



Diane Roy
Director, Regulatory Affairs - Gas
FortisBC Energy Inc.

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

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

April 7, 2011

British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: The Fortis BC Utilities

Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012

Response to the British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1

On February 9, 2011, the Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities [including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc.¹]), filed the Application as referenced above.

In accordance with Commission Order No. G-25-11 setting out the Regulatory Timetable for the review of the Application, the Fortis BC Utilities respectfully submit the attached response to BCUC IR No. 1.

If you have any questions or require further information related to this Application, please do not hesitate to contact Roger Dall'Antonia at (604) 443-6570 or by email to roger.dall'antonia@fortisbc.com.

Yours very truly,

on behalf of the FORTIS BC UTILITIES

Original signed:

Diane Roy

Attachment

cc (e-mail only): Registered Parties

¹ Formerly Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc. respectively



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities (“FEU”) including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. (“TGI”), Terasen Gas Vancouver Island Inc. (“TGI”) and Terasen Gas (Whistler) Inc. (“TGW”) respectively) Application to Adopt US Generally Accepted Accounting Principles (“US GAAP”) effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission (“BCUC” or the “Commission”) Information Request (“IR”) No. 1	Page 1

1.0 Reference: Approval for US GAAP

Exhibit B- 1, Section 2, p.4

1.1 *“In the first quarter of 2011, the FBU’s Board of Directors is expected to approve the adoption of US GAAP.”*

1.1.1 Please confirm that the board of directors has not approved FBU’s plans to adopt US GAAP before making this Application to the Commission.

Response:

At the time this Application was filed with the Commission, FBU’s Audit Committee and Board of Directors had approved the annual financial statements which had disclosure on the planned conversion from CDN GAAP to US GAAP. The Board of Directors approved a resolution allowing for the necessary actions to adopt US GAAP at its February 17, 2011 meeting.

1.1.2 Please explain why this Application was made to the Commission before Director Approval was given.

Response:

Due to the timing of scheduled board meetings the Application was filed just prior to the formal approval to move forward by the Board. Please see the response to BCUC IR 1.1.1.1.

1.1.3 Doesn’t FBU require Board Approval to make such a significant change to accounting standards?

Response:

Yes, FBU does require Board approval to adopt US GAAP, and such approval has been granted, however, it should be noted that such approval is not required to make a regulatory application to the Commission. Please see the response to BCUC IR 1.1.1.1.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities (“FEU”) including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. (“TGI”), Terasen Gas Vancouver Island Inc. (“TGI”) and Terasen Gas (Whistler) Inc. (“TGW”) respectively) Application to Adopt US Generally Accepted Accounting Principles (“US GAAP”) effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission (“BCUC” or the “Commission”) Information Request (“IR”) No. 1	Page 2

1.1.4 Please clarify if this approval will be for financial reporting purposes, regulatory reporting purposes or both?

Response:

The Board of Directors has approved the plan to proceed with the adoption of US GAAP for both financial and regulatory reporting purposes.

1.1.5 If the Commission does not approve the usage of US GAAP for regulatory reporting, does FBU intend to continue with the US GAAP adoption anyway?

Response:

If the Commission does not approve the usage of US GAAP for regulatory reporting, FBU intends to adopt US GAAP for external financial reporting purposes, as well as for providing financial information to the parent company.

1.1.6 Please provide FBU senior managements’ level of knowledge and experience using US GAAP to allow this group to review, understand and operate the Companies using US GAAP financial information.

Response:

Certain members of FBU’s senior management have significant experience and knowledge of CDN GAAP which has more similarities to US GAAP when compared to IFRS, particularly in the area of rate regulated accounting where the accounting standards are very similar. Certain of the FBU senior management will receive updated training on the differences between existing CDN GAAP and US GAAP. In addition, certain of the senior management from FEI have experience with financial reporting under US GAAP during the period of time when it was under ownership of a US entity.

1.1.7 Please provide FBU boards of directors’ level of knowledge and experience in using US GAAP to allow this group to review, understand and govern the Companies using the US GAAP financial information.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 3

Response:

The FBU Audit Committee is made up of individuals with strong financial acumen, particularly in the area of rate regulated activities. As part of the conversion to US GAAP, the Board of Directors, in particular the Audit Committee members, will receive updates and information where necessary and appropriate, similar to what they would have received under IFRS.

1.2 *"In the fourth quarter of 2010, due primarily to the continued uncertainty around the timing and eventual adoption of an RRA standard under IFRS, management of the Fortis BC Utilities and their parent company Fortis Inc. began reviewing the option of adopting US GAAP instead of IFRS. Fortis Inc. management has decided to proceed with adopting US GAAP for financial reporting and securities filing purposes. This decision means that the Fortis Inc. subsidiaries, including the Fortis BC Utilities, will also be required to prepare financial information in compliance with US GAAP."*

1.2.1 Please explain who decides what accounting policies FBU will apply- FBU's boards of directors or Fortis Inc.?

Response:

FBU makes a distinction between "accounting policies" and "accounting principles." While "accounting principles" refer to a set of accounting standards such as US GAAP, IFRS and CDN GAAP, "accounting policies" mean specific policies within the set of governing accounting principles, such as the requirement to capitalize or expense a specific item.

FBU management has the responsibility for the preparation of financial information and statements and determines the policies and principles which are approved by the FBU Audit Committee, and, when appropriate, the Board of Directors. As a subsidiary entity, FBU shareholder Fortis Inc. reviews and agrees on policies and principles. As Fortis Inc. has a number of subsidiary entities, it will recommend accounting principles and policies for consistency and comparability across its operating entities.

1.2.2 Please confirm that FBU is not bound by any regulatory requirement or law to report financial data under the same accounting principles as Fortis Inc. If it is, please cite the specific law requiring consistency of accounting principles amongst Fortis Inc. and FBU.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 4

Response:

The Fortis BC Utilities are not bound by any regulatory requirement or law to report financial data under the same accounting principles as Fortis Inc. Presently, both the FBU and Fortis Inc. report financial data under consistent accounting principles, CDN GAAP, which permits rate regulated accounting. Consistent accounting principles applied for both FBU and Fortis Inc. will permit transparency to external financial reporting to all stakeholders.

Fortis Inc. is the source of equity for the Fortis BC Utilities. The financial reporting by FBU to Fortis Inc. is related to the cost of capital, and Fortis Inc. requires appropriate financial information to report to and access the capital markets, just as the Fortis BC Utilities use similar financial information to access debt. Adopting an accounting standard that recognizes and permits rate regulated accounting best reflects the underlying fundamentals of all companies within the Fortis BC Utilities. The only accounting standard that will allow for recognition of rate regulated assets starting in 2012 is US GAAP.

- 1.2.3 Please confirm that if FBU was to report in an accounting standard that was different than Fortis Inc, FBU would be required to perform an accounting principles conversion of the financial information of FBU before consolidating these amounts into the records of Fortis Inc. Please provide an estimate of the approximate cost of this exercise assuming that FBU reports under IFRS.

