to Commission Order G-162-09. The forecast ROE Sharing Mechanism Adjustment increases the 2011 Revenue Requirements by approximately $0.9 million. The calculation of the incentive is shown in Table 3.6.1 below.

Table 3.6.1: ROE Sharing Mechanism Adjustments

		2010 Approved	2010 Forecast	Variance	Customer Share	ROE Incentive Adjustment
				($000s)		
1	Net Income for ROE Incentive	38,614	36,818	(1,796)	50%	898
2	Common Equity	390,046	379,626			
3	Allowed ROE	9.90%	9.70%	-0.20%	50%	-0.10%

3.7 Rate Base

Mid-Year Utility Rate Base is forecast to be approximately $1,099 million in 2011, a $150 million or 15.8 percent increase over the 2010 forecast. The increase in Rate Base is necessary to ensure the continued safe, reliable delivery of power to the Company's growing customer base. The most significant areas of expenditure are those required to expand and upgrade the bulk transmission and distribution ("T&D") system to keep pace with load growth, and to continue the Upgrade and Life Extension ("ULE") program at FortisBC's generating plants.

Table 3.7: Rate Base

	Actual 2009	Forecast 2010	Forecast 2011
		($000s)	
Net Additions	108,019	147,422	154,359
Mid-Year Utility Rate Base	867,683	949,065	1,098,903

3.7.1 Capital Expenditures

FortisBC filed an Application for approval of its 2011 CEP on June 18, 2010, which is currently before the BC Utilities Commission. The 2011 Revenue Requirements Application includes the 2011 CEP as filed (with minor differences due to timing of expenditures).

The Company expects to receive approval of the 2011 CEP by the end of the current year (2010).

The 2011 Capital Plan is focused on safety, customer service, reliability, productivity, and the environment. Capital Expenditures for 2010 and 2011 are forecast to be $156.7 and $103.9 million respectively net of customer contributions, and are described in Tab 7 of this Application.

Table 3.7.1: Summary of Capital Expenditures

	Actual 2009	Forecast 2010	Forecast 2011
		($000s)	
GENERATION			
Growth	-	-	-
Sustaining	19,669	19,655	18,669
	19,669	19,655	18,669
TRANSMISSION & STATIONS			
Growth	43,085	79,107	22,097
Sustaining	6,900	9,806	6,950
	49,985	88,913	29,047
DISTRIBUTION			
Growth	18,282	20,837	22,110
Sustaining	12,517	14,064	12,075
	30,799	34,901	34,185
TELECOM, SCADA, PROTECTION & CONTROL			
Growth	1,784	1,884	5,589
Sustaining	765	568	1,551
	2,549	2,452	7,140
GENERAL PLANT	9,720	10,639	13,563
TOTAL (as in Tab 4)	112,723	156,559	102,604
RECONCILIATION TO CAPITAL ADDITIONS			
Demand Side Management Additions	2,396	2,772	5,764
Less: Contribution in Aid of Construction	(7,141)	(7,552)	(10,581)
Cost of Removal	4,502	4,941	6,192
TOTAL (as in Tab 7)	112,481	156,720	103,979

Note: Minor differences due to rounding.

3.7.2 Deferred Charges

Pursuant to Commission Order G-52-05 deferred charges are recorded net of income tax. Incentive adjustments do not impact Income Tax Expense and are therefore not recorded net of tax. Similarly, Preliminary and Investigative Charges are either charged to capital or expensed and are not tax-effected. Deferred charges are summarized below:

Table 3.7.2: Deferred Charges

		Balance at Dec. 31, 2009	Balance at Dec. 31, 2010	Additions & Transfers 2011	2011 Amortization/ Transfers to Other Accounts	Amortization 2011	Balance at Dec. 31, 2011
1	Demand Side Management	8,116	8,549	5,764	-	(1,379)	12,933
2	Preliminary and Investigative Charges	1,089	2,044	3,732	(502)	-	5,274
3	Deferred Regulatory Expense	(2,755)	(397)	114	2,061	(484)	1,294
4	Other Deferred Charges and Credits	5,028	3,425	(736)	(57)	(831)	1,800
5	Deferred Debt Issue Costs	4,030	4,302	(195)	-	(378)	3,729
6	**TOTAL DEFERRED CHARGES (RATE BASE)**	15,508	17,922	8,678	1,502	(3,073)	25,030

Note: Minor differences due to rounding.