Response:

Confirmed. However, in light of receiving Board of Director approval, both FBU and Fortis Inc. are planning on adopting US GAAP for external financial reporting purposes. Starting in 2012, the only other accounting standard option available for FortisBC Energy Inc., FortisBC Energy (Vancouver Island Inc.), FortisBC Energy (Whistler) Inc., (formerly the Terasen Utilities) and FortisBC Inc. other than US GAAP is IFRS. In such a scenario where the FBU were to report under IFRS for external financial reporting purposes and then to reconcile back to US GAAP for reporting to Fortis Inc, the cost of this specific exercise would be included as a portion of the full time equivalent staffing amount of approximately \$0.1 million for each of the gas and electric side of the business. Other non-quantifiable costs would be incurred if such a reconciliation is performed because the FBU would no longer be recognizing rate regulated accounting and there would be a lack of transparency to users of the FBU's external financial statements.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 5

1.2.4 Is it management's belief that the ratepayers of FBU should incur costs of Fortis Inc. for financial reporting purposes?

Response:

Yes, it is management's belief that the ratepayers of FBU should contribute towards the cost of financial reporting of Fortis Inc. Currently, the cost of financial reporting of Fortis Inc. is included in the allocation of corporate costs from Fortis Inc to FBU. Adoption of US GAAP should not change this practice.

The financial reporting function is one of a number of costs incurred by Fortis Inc. to provide equity to all of the subsidiaries of Fortis Inc., including FBU. Fortis Inc. requires appropriate financial information in order to report to and access the capital markets, which is no different than what is required for the FBU to access debt. Starting in 2012, US GAAP is the only accounting standard that will allow for the recognition of rate regulated assets and liabilities. Fortis Inc., the source of FBU equity, is moving to US GAAP to support the continued recognition of rate regulated assets and liabilities which exist at the subsidiary company level.

1.2.5 Please explain why FBU believes that ratepayers should fully pay for any costs associated with either Fortis BC Inc. or TGI to be a publicly traded, reporting issuer?

Response:

To clarify, neither FortisBC nor FortisBC Energy is publicly traded. Both entities have publicly issued debt and are reporting issuers, but are wholly-owned, privately held subsidiaries of Fortis Inc.

The Commission has previously approved the issuance of debt by way of public issuance, which requires both FortisBC and FEI to be reporting issuers. The costs associated with being a reporting issuer such as annual filing fees are approved for recovery in rates. Access to the public debt markets as a reporting issuer has lowered the cost of debt to FortisBC Inc. and FEI customers. Debt that is publicly issued is more widely held and therefore more liquid and typically has a lower cost than if issued privately. So while there is a cost to maintaining each company as a reporting issuer, the overall benefit to customers is a lower cost of debt.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGV") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 6

1.2.6 How do FBU ratepayers benefit from either Fortis BC Inc. or TGI being reporting issuers in Canada?

Response:

FBU's ratepayers benefit from a lower cost of debt by way of being Canadian reporting issuers, as further described in the response to BCUC IR 1.1.2.5.

1.2.7 Would it be possible for either TGI or Fortis BC Inc. to deregister from Canadian securities exchanges?

Response:

We note that no securities of FEI (formerly TGI) or FortisBC Inc. are currently listed on any Canadian securities exchanges. However, with the exception of the debt securities issued by FortisBC Inc. pursuant to the trust indenture dated March 15, 1983, all of the debt securities issued by FEI and FortisBC Inc. have been publicly issued by way of a prospectus, and both Companies are "reporting issuers" in Canadian jurisdictions and subject to the continuous disclosure and other obligations applicable to reporting issuers (the equivalent of "registration" in the United States). The terms "registration" and "deregistration" are not used in Canada to describe a company's relationship with the Canadian securities regulators. FEI and FortisBC Inc. would require a discretionary exemption order from the Canadian securities regulators in order to be relieved of their obligations as "reporting issuers", which would generally require that their existing debt be redeemed or refinanced, which, as outlined in the response to BCUC IR 1.1.2.9, is prohibitively uneconomic.

1.2.8 Have TGI or Fortis BC Inc. ever considered such a deregistration from Canadian securities exchanges?

Response:

Neither FEI (formerly TGI) or FortisBC Inc. have considered redeeming or refinancing their existing debt securities such that they would not be 'reporting issuers' and subject to reporting requirements under the Canadian securities legislation.

Please also see the response to BCUC IR 1.1.2.7 and 1.1.2.9.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities (“FEU”) including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. (“TGI”), Terasen Gas Vancouver Island Inc. (“TGI”) and Terasen Gas (Whistler) Inc. (“TGW”) respectively) Application to Adopt US Generally Accepted Accounting Principles (“US GAAP”) effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission (“BCUC” or the “Commission”) Information Request (“IR”) No. 1	Page 7

1.2.9 What would be the costs and implications for TGI and Fortis BC Inc. to become privately held subsidiaries of Fortis Inc.?

Response:

It is the FBU assumption that this IR is referring to what the costs and implications would be for the debt of FortisBC and FortisBC Energy Inc. to be privately placed with institutional investors, as opposed to issued publicly. To clarify, both FEI and FortisBC are already wholly-owned, privately held subsidiaries of Fortis Inc.

Most of FortisBC Inc.’s and FortisBC Energy Inc.’s debt could be re-purchased and then re-issued, but this would be prohibitively uneconomic. The re-purchase would occur under redemption provisions of the trust indentures. These provisions would require payment of significant redemption premiums. The debt that would be re-issued privately, given the size of the re-financing and the limited number of holders who may potentially buy the new private debt, would attract a liquidity premium of approximately 10 – 15 basis points higher than the current issuance credit spread, based on discussions with Fortis BC Utilities investment dealers. As there is approximately \$2 billion of debt, the cost would be significant, and would be borne by ratepayers, thus pushing up the cost of service of both FEI and FBC.

1.2.10 If such a deregistration occurred, could Fortis BC Inc. and TGI prepare their financial statements in accordance with US GAAP without SEC registration?

Response:

Hypothetically, if TGI and FortisBC Inc. redeemed or refinanced their existing debt securities and successfully applied to the Canadian securities regulators to cease to be ‘reporting issuers’ under Canadian securities legislation, the external financial statements of those two companies could be prepared in accordance with US GAAP without SEC registration.

However, as stated in responses to BCUC IRs 1.1.2.7 and 1.1.2.8, the Companies have no intention to redeem or refinance their existing indebtedness as it is not practical or economic. .



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 8

1.3 *"The only set of accounting standards that currently exist that would allow for regulatory assets and liabilities to continue to be recognized is US GAAP; therefore, US GAAP is the reasonable and prudent accounting standard for the Companies to report under."*

1.3.1 Please confirm that this comment is made in reference to Financial Reporting.

Response:

Confirmed.

1.3.2 For regulatory purposes, could the Commission direct FBU to apply IFRS with one modification to allow for deferral accounts as permitted under US GAAP?

Response:

Yes, the Commission could direct FBU to apply IFRS for regulatory purposes, but this would not result in simplifying the FBU's reporting requirements. There would still be the requirement to maintain IFRS reconciliations and a separate set of books for regulatory purposes, as well as report under US GAAP to the parent company and for external financial reporting purposes.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities (“FEU”) including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. (“TGI”), Terasen Gas Vancouver Island Inc. (“TGI”) and Terasen Gas (Whistler) Inc. (“TGW”) respectively) Application to Adopt US Generally Accepted Accounting Principles (“US GAAP”) effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission (“BCUC” or the “Commission”) Information Request (“IR”) No. 1	Page 9

2.0 Reference: US GAAP differences

Exhibit B-1, Section 3, pp.5-7

2.1 *“Second, because US GAAP is similar to the present form of Canadian GAAP, which is currently used for regulatory purposes, transitioning to US GAAP is expected to have minimal impact on the accounting determination of rate base, cost of service or revenue requirements. The adoption of US GAAP is expected to result in fewer differences in financial reporting and regulatory reporting than would have been experienced with the adoption of IFRS.”*

“While the Terasen Utilities have not yet finished assessing all differences under US GAAP, the above lists of IFRS-related changes are expected to also be allowed under US GAAP.”

2.1.1 Has an evaluation been completed to support the first comment given the second comment? If so, please explain what level of analysis of the differences has been completed and provide the detailed results of this analysis to come to such a conclusion.

Response:

A preliminary evaluation has been completed to support the first comment referenced above. Based on the analysis completed at the time of answering this IR, the primary difference between US GAAP and CDN GAAP for the FBU for regulatory purposes relates to the determination of the net benefit cost, assets and liabilities for employee future benefits. Since US GAAP permits the recognition of regulatory assets and liabilities, it is expected that the US GAAP and CDN GAAP differences relating to employee future benefits will be accumulated in deferral accounts for regulatory purposes to minimize the impacts to regulatory reporting. There are a number of other adjustments that would also impact the external financial reporting but are not reflected in the regulatory accountings. These adjustments might include the application of pushdown accounting, amongst others.

The second comment refers to the accounting changes that the FortisBC Energy Utilities (formerly the Terasen Utilities) adopted on page 7 of the Application, under Section 3.2.2 “IFRS versus Current Regulatory Treatment”. These IFRS-related changes primarily relate to changes in PP&E and depreciation. IFRS does have a more specific requirement to adopt these accounting policies under IAS 16 and, more importantly, does not provide any accommodation of differing accounting policies that may arise as a result of rate-regulated accounting. These IFRS accounting policies were the result of a detailed analysis of IAS 16 and certain of these IFRS policies were discussed in documentation in Section 4 and 5 of Appendix B to the Application: *International Financial Reporting Standards: A Summary of Anticipated Impacts of Transition to IFRS on Rate Regulated Utilities in British Columbia*. US GAAP generally does not



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 10

prohibit these accounting policies specifically listed in Section 3.2.2, but US GAAP does permit such accounting policies to be adopted if approved by the regulator and consistent with the requirements under FASB's ASC 980 Regulated Operations. Also, under ASC 980, certain policies that are prescribed by the company's regulator could be implemented.

- 2.1.2 For each of the last annual audited financial statements of the Companies within FBU, provide a summary of each identified US–Canadian GAAP difference and provide a range of possible adjustments to the nearest \$100,000.

Response:

The FBU are still in the process of assessing the differences between CDN GAAP and US GAAP and are not in a position to detail the adjustment based on the 2010 annual financial statements. The adjustments identified to date that would potentially affect cost of service include an adjustment to the pension liabilities and expense for the FBU. A number of adjustments have been identified that would only affect non-regulated items including the application of pushdown accounting, adjustments to how lease-in, lease-out transactions are accounted for and the recognition and measurement of assets and liabilities associated with the Brilliant Power Purchase Agreement on the balance sheet.

- 2.1.3 Please explain when a final determination of all possible differences will be known to FBU.

Response:

A determination of the more significant differences began in the first quarter of 2011, with an expected final determination of their impacts by the end of the second quarter of 2011.

- 2.2 *"This transparency is achieved by harmonizing the results presented to the Commission and customer representatives with the results presented to shareholders and investors. This harmonization will achieve a better balance of the interests of all stakeholders. Adoption of IFRS without the recognition of the*



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities (“FEU”) including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. (“TGI”), Terasen Gas Vancouver Island Inc. (“TGI”) and Terasen Gas (Whistler) Inc. (“TGW”) respectively) Application to Adopt US Generally Accepted Accounting Principles (“US GAAP”) effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission (“BCUC” or the “Commission”) Information Request (“IR”) No. 1	Page 11

effects of RRA will have a negative effect on regulatory transparency and will create a disconnect between the underlying regulatory model and the Companies’ financial reporting, which, in turn, would create confusion for regulatory stakeholders as well as a significant administrative burden to reconcile between financial and regulatory reporting. Stakeholders will have a clearer view of the link between the Companies’ audited financial reporting and regulatory reporting if US GAAP is adopted for regulatory purposes.”

2.2.1 Please explain if management believes transparency is more important than comparability?

Response:

Management believes that both transparency and comparability are important concepts for both rate-setting and external financial reporting purposes. The adoption of US GAAP for regulatory purposes beginning in 2012 will enhance both transparency and comparability between regulatory and external financial reporting. Using US GAAP is transparent as it is the only set of accounting standards that recognizes the effects of rate regulation. Additionally, the adoption of US GAAP for regulatory purposes in 2012 will permit increased comparability to the Fortis BC Utilities’ prior years’ regulatory reporting and financial reporting than if IFRS were to be adopted for regulatory reporting beginning in 2012.

2.2.2 What does US GAAP say about the importance of transparency and comparability?

Response:

US GAAP Financial Statement Concepts are included as part of Statement of Financial Accounting Concepts No. 2 *Qualitative Characteristics of Accounting Information* (“SFAC 2”).

Page 6 of SFAC 2 discusses the concept of “Comparability” as follows:

“Information about a particular enterprise gains greatly in usefulness if it can be compared with similar information about other enterprises and with similar information about the same enterprise for some other period or some other point in time. Comparability between enterprises and consistency in the application of methods over time increases the informational value of comparisons of relative economic opportunities or performance. The significance of information, especially quantitative information, depends to a great extent on the user’s ability to relate it to some benchmark.”