In the following description of the deferred charges, with the exceptions noted above, costs are after the effect of income tax. The tax rate applicable to 2010 and 2011 deferred charge additions are 28.5 percent and 26.5 percent respectively. Please refer to Tables 1-B (2010) and 1-B (2011) in Tab 4 for detailed deferred charges schedules.

Demand Side Management

The 2011 CEP Application filing includes DSM expenditures of $5.76 million ($7.84 million before tax) forecast in 2011, subject to BCUC approval. The escalated 2011 spending level is requested for the continuation and expansion of the Company's DSM programs to provide a broader scope of programming, and to increase cost-effective DSM resource acquisition. These changes were mandated under the 2008 amendments to the Utilities Commission Act and/or to meet provincial energy-efficiency policy goals. Details can be found in the 2011 CEP filing.

Preliminary and Investigative Charges

Expenses incurred in this category are due to investigation into potential capital projects. Upon conclusion of these studies and subsequent approval of these projects by the Commission, the costs incurred will be transferred to the approved Capital Projects.

Deferred Regulatory Expense

i. Flow-through and ROE Sharing Mechanism Adjustments

Flow-through and ROE Sharing Mechanism Adjustments serve to reduce 2011 Revenue Requirements by $2.1 million. The 2009 true-up contributes $1.1 million while a further $1.0 million is from 2010 adjustments ($1.9 million for 2010 flow-through offset by $0.9 million 2010 ROE Sharing)

ii. Shaw Application for use of FortisBC Inc. Electricity Transmission Facilities

On October 26, 2009, Shaw Cablesystems Ltd. and Shaw Business Solutions Inc. (collectively, "Shaw") applied to the BCUC for an order granting them use of FortisBC's transmission facilities. The application followed FortisBC's filing of a Writ and Statement of Claim in the British Columbia Supreme Court in regard to disputes concerning the license contract which sets out the terms and conditions upon which Shaw may attach its own facilities to FortisBC's transmission poles.

The Commission set down a regulatory process to address, among other issues, its jurisdiction under section 70 of the Utilities Commission Act to hear the application. By way of Order G-24-10 the Commission determined that it has jurisdiction to and would hear the application, and on March 17, 2010, the Commission dismissed an application by FortisBC for a reconsideration of G-24-10.

FortisBC also served a Leave to Appeal application from Orders G-24-10 and G-63-10 to the BC Court of Appeal, which was granted on June 10, 2010. FortisBC then applied to the BCUC for an order suspending all processes related to the Shaw Application pending the outcome of the appeal, which will determine the issue of the BCUC's jurisdiction. By Order G-114-10 dated June 30, 2010, the BCUC suspended the Shaw Application proceeding and denied Shaw's request for interim relief allowing use of FortisBC's transmission facilities, pending the BC Court of Appeal decision.

The Company requests approval to defer the costs of the Commission process, which are $0.03 million ($0.04 million before tax) to date. Future costs will be dependent on the outcome of the appeal. Following the resolution of the regulatory process, FortisBC will apply for disposition of the deferred amounts.

iii. 2010 Revenue Requirements

2010 Revenue Requirements Application costs of $0.05 million ($0.07 million before tax), were deferred pursuant to Order G-162-09. The Company requests approval to amortize these costs in 2011.

iv. 2011 Revenue Requirements

The Company requests approval to defer the costs for the 2011 Revenue Requirements Application, forecast to be $0.06 million ($0.08 million before tax) in 2010 with no additional costs in 2011. Upon completion of the regulatory process the Company will apply for disposition of the deferred amounts.

v. 2012 Revenue Requirements

FortisBC will file a cost of service Revenue Requirements Application for 2012 and expects that pursuant to the 2009 Revenue Requirements Negotiated Settlement Agreement approved by Order G-192-08, the 2012 Revenue Requirements will be reviewed by way of an oral public hearing. The Company expects that the regulatory process to review the 2012 Revenue Requirements will be held concurrently with the review of the Integrated System Plan (“ISP”) and Resource Plan, both identified below. Regulatory costs of the Revenue Requirements process have been included with the ISP (See Other Deferred Charges and Credits, paragraph iv).

vi. Cost of Service Analysis ("COSA") and Rate Design Application ("RDA")

On October 30, 2009, FortisBC submitted its Cost of Service Analysis and Rate Design Application. A revised COSA was submitted on May 27, 2010. The regulatory process has included responses to two rounds of information requests by the Company, and the filing of intervener evidence with subsequent associated information requests. An oral public hearing was conducted from May 3 to May 7, 2010. After the filing of written argument by Company and some interveners, the Commission held an additional oral argument phase on September 7, 2010. The deferred amount is forecast to be approximately $1.1 million ($1.5 million before tax) and FortisBC is requesting the approval to amortize the costs over a period of five years, beginning 2011.

vii. Renewal of BC Hydro Power Purchase Agreement

FortisBC's Power Purchase Agreement (PPA) with BC Hydro expires in 2013. FortisBC has been attempting to negotiate a renewal of the PPA since October 2005 and after concerted efforts determined that a negotiated solution was not achievable. Recognizing the need to gain certainty on the future availability of this key resource, on June 18, 2009 FortisBC filed an Application for a renewal of the 3808 Power Purchase Agreement with BC Hydro.