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities (“FEU”) including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. (“TGI”), Terasen Gas Vancouver Island Inc. (“TGI”) and Terasen Gas (Whistler) Inc. (“TGW”) respectively) Application to Adopt US Generally Accepted Accounting Principles (“US GAAP”) effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission (“BCUC” or the “Commission”) Information Request (“IR”) No. 1	Page 12

Transparency of financial information in the context of reporting for regulatory and external financial purposes means that the information made available to internal and external users allows them to make informed decisions about an entity. Consistent generally accepted accounting principles used for both regulatory and external financial reporting purposes will achieve the concept of transparency.

The key financial statement concept that supports transparency under US GAAP is Relevance, which is discussed on page 6 of SFAC 2 under US GAAP as follows:

“Relevant accounting information is capable of making a difference in a decision by helping users to form predictions about the outcomes of past, present, and future events or to confirm or correct prior expectations. Information can make a difference to decisions by improving decision makers’ capacities to predict or by providing feedback on earlier expectations. Usually, information does both at once, because knowledge about the outcomes of actions already taken will generally improve decision makers’ abilities to predict the results of similar future actions. Without a knowledge of the past, the basis for a prediction will usually be lacking. Without an interest in the future, knowledge of the past is sterile.”

2.2.3 Does FBU know of any other utilities in BC will be adopting US GAAP?
Please provide a list of all other BC utilities planning to adopt US GAAP?

Response:

In the Province of BC, there are relatively few publicly accountable utilities. Together, the Fortis BC Utilities deliver more energy than any other utility in BC – approximately 21 per cent of the Province’s total energy consumption. The other two publicly accountable utilities in the Province are British Columbia Hydro and Power Authority (“BC Hydro”) and Pacific Northern Gas Ltd. (“PNG”), neither of which is expected to adopt US GAAP.

Of the two other publicly accountable utilities, the only other major utility (BC Hydro) is a crown corporation and cannot be directly compared to the Fortis BC Utilities for that reason. In its F2012 to F2014 Revenue Requirements Application, BC Hydro includes the following under Section 8.14:

“Under section 23.1 of the Budget Transparency and Accountability Act, BC Hydro is obliged to follow CGAAP, except as may be modified by regulation issued by Treasury Board. CGAAP has incorporated IFRS, and requires all subject entities, except rate-regulated entities, to begin applying IFRS in their fiscal years commencing in 2011. With respect to rate-regulated entities, including BC Hydro, CGAAP allows them to elect to



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 13

defer the application of IFRS to the start of their fiscal years commencing in 2012. BC Hydro has made that election, and thus is not required to apply IFRS until F2013. However, BC Hydro has been advised by Treasury Board that effective April 1, 2012, it will require, by regulation, BC Hydro to adopt IFRS and to apply the United States Financial Accounting Standards Board Accounting Standards Codification 980 (ASC 980). ASC 980 provides for the use of regulatory accounting where directed by a rate-regulated utility's rate regulator. The information presented in this application, and the regulatory accounting proposals, including existing regulatory accounts, assumes that: (i) the obligation to follow CGAAP, including the application of IFRS commencing F2013, will continue through the test period, and (ii) that a Treasury Board regulation that directs BC Hydro to modify CGAAP through the application of ASC 980 will be issued sometime in F2012, effective F2013.

While IFRS is not applicable to BC Hydro until F2013, BC Hydro has chosen to reflect some IFRS accounting rules in the F2012 revenue requirement to avoid having to restate F2012 financial statements for the purpose of IFRS adoption in F2013. The IFRS accounting rules that are reflected in the F2012 revenue requirement relate to cost capitalization, including the application of IDC and overhead capitalization. One of the proposed regulatory accounts would largely defer the impact of this early adoption of IFRS accounting rules to future periods."

Therefore, the policies being implemented by BC Hydro are a hybrid approach between IFRS and US GAAP.

In its 2011 Revenue Requirements Application, PNG has stated that it will be implementing IFRS with an effective conversion date of January 1, 2012 with 2011 comparatives. PNG will continue to maintain deferral accounts for regulatory purposes only.

In summary, BC Hydro will continue to employ accounting policies as mandated by the Treasury Board; PNG will follow IFRS since adopting US GAAP would be impracticable for a utility of its size. The Fortis BC Utilities will adopt US GAAP.

- 2.2.4 Does FBU have confirmation that other Canadian Utilities, other than the Fortis related entities, will be adopting US GAAP. If so, please list those Utilities and note if that entity has any operations or fundraising interests in the US.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities (“FEU”) including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. (“TGI”), Terasen Gas Vancouver Island Inc. (“TGI”) and Terasen Gas (Whistler) Inc. (“TGW”) respectively) Application to Adopt US Generally Accepted Accounting Principles (“US GAAP”) effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission (“BCUC” or the “Commission”) Information Request (“IR”) No. 1	Page 14

Response:

Based on FBU’s understanding and research, several Canadian utilities, other than the Fortis related entities, have made the decision to adopt US GAAP in 2011 or 2012, and others are still considering the US GAAP option.

The FBU have prepared a summary, provided in Attachment 2.2.4, based on information disclosed in publicly available documents of the respective companies, such as their financial statements, management discussion and analysis (“MD&A”) and annual information form (“AIF”). Attachment 2.2.4 may not represent an all-inclusive list, but does include those Canadian utilities that the FBU are currently aware of that are adopting US GAAP as opposed to IFRS, or that are considering the adoption of US GAAP effective January 1, 2012.

As indicated in Attachment 2.2.4, Canadian utilities (and utility parent companies), other than the Fortis related entities (which include Fortis Inc., the FortisBC Utilities, FortisAlberta Inc. and Newfoundland Power Inc.), that are planning to adopt US GAAP in either 2011 or 2012 include:

- Emera Inc.
- Nova Scotia Power Inc.
- TransCanada Corporation
- TransCanada Pipelines Limited
- Algonquin Power and Utilities Corporation
- Union Gas
- Westcoast Energy Inc.

Other Canadian utilities that are still assessing their options for 2012, including the possible adoption of US GAAP, include:

- AltaGas Ltd.
- Enbridge Inc.
- Enbridge Gas Distribution Inc.¹
- Enbridge Pipelines Inc.¹
- Nova Gas Transmission Limited

Attachment 2.2.4 provides summary information with respect to the operations and fundraising activities of each of these utilities. While the parent companies included in Attachment 2.2.4,

¹ On February 25, 2011, Enbridge Gas Distribution Inc. and Enbridge Pipelines Inc received exemptive relief from the requirements in subsection 3.2 of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards (NI 52-107)* that financial statements be prepared in accordance with Canadian GAAP – Part. The exemptive relief permits them to prepare their financial statements in accordance with US GAAP for fiscal years ending on or before December 31, 2014.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 15

such as Enbridge Inc. and TransCanada Corporation, may have operations and fundraising activities in the United States, the stand-alone, rate-regulated entities or subsidiaries listed in Attachment 2.2.4 operate within Canada and only access Canadian markets to raise the capital necessary to provide regulated services.

2.2.5 To management's best knowledge, does Fortis Inc. have any shares, debt or operations in the US such as owning non-regulated hydroelectric generation assets in New York State?

Response:

The Common Shares; First Preference Shares, Series C; First Preference Shares, Series E; First Preference Shares, Series F; First Preference Shares, Series G; and First Preference Shares, Series H of Fortis Inc. are listed on the Toronto Stock Exchange under the symbols FTS, FTS.PR.C, FTS.PR.E, FTS.PR.F, FTS.PR.G and FTS.PR.H, respectively.

Fortis Inc.'s outstanding debt securities include some Senior Notes and Convertible Debentures that are denominated in US dollars. However, these securities were not issued in public US debt markets.

FortisUS Energy, an indirect wholly owned subsidiary of Fortis Inc., owns and operates four hydroelectric generating facilities in Upper New York State with a combined capacity of approximately 23 MW operating under licences from the United States Federal Energy Regulatory Commission. These are the only assets located in the United States that are owned by Fortis Inc., directly or indirectly.

2.2.6 Please explain if a top level adjustment could be made to reconcile IFRS financial statements without deferral accounts to IFRS statements with deferral accounts?

Response:

It is the FortisBC Utilities' understanding that the reference to a "top level adjustment" would be a summary of adjustments to reconcile between two sets of financial information at a level of detail that is consistent with the amounts presented in the balance sheet and income statement accounts.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 16

While it would be possible to make top level adjustment to reconcile between IFRS financial statements and IFRS statements with deferral accounting, this reconciliation would become very complex over the course of a very few years. The number of adjustments would be expected to grow exponentially over a very few years. This is because many of the adjustments relating to derecognizing deferral accounts under IFRS are accumulated each year in retained earnings. Profit and loss or retained earnings adjustments are more complex to reconcile than balance sheet only adjustments. Each year, there will be an increased volume of adjustments from prior years that has accumulated in retained earnings.

Over the long term, the suggested reconciliation would not be practical for the FBU as the FBU is intending to adopt US GAAP for financial reporting purposes as this is the only set of accounting principles that permits the use of rate regulated accounting and the recognition of deferral accounts.

- 2.2.7 Please confirm if, in the past, regulatory financial reports such as the income statement or balance sheet were NOT identical to financial reported materials available on Sedar for either TGI or Fortis BC Inc.

Response:

In prior years, regulatory financial reports were not identical to external financial reported material made available on SEDAR for either FortisBC Energy Inc. or FortisBC Inc. The differences between regulatory financial reports and external financial reports filed on SEDAR are reconciled each year in the appendices included in the Annual Reports to the BCUC.

- 2.2.8 Please construct a table for each entity that lists by description and amount all differences in regulatory and financial reporting in the last fiscal year for each of the FBU companies.

Response:

Please refer to the response to BCUC IR 1.5.1.2.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities (“FEU”) including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. (“TGI”), Terasen Gas Vancouver Island Inc. (“TGI”) and Terasen Gas (Whistler) Inc. (“TGW”) respectively) Application to Adopt US Generally Accepted Accounting Principles (“US GAAP”) effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission (“BCUC” or the “Commission”) Information Request (“IR”) No. 1	Page 17

2.2.9 Describe what complications these variances caused for transparency purposes and what steps were taken by TGI or Fortis BC Inc. to mitigate these complications.

Response:

As stated in the referenced statement, the complication resulting from using different accounting standards for regulatory purposes and financial reporting purposes includes confusion for regulatory stakeholders. Such confusion has been mitigated through effective communication, thereby maintaining transparency. Many of the variances between regulatory reporting and external financial reporting have been the result of both regulatory decisions and the gradual evolution of CDN GAAP and other accounting standards over a period of time. Since many of these variances developed over several years, there had been the opportunity to communicate the variances between regulatory and external financial reporting in incremental stages and therefore continue to sustain transparency to the various users of this financial information. By and large the differences were caused because the Commission did not want to reflect changes to the requirements of CDN GAAP in rates.

When new accounting guidance became effective under CDN GAAP that may have potentially created variances between financial and regulatory reporting, the Fortis BC Utilities regularly communicated the background and potential impacts for regulatory purposes usually through the revenue requirement processes. Over the last several years, the relevant CDN GAAP changes were communicated to the Commission and intervenors through the revenue requirement applications, information requests, hearings or workshops. During the revenue requirement processes, there were discussion and clarification of variances to assist in mitigating any complications and therefore maintain transparency.

Similarly, when regulatory decisions and CDN GAAP guidance changes became effective, the Fortis BC Utilities regularly communicated the background and impacts to users of the external financial reporting information. The Fortis BC Utilities management has had the opportunity to inform the impacts of CDN GAAP changes and regulatory decisions to rating agencies, investor analysts, lenders, including banks and debtholders, on no less than an annual basis, thereby continuing to sustain transparency. During the meetings with various users of external financial information, there are also discussion and clarification of variances to mitigate any complications and therefore maintain transparency.

Due to the absence of rate-regulated accounting permitted under IFRS, adopting IFRS for regulatory purposes would result in an increase and a new set of variances which would require communication to users of both the regulatory and external financial information. Adopting US GAAP for rate-setting purposes will result in less significant changes to the existing variances



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGV") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 18

between regulatory and external financial reporting than if IFRS were adopted for rate-setting purposes.

2.2.10 Please identify where variances in financial and regulatory reporting were explained to stakeholders in the last annual reporting period?

Response:

In the response to BCUC IR 1.7.1.1, FBU has defined who the stakeholders are. In FBU's annual reports which are filed with the Commission, the FBU provides a reconciliation between the external financial reporting under CDN GAAP and regulatory reporting. Under US GAAP, this reconciliation will continue to be provided in a similar manner.

2.2.11 Does FBU believe that any of their regulatory filings to date have not been transparent?

Response:

The Fortis BC Utilities believe that their regulatory filings to date have all been transparent. This transparency has occurred because of the historical consistency between the accounting policies used for financial reporting purposes (CDN GAAP) and the accounting policies used for regulatory reporting purposes (CDN GAAP). It is this continued alignment of future accounting policies that the Fortis BC Utilities seek to achieve with this Application.

2.2.12 Please quantify the cost of the "significant administrative burden" incurred in the past to reconcile between regulatory and financial reporting documents by dollar amount for each reporting entity of FBU.