On October 27, 2009 the Commission issued a letter declining to review the Application, and directed FortisBC and BC Hydro to file a status report on the renewal of the PPA. On January 8, 2010 FortisBC and BC Hydro jointly filed a report on the status of negotiations of issues related to the renewal of the PPA, which included a reiteration of intent to continue to work towards filing an agreement for approval with the BCUC by March 2011.

The Company requests approval to defer the costs associated with the renewal of approximately $0.09 million ($0.13 million before tax) in 2010, and approximately $0.1 million ($0.2 million before tax) in 2011. Following the renewal, FortisBC will apply for disposition of the deferred amounts.

viii. Section 5 Provincial Transmission Inquiry

On May 1, 2008, the Utilities Commission Amendment Act (Bill 15, 2008) received Royal Assent resulting in certain amendments to the UCA. Included among these amendments to the UCA was the establishment of a requirement for a Commission inquiry into the Province's electricity transmission infrastructure and capacity needs for a 30-year period. In 2009, the Company received approval to defer costs associated with its participation in the Inquiry pending completion of the regulatory process, at which time disposition of the deferred amounts would be sought.

On June 3, 2010, the Clean Energy Act received Royal Assent resulting in the repeal of sections 5(4) to (9) of the UCA, and eliminating the legislated requirement for the Commission to conduct an inquiry into the Province's electricity transmission infrastructure and capacity needs for a 30-year period. On June 4, 2010, the Commission issued Order G-98-10 cancelling the Section 5 Inquiry.

Costs incurred by FortisBC for its participation in the Inquiry total $0.06 million ($0.09 million before tax). FortisBC requests approval to amortize the costs in 2011.

ix. BC Hydro Waneta Transaction Application

BC Hydro's application to acquire a one-third interest from Teck Metals Ltd. in the Waneta Dam was approved by Order G-12-10. The interests of FortisBC and its customers have in this transaction included the potential rate impact of the acquisition and access to previous winter capacity purchases from Teck. In addition, the transaction had the potential to affect a number of agreements governing various aspects of existing inter-relationships among FortisBC, BC Hydro, and Teck, including the Waneta Management Agreement under which FortisBC operates the Waneta Dam.

During the Waneta Transaction regulatory process, FortisBC and Powerex Corp. ("Powerex") reached agreements for the purchase of winter capacity blocks from Powerex through February 2016 and the sale of FortisBC surplus energy to Powerex through July 2015. FortisBC filed the capacity purchase agreement with the Commission on May 26, 2010.

The Company deferred $0.2 million ($0.3 million before tax) related to this proceeding and pursuant to Order G-162-09 requests approval of these costs over a three-year period beginning in 2011.

x. Terasen Utilities Return on Equity and Capital Structure Application

The Terasen Utilities filed an application for review of their respective ROEs and capital structures on May 15, 2009. On December 16, 2009, the Commission issued Order G-158-09, setting a ROE for Terasen Gas Inc. and eliminating the existing ROE automatic adjustment mechanism. The Commission further ordered that TGI remain the benchmark utility for setting ROE for BC utilities, including FortisBC. Deferral of FortisBC's participation costs for this proceeding was approved by Order G-162-09. The Company requests approval to amortize the costs of $0.06 million ($0.09 million before tax) in 2011.