Response:

The FortisBC Utilities cannot specifically quantify the cost in dollar amount associated with the administrative burden that has already been incurred as a result of reconciling between regulatory and financial reporting. The reconciliation process has been incorporated into established accounting and financial processes within existing roles.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 19

In the past, the communication of the reconciliation between regulatory and financial reporting documents has not necessarily been a heavy burden because the variances have generally been introduced on a gradual basis over several years. The reconciliation between regulatory and financial reporting has resulted from non-regulated operations, as well as regulatory decisions and the evolution of CDN GAAP. During prior years, internal time and effort has been spent to prepare monthly adjusting journal entries, perform reconciliations, produce various financial reports and communicate and explain the impacts and reconciliations to both internal and external users of the financial information. Since the Fortis BC Utilities did not track the costs associated with the time and effort incurred on separate tasks in past years, it is not possible to quantify such costs. Adopting IFRS for regulatory purposes is expected to result in an entirely new set of reconciling adjustments between regulatory and financial reporting which would require an increased administration burden to be incurred over a relatively short period of time. Adopting US GAAP for regulatory purposes is not expected to result in as significant of a change to the reconciling items between regulatory and financial reporting and therefore a reduced administrative burden as compared to adopting IFRS for regulatory purposes.

2.2.13 Would it be reasonable to expect that this current cost to reconcile will be eliminated if US GAAP is adopted?

Response:

The cost to reconcile between regulatory and financial reporting is a cost that has been embedded in the processes already conducted by the Fortis BC Utilities and therefore is not expected to be eliminated. Adopting US GAAP for regulatory purposes is not expected to result in as significant of a change to the existing reconciling items between regulatory and financial reporting. Since the reconciling items under CDN GAAP are similar to those under US GAAP, the ongoing administrative effort to reconcile from adopting US GAAP for regulatory purposes is expected to be less than if IFRS were adopted for regulatory purposes.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 20

3.0 Reference: Registration Status

Exhibit B-1, Section 3, p.6

3.1 *"Preparing financial statements in accordance with US GAAP is also permitted by Canadian securities for companies who are Securities and Exchange Commission Issuers ("SEC Issuers" as defined under the Canadian reporting rules) and therefore subject to reporting obligations under US securities laws. To become an SEC Issuer, Terasen Gas Inc. and Fortis BC Inc. will each be required to list an existing investment grade, non-convertible debt instrument on the New York Stock Exchange and file a registration statement with the SEC. As SEC Issuers, Terasen Gas Inc. and Fortis BC Inc. will then be required to prepare and file their financial statements in accordance with US GAAP."*

3.1.1 Please confirm that the only purpose to the proposed SEC registration is for the purposes of using US GAAP.

Response:

Confirmed.

3.1.2 When the proposed US listing is made, does FBU intend to ISSUE any new debt?

Response:

No, FBU does not have plans to issue new debt in the US at the same time the proposed US listing is made.

3.1.3 Who will own the investment grade debt listed by FBU?

Response:

The primary offering of the FBU debt to be listed was done prior to the proposed listing and thus FBU will be listing existing investment grade debt. As such, FBU assumes current beneficial holders will continue to own the debt after it is listed in the US. In other words, ownership of the debt is not expected to change as a result of the listing.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities (“FEU”) including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. (“TGI”), Terasen Gas Vancouver Island Inc. (“TGI”) and Terasen Gas (Whistler) Inc. (“TGW”) respectively) Application to Adopt US Generally Accepted Accounting Principles (“US GAAP”) effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission (“BCUC” or the “Commission”) Information Request (“IR”) No. 1	Page 21

3.1.4 As an SEC issuer, will FBU meet the definition of a “Foreign Private Entity”? Please provide your analysis including reference to regulation to make such a determination.

Response:

The Companies are unfamiliar with the term “foreign private entity”; however, if the Commission is referring to a “foreign private issuer,” we provide the following response:

The term “foreign private issuer” is defined in section 240.3b-4(c) of Part 240 – General Rules and Regulations, United States Securities Exchange Act of 1934 (the “Exchange Act”) which states:

The term foreign private issuer means any foreign issuer² other than a foreign government except for an issuer meeting the following conditions as of the last business day of its most recently completed second fiscal quarter:

- (1) More than 50 percent of the issuer’s outstanding voting securities are directly or indirectly held of record by residents of the United States; and
- (2) Any of the following:
 - (i) The majority of the executive officers or directors are United States citizens or residents;
 - (ii) More than 50 percent of the assets of the issuer are located in the United States; or
 - (iii) The business of the issuer is administered principally in the United States.

The Companies confirm that based on the definition noted above FortisBC Inc. and FortisBC Energy Inc. will meet the definition of a “foreign private issuer” under the Exchange Act.

3.1.5 What documents does FBU intend to file with the SEC for continuous disclosure purposes under the 1934 Securities Act i.e. a 20F or 10K document?

² The term *foreign issuer* means any issuer which is a foreign government, a national of any foreign country or a corporation or other organization incorporated or organized under the laws of any foreign country (Exchange Act Section 240.3b-4(b) of Part 240 – General Rules and Regulations).



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities (“FEU”) including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. (“TGI”), Terasen Gas Vancouver Island Inc. (“TGI”) and Terasen Gas (Whistler) Inc. (“TGW”) respectively) Application to Adopt US Generally Accepted Accounting Principles (“US GAAP”) effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission (“BCUC” or the “Commission”) Information Request (“IR”) No. 1	Page 22

Response:

Registration with the SEC will be effected by the filing of an initial registration statement. This registration statement, as well as subsequent annual reports, will be filed on either a Form 40-F or a Form 20-F, pending the outcome of recently proposed SEC rule changes.

FortisBC Inc. and FortisBC Energy Inc. are currently eligible to register debt securities under Section 12(b) of the Exchange Act by filing a registration statement on Form 40-F. A Form 40-F registration statement “wraps” a reporting issuer’s Canadian continuous disclosure documents filed since the start of the issuer’s most recently completed full fiscal year. However, the SEC has recently proposed revisions to Form 40-F which would result in FortisBC Inc. and FortisBC Energy Inc. not being eligible to use Form 40-F for the initial registration statement or subsequent filings of annual materials. If the proposed rules become effective, FortisBC Inc. and FortisBC Energy Inc. will file registration statements on Form 20-F and will subsequently file Annual Reports on Form 20-F, which does not simply wrap Canadian continuous disclosure documents.

Issuers reporting on Form 40-F or Form 20-F must also furnish the SEC with current reports on Form 6-K. Generally, Form 6-K reports simply wrap the document being submitted. The information that must be furnished with Form 6-K includes press releases, reports and other information filed with Canadian securities commissions and stock exchanges, quarterly reports, material change reports and shareholder mailings.

- 3.1.6 Why would TGI and Fortis BC Inc. be REQUIRED to file their financial statements in accordance with US GAAP once registered with the SEC given that many Canadian companies filing with the SEC as a foreign private issuer use Canadian GAAP? Please provide reference to regulation to make such a determination.

Response:

FortisBC Inc. and FortisBC Energy Inc. would not be required to file their financial statements in accordance with US GAAP once they are registered with the SEC, however, they would be permitted and intend to file their financial statements in accordance with US GAAP once they qualify as SEC issuers by registering with the SEC.

Specifically, an “SEC issuer” is defined under Canadian securities laws in National Instrument 52-107 – *Acceptable Accounting Principles and Auditing Standards* (“NI 52-107”) as follows:



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 23

"SEC issuer" means an issuer that:

- (a) has a class of securities registered under section 12 of the 1934 Act or is required to file reports under section 15(d) of the 1934 Act, and*
- (b) is not registered or required to be registered as an investment company under the Investment Company Act of 1940 of the United States of America, as amended from time to time."*

Section 3.7 of NI 52-107 states:

"3.7 Acceptable Accounting Principles for SEC Issuers:

- (1) Despite subsection 3.2(1), an SEC issuer's financial statements referred to in paragraphs 2.1(2)(b), (c) and (e) and financial information referred to in paragraphs 2.1(2)(f) and (g) that are filed with or delivered to a securities regulatory authority or regulator, other than acquisition statements, may be prepared in accordance with U.S. GAAP.*
- (2) The notes to the financial statements referred to in subsection (1) must identify the accounting principles used to prepare the financial statements."*

Accordingly, by registering a class of securities with the SEC, FortisBC Inc. and FortisBC Energy Inc. would meet the definition and be considered SEC issuers under Canadian securities laws. This would permit the two companies to rely upon section 3.7 of NI 52-107 in preparing their financial statements in accordance with US GAAP.

- 3.2 Under Canadian Securities Regulatory definitions, would FBU companies meet the definition of an SEC Issuer if no securities were actually ISSUED in the US as the securities were only REGISTERED/LISTED?

Response:

The definition of SEC issuer (as reproduced in the response to BCUC IR 1.3.1.6) only requires an issuer to have a class of securities registered under the Securities and Exchange Act 1934, it does not require FortisBC Inc. and FortisBC Energy Inc. to issue securities in the United States.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 24

- 3.3 Has FBU or any of its affiliates contacted or intends to contact Canadian securities regulators to discuss using US GAAP to prepare its financial statements.

Response:

Fortis Inc. has filed a confidential application with the Ontario Securities Commission seeking exemptive relief for its reporting issuer subsidiaries (FortisBC Holdings Inc. (formerly Terasen Inc.), FortisBC Energy Inc. (formerly Terasen Gas Inc.), FortisBC Inc., FortisAlberta Inc., Newfoundland Power Inc., and Caribbean Utilities Company, Ltd.). This application seeks permission for these Fortis subsidiaries to prepare and file their financial statements in Canada in accordance with US GAAP, without becoming SEC issuers.

On February 25, 2011, Enbridge Inc. received similar relief on behalf of Enbridge Gas Distribution Inc. and Enbridge Pipelines Inc that permits them to prepare their financial statements in accordance with US GAAP for fiscal years ending on or before December 31, 2014.

- 3.4 Given the significance of the planned adoption of US GAAP, doesn't FBU believe it is prudent to discuss the potential changeover to US GAAP with securities regulators to confirm that FBU meets the definition of an SEC Issuer in both substance and form in the eyes of Canadian Securities Regulators?

Response:

FortisBC Inc. and FortisBC Energy Inc. have relied upon legal advice from our external legal counsel, Davies Ward Phillips & Vineberg LLP ("Davies") in making the determination that FortisBC Inc. and FortisBC Energy Inc. will meet the definition of an SEC Issuer in both substance and form once we have registered with the SEC and listed with the NYSE. In the response to BCUC Confidential IR 1.1.2.6, the FBU have outlined Davies experience in this area. We are advised that Davies have had discussions with certain Canadian securities regulators in this regard. For additional details in this regard, please refer to the response to BCUC IR 1.3.3.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 25

- 3.5 Is FBU aware of any other utility that has completed a US registration/listing with no operations in the US or fundraising plans for the US? If so, please provide company names and registration dates.

Response:

See the response to BCUC IR 1.2.2.4.

- 3.6 Assuming FBU currently qualifies If Canadian securities regulators amend national instrument 52-107 in such a way that FBU was unable to qualify for the current US GAAP exemption, would shareholders be willing to assume the costs to then convert to IFRS?

Response:

The FBU are not aware of any intent by Canadian securities regulators to amend National Instrument 52-107 ("NI 52-107") in such a way that the FBU would be unable to qualify for the current US GAAP exemption. On the contrary, securities regulators in Canada have already provided exemptive relief under NI 52-107 to allow Enbridge Gas Distribution Inc. and Enbridge Pipelines Inc. to prepare and file their financial statements in Canada in accordance with US GAAP, without becoming SEC Issuers. Fortis Inc. has applied for similar relief for its reporting issuer subsidiaries, including the FBU. (Please refer to the response to BCUC IR 1.3.3.).

With respect to who 'assumes the costs to then convert to IFRS', FBU believes such costs related to financial reporting are appropriately recovered from customers in rates.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGV") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 26

4.0 Reference: Registration Status

Exhibit B-1, Section 3, p.5

- 4.1 Please explain why the FBU, and specifically TGI and Fortis BC Inc. require registration with Canadian Securities Regulators at all?

Response:

FortisBC Energy Inc. (formerly TGI) and FortisBC Inc. are regulated as reporting issuers by the Canadian securities regulators as they both have issued debt securities by way of prospectus filed with the provincial securities regulators which qualifies such debt securities for distribution to the public (the equivalent of "registration" in the United States). By virtue of having issued debt securities by way of prospectus, FortisBC Energy Inc. and FortisBC Inc. are "reporting issuers" in Canadian jurisdictions and are subject to the continuous disclosure and other obligations applicable to reporting issuers.

- 4.1.1 Are any Equity Securities of TGI or Fortis publicly traded?

Response:

No equity securities of either FortisBC Energy Inc. (formerly TGI) or FortisBC Inc. are publicly traded.

- 4.1.2 What was the date of the last trade made on the equities of both TGI and Fortis?

Response:

Both FortisBC Inc. and FortisBC Energy Inc. (formerly TGI) had preferred shares which were listed and traded on the TSX. The preferred shares of FortisBC Energy Inc. were redeemed on October 31, 2000 and the preferred shares of FortisBC Inc. were redeemed on December 31, 1996. The redemption of both securities was the last trades of equity of either company.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 27

4.1.3 Does any of the debt of the FBU require registration with securities Regulators in Canada?

Response:

With the exception of the FortisBC Inc. debt securities issued under the trust indenture dated March 15, 1983, each of the other FBU debt securities listed below at BCUC IR Request 1.4.1.4 were issued publicly pursuant to a prospectus accepted by the BC and other provincial Securities Commissions and were thereby qualified for distribution to the public (the equivalent of "registration" in the United States). The debt securities issued under the March 15, 1983 trust indenture were issued by way of private placement and no prospectus was filed.

4.1.4 If so, please describe this outstanding debt including its amount, maturity date, interest rates and to whom it is issued.