Other Deferred Charges and Credits

i. Prepaid Pension Costs

Generally Accepted Accounting Principles ("GAAP") requires that companies recognize and accrue future liabilities associated with pension benefits provided to retirees. The Company is forecasting a $0.7 million ($0.9 million before tax) decrease to this account in 2011. These costs will be updated following an accounting valuation as of September 30, 2010.

ii. Post-Retirement Benefits

GAAP requires that companies recognize and accrue future liabilities associated with providing certain benefits to retirees. The Company includes the full accrued expense and the portion of accounting expense that is not paid out in cash is recorded in Deferred Charges and credited to Rate Base. The treatment is consistent with the accounting for Pension Benefits. The Company is forecasting a $2.0 million ($2.7 million before tax) increase to this account in 2011. These costs will be updated following an accounting valuation as of September 30, 2010.

iii. Resource Plan Update

The 2008 and 2009 Resource Plan is FortisBC's strategic plan for identifying existing power generation capability, forecasting long term customer load requirements net of Demand Side Management, and developing solutions for meeting the supply gap over the ensuing twenty year planning period. The recommended solution seeks to balance the complex issues of environment, public policy, economics and stakeholder concerns. The 2009 Resource Plan was filed with the BCUC on May 29, 2009. An updated Resource Plan will be filed and reviewed in 2011 as part of the Integrated System Plan described below.

The Company expects to incur approximately $0.7 million after tax ($1.0 million before tax) by year end 2010 for development of the Resource Plan. 2011 costs will be included in the Integrated System Plan in 2011.

The Company will apply disposition of the costs in a subsequent regulatory process.

iv. 2012 – 2030 Integrated System Plan

In 2011 FortisBC intends to file a 20-year Plan incorporating the Company's Resource Plan, DSM Plan, Transmission & Distribution, Generation, and General Plant Expenditures. It will be filed concurrently with the 2012 Revenue Requirements Application, as noted above, and is expected to be reviewed by way of an oral public hearing. FortisBC is requesting approval to defer the incremental costs of the Integrated System Plan and Revenue Requirements applications in the amount of approximately $0.6 million ($0.9 million before tax) in 2010 and additional $1.5 million ($2.0 million before tax) in 2011. This will also include the expenditure for the 2012 Revenue Requirements process.

The Company will apply for disposition of the costs following the completion of the regulatory process.

v. Revenue Protection

In accordance with Commission Order G-58-06 the Company is directed to report annually on the costs and tangible benefits of the Revenue Protection program.

Forecast expenditures for 2010 are $0.16 million after tax ($0.23 million before tax) which will yield approximately $0.4 million in present value benefits as shown below. Consistent with past treatment, the Company has deferred the expenditures and is proposing to amortize the costs in 2011.

2010 Activity	Approved Cost	Forecast Cost	Forecast Annual Savings	NPV Savings *
Power Diversion Inspections	$200,000	$200,000	$67,716	$270,370
Third Party Contracts	$30,000	$30,000	$142,165	$142,165
Total	**$230,000**	**$230,000**	**$209,881**	**$412,535**

**Discounted Savings at 8% over five years*

The primary activities undertaken in 2010 are:

Power Diversion Inspections

This is the core activity of the Revenue Protection program. The identification and correction of electrical power diversions is important for several reasons:

- Public and employee safety - Power diversions require physical changes to the electric service infrastructure that are not properly inspected. This creates a potential safety hazard for both the public and employees;
- Power purchase costs - When power is diverted, power purchase costs for all ratepayers increase. The quantifiable benefits of power diversion inspections are based solely upon power purchase savings; and
- General deterrence - Power theft investigations and the criminal charges that often accompany detection send a clear message in the service area that FortisBC is committed in its mandate to deliver electricity safely at the lowest reasonable cost to customers.

Third Party Contracts

Continued focus on the correct application of the various pole rental agreements was the core activity during 2010. Continuous improvement is sought in the timely and correct reporting of pole attachments versus variances and penalty billing discovered as a result of 5 year pole audits. Revenue Protection expenditures in 2011 are forecast to be $0.17 million after tax ($0.23 million before tax).

vi. International Financial Reporting Standards

In 2008 the Canadian Accounting Standards Board (“AcSB”) adopted a resolution to replace Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards as of January 1, 2011. The costs of conversion to IFRS are forecast to be approximately $0.1 million ($0.2 million before tax) in 2010, which is consistent with the approved amount in the 2010 NSA.

Throughout 2010, the Company has experienced challenging IFRS implementation issues that are outlined further in Appendix B, which are primarily a result of continued uncertainty in how to account for rate-regulated entities under IFRS. As a result of the uncertainty experienced, the AcSB issued a Decision Summary in September 2010 allowing Canadian entities with rate regulated activities to defer implementing IFRS for an additional one year to January 1, 2012. While this deferral postpones the adoption of IFRS it has not eliminated the costs of transitioning to IFRS. In fact, certain costs already incurred by the Company would be encountered again which would include but not be limited to actuarial fees, incremental external audit and advisory services, training and changes to existing processes. As such, the Company is requesting approval to defer additional costs of approximately $0.1 million ($0.2 million before tax) in 2011. The Company is proposing to amortize the costs in the year subsequent to the costs being incurred until fully amortized.

vii. Right-of-Way ("RoW") Encroachment Litigation

The Company is expecting to defer approximately $0.09 million ($0.12 million before tax) of legal costs incurred by the end of 2010 associated with an ongoing litigation matter with a land developer in relation to certain encroachments made by the developer on one of the Company's statutory right of ways in Kelowna, British Columbia. Upon resolution of the dispute, any recovered cost will be recorded to the deferral account and the residual will be amortized into the Company's rates as agreed to in the 2009 NSA.

viii. Harmonized Sales Tax (HST) Project

On July 23, 2009, the Government of Canada and the Province of British Columbia announced a proposal to harmonize the PST of 7 percent with the GST of 5 percent to create an HST with a combined rate of 12 percent effective July 1, 2010. All legislation related to the implementation of HST has been enacted as of April 29th, 2010. Further details on the Company's implementation of HST are included in Section 3.3.3 of Tab 3.

The implementation of the HST meets the definition of a "Z" factor under the PBR mechanism. The Company is requesting approval to defer the costs of approximately $0.18 million ($0.25 million before tax) in 2010 associated with the implementation of HST including information system changes, training and tax service consulting costs.

The Company is proposing to fully amortize these costs in 2011.

ix. 2011 Capital Expenditure Plan (2011 CEP)

FortisBC has filed its 2011 Capital Plan on June 18, 2010 has incurred costs of $0.2 million in the process. These costs were investigative in nature and have been transferred out to be treated as "Investigative Spending" in 2010. These costs will be fully amortized to Capital Expenditure in 2011.

x. Demand Side Management Study

In December 2008 the Company filed the Strategic DSM Report which outlined the objectives to be addressed in the next DSM business plan.

Those objectives were fulfilled for the most part in the 2011 DSM Plan in the 2011 CEP filing.

In its 2009 Revenue Requirements Application, the Company applied for and received approval for expenditures of approximately $0.07 million ($0.1 million before tax), which were used primarily to complete the Residential and Commercial End-Use Surveys (R/CEUS). The balance was allocated to initiate a Conservation and Demand Potential Review (CDPR), and the Company applied for and received approval for an additional $0.1 million ($0.2 million before tax) in 2010 to complete that work.

Both works (R/CEUS and CDPR) were utilized as the foundation reports on which the 2011 DSM Plan, as incorporated in the 2011 CEP Application filing, and the 2012 DSM Plan, as will be incorporated into the 2012 Integrated System Plan (2012 ISP) are built.

FortisBC is hereby requesting approval for the disposition of the total DSM Study deferred costs, which totaled $0.2 million ($0.3 million before tax) over a period of five years beginning in 2011.

xi. Section 71 Filing (Waneta)

FortisBC filed an application pursuant to Section 71 of the Utilities Commission Act for approval of a Capacity Purchase Agreement with Waneta Expansion Power Corporation in connection with the Waneta Expansion project. The Company expects to incur approximately $0.3 million after tax ($0.4 million before tax) in legal, consulting, regulatory and other costs, and is requesting approval to amortize the costs over a five year period, beginning in 2011.

xii. Pope & Talbot Litigation

The trustee (the “US Trustee”) for the bankrupt estate of Pope & Talbot Inc. and various of its subsidiaries (collectively, “Pope & Talbot”), is seeking recovery of money paid to FortisBC by Pope & Talbot in the 90 days before Pope & Talbot filed for bankruptcy in Delaware. The claim is for wrongful preference. The total amount of the claim is approximately $800,000. The complaint is one of approximately 275 filed against Pope & Talbot Canadian creditors in the US Bankruptcy Court, Delaware.

The US Trustee and many of the defendant Canadian Pope & Talbot creditors (the "Canadian Defendants"), including FortisBC, have now reached a settlement whereby the US Trustee releases the Canadian Defendants from any claims made against the Canadian Defendants in the US proceedings and terminates such US proceedings, the Canadian Defendants release any claims the Canadian Defendants have against the US Trustee or the US estate of Pope & Talbot in the US insolvency proceedings and each release the other from any claims for costs in the British Columbia Pope & Talbot insolvency proceedings. The Delaware court has approved the settlement and termination of the US proceedings. The British Columbia court is not required to approve the settlement but has adjourned all matters generally. All that remains is for counsel for the US Trustee to obtain the signatures of all of the Canadian Defendants who have agreed to settle on the mutual release and the settlement can be finalized. Even if an issue arose with respect to some of the Canadian Defendants, it is probable that the settlement vis-à-vis FortisBC would go ahead.

FortisBC anticipates that the settlement will go ahead and that the US Trustee will withdraw its complaint against FortisBC and release FortisBC from such claims as well as for any claims for costs in the British Columbia Pope & Talbot insolvency proceedings in exchange for FortisBC releasing any claims it has against the US Trustee or the US estate of Pope & Talbot in the US insolvency proceedings as well as any claims for costs in relation to the B.C. proceedings.

Therefore FortisBC does not anticipate expenditures for 2011 but the Company does anticipate possible further expenditures in 2010 for legal fees incurred in finalizing settlement and release to be provided by the

Trustee in favour of FortisBC of approximately $0.03 million ($0.04 million before tax).

FortisBC is hereby requesting approval for the disposition of the total deferred costs in 2011.

xiii. Mandatory Reliability Standards Project

FortisBC is incurring setup costs in addition to capital and ongoing operating costs to become and remain compliant with the newly adopted Mandatory Reliability Standards. These set up costs are being expensed as deferred costs and are presently estimated at approximately $0.6 million ($0.8 million before tax) by the end of 2010 and approximately an additional $0.1 million ($0.2 million before tax) in 2011.

The Company is requesting approval to defer these expenditures and will apply for disposition of the costs in a subsequent regulatory process.

xiv. Advanced Metering Infrastructure ("AMI")

As directed by the Commission in Order G-168-08, the costs of the AMI program development have been held in a non rate base deferral account in 2010. The Tax component however, has been eliminated since the project is of "Investigative Spending" and such deferred expenses are not tax effected (please refer to Section 3.7.2 above).

Pursuant to the terms of the NSA 2010, FortisBC agreed to record the AMI development costs in a non rate base deferral account in 2010 only. Hence, the AMI development costs, forecast to be $1.6 million by the end of 2011, have been transferred to "Deferred Investigative Spending" in rate base in 2011.

Deferred Debt Issue Costs

i. Medium Term Note Debenture

On May 7, 2009, the Commission issued Order G-51-09 allowing FortisBC to issue, from time to time over a period to June 11, 2011, up to $300 million of Medium Term Note (MTN) Debentures, according to the provisions of a Shelf Prospectus. Pursuant to the same, the Company expects to issue $110 million in senior unsecured MTN debentures in the last quarter of 2010 in order to finance the Company's capital expenditure program. The 2010 NSA G-162-09 approved the deferral of the debt issue costs that are now estimated at $0.778 million after tax ($0.825 million before tax). FortisBC requests approval to amortize the costs over the term of the debt issue.

3.8 Non Rate Base Deferred Accounts

As outlined in Schedule 1A in Tab 4 and Appendix B to this application, the Company requests continued acknowledgement and approval by the Commission of certain non rate base deferral accounts in order to permit comparative external financial reporting for IFRS, as explained further in Appendix B. As these deferral accounts are excluded from rate base, they do not have an impact on customer rates for 2010 or 2011.

In addition to deferrals requested under Canadian GAAP, deferrals arising as a result of IFRS differences have been requested for 2011. FortisBC believes it is critical that IFRS be adopted for regulatory as well as external financial reporting purposes. However, in 2011 the Company is operating under the final year of its PBR term which prescribed the accounting for a number of items. FortisBC is proposing a number of regulatory deferral accounts to capture the differences between GAAP and IFRS for 2011, the year of transition. In the absence of a PBR agreement, the Company would propose adoption of IFRS for regulatory purposes in 2011 to the extent possible. Further details have been included in Appendix B to this application.

3.9 Contingent Liabilities

The Province has alleged breaches of the Forest Practices Code and negligence relating to a forest fire near Vaseux Lake and has filed and served a Writ and Statement of Claim against FortisBC. In addition, private land owners have filed a separate Writ and Statement of Claim in relation to the same matter. FortisBC is communicating with its insurers and has filed a Statement of Defence in relation to both of the actions. The Province has suggested mediation of this dispute. Mediation is likely to be scheduled in late Fall 2010. The outcome cannot be reasonably determined and estimated at this time. Accordingly no amount has been accrued in the financial statements. Costs to date have been covered under insurance provisions for the Company. The Company received approval in its 2009 Revenue Requirements to defer future costs not covered under the Company's insurance coverage. Disposal of those amounts would be the subject of a subsequent regulatory application.