Response:

Debt Instruments – FortisBC Energy Inc.	Principal (CAD)	Maturity Date	Rate
Trust Indenture with CIBC Mellon dated November 1, 1977, as amended and subject to Supplemental Indentures (a) Unsecured Series 11 Medium Term Notes (b) Unsecured Series 18 Medium Term Notes (c) Unsecured Series 19 Medium Term Notes (d) Unsecured Series 21 Medium Term Notes (e) Unsecured Series 22 Medium Term Notes (f) Unsecured Series 23 Medium Term Notes (g) Unsecured Series 24 Medium Term Notes	\$150,000,000 \$150,000,000 \$150,000,000 \$120,000,000 \$250,000,000 \$250,000,000 \$100,000,000	September 21, 2029 May 1, 2034 February 26, 2035 September 25, 2036 October 2, 2037 May 13, 2038 February 24, 2039	6.95% 6.50% 5.90% 5.55% 6.00% 5.80% 6.55%
Trust Indenture with CIBC Mellon dated December 3, 1990 (a) Secured Series A Purchase Money Mortgages (b) Series B Purchase Secured Money Mortgages	\$74,955,000 \$200,000,000	September 30, 2015 September 30, 2016	11.80% 10.30%



<p>Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively)</p> <p>Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012</p>	<p>Submission Date: April 7, 2011</p>
<p>Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1</p>	<p>Page 28</p>

Debt Instruments – FortisBC Inc.	Principal (CAD)	Maturity Date	Rate
<p>Deed of Trust and Mortgage with Computershare dated March 15, 1983 subject to Supplemental Indentures</p> <p>(a) Secured Debentures, Series F</p> <p>(b) Secured Debentures, Series G</p> <p>(c) Unsecured Debentures, Series H (this series was converted to unsecured debentures pursuant to the terms of the Unsecured Trust Deed dated February 1, 1996)</p> <p>(d) Unsecured Debentures, Series I (this series was converted to unsecured debentures pursuant to the terms of the Unsecured Trust Deed dated February 1, 1996)</p>	<p>\$15,000,000</p> <p>\$25,000,000</p> <p>\$25,000,000</p> <p>\$25,000,000</p>	<p>October 16, 2012</p> <p>August 28, 2023</p> <p>February 1, 2016</p> <p>December 1, 2021</p>	<p>9.65%</p> <p>8.8%</p> <p>8.77%</p> <p>7.81%</p>
<p>Trust Indenture with Computershare dated November 30, 2004, subject to Supplemental Indentures</p> <p>(a) Unsecured Debentures Series 04-1</p> <p>(b) Unsecured Debentures Series 05-1</p> <p>(c) Unsecured Debentures Series 07-1</p>	<p>\$140,000,000</p> <p>\$100,000,000</p> <p>\$105,000,000</p>	<p>November 28, 2014</p> <p>November 9, 2035</p> <p>July 4, 2047</p>	<p>5.48%</p> <p>5.60%</p> <p>5.90%</p>
<p>Unsecured Medium-Term Note Debentures, under a Trust Indenture with Computershare dated May 27, 2009, subject to Supplemental Indentures</p> <p>(a) Series 1</p> <p>(b) Series 2</p>	<p>\$105,000,000</p> <p>\$100,000,000</p>	<p>June 2, 2039</p> <p>November 24, 2050</p>	<p>6.10%</p> <p>5.00%</p>

The above-listed debt securities were issued to a broad cross-section of Canadian fixed income investors, and are currently held by a broad base of investors. Given the debt securities are tradable instruments in the secondary market, the current investors may be different than those under the primary offering. We are unable to efficiently determine who the current holders of these securities are.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 29

4.1.5 If so, could any of this debt be converted into debt instruments not requiring registration with Canadian Securities Regulators?

Response:

The debt securities described in the response to BCUC IR 1.4.1.4 are not, by the terms of the trust indenture under which they were issued, convertible into any other debt security.

4.1.6 Are costs associated with maintaining registration with Canadian Regulators shareholder costs only? If not, please explain.

Response:

The costs associated with maintaining registration for FortisBC Energy Inc. (formerly TGI) and FortisBC Inc. with Canadian Securities Regulators are not a shareholder cost. The costs of maintaining registration are appropriately recovered from customers as these costs support the debt required to fund rate base. The costs associated with debt issued publicly result in a benefit to customers in the form of lower cost of debt.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities (“FEU”) including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. (“TGI”), Terasen Gas Vancouver Island Inc. (“TGI”) and Terasen Gas (Whistler) Inc. (“TGW”) respectively) Application to Adopt US Generally Accepted Accounting Principles (“US GAAP”) effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission (“BCUC” or the “Commission”) Information Request (“IR”) No. 1	Page 30

5.0 Reference: US GAAP

Exhibit B-1, Section 3, p.6

5.1 *“Adopting US GAAP significantly reduces the discrepancy between regulatory and external financial reporting records, and allows the financial reporting to better reflect the economic and regulatory activities of the Companies.”*

5.1.1 Does this mean reduce the discrepancy between EXISTING regulatory and external reporting or IFRS regulatory and external reporting?

Response:

The phrase was comparing external reporting using IFRS which will not allow for the recognition of regulatory assets and liabilities, and regulatory reporting in which the Companies would recognize the effects of regulation. If the Companies were to adopt IFRS for external reporting purposes, there would be a significant number of reconciling items between external reporting under IFRS, without the recognition of regulatory assets and liabilities, and regulatory reporting which would utilize regulatory accounting. Allowing the Companies to adopt US GAAP for both external reporting and regulatory reporting purposes will minimize differences.

5.1.2 If US GAAP eliminates current discrepancies, please identify ALL current financial/regulatory reporting differences presented the LAST annual balance sheet and income statement by presenting these results in balance sheet and income statement format which present, side-by-side, regulatory and financial reporting results for the last year with a column showing adjustments. Prepare a note for each adjustment and break down multiple adjustments where more than one item impacts a balance sheet or income statement line item. Within these notes, document which discrepancies will continue and which ones will be eliminated under US GAAP. The response should resemble proforma financial statement format.

Response:

Adoption of US GAAP will not eliminate current discrepancies. Most of the same reconciliations between regulatory and external financial reporting that currently exist under CDN GAAP will continue to exist under US GAAP. As outlined in Attachment 5.1.2., the differences are expected to be similar under US GAAP. We have identified those differences, based on our conversion work to date, which may differ under US GAAP.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities (“FEU”) including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. (“TGI”), Terasen Gas Vancouver Island Inc. (“TGI”) and Terasen Gas (Whistler) Inc. (“TGW”) respectively) Application to Adopt US Generally Accepted Accounting Principles (“US GAAP”) effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission (“BCUC” or the “Commission”) Information Request (“IR”) No. 1	Page 31

5.1.3 If US GAAP eliminates current discrepancies, please quantify what savings will be realized due to the reduction in reconciliations?

Response:

Adopting US GAAP will not eliminate all differences between external financial reporting and regulatory reporting. Reconciliations already exist between external financial reporting under CDN GAAP and regulatory reporting; however these reconciliations are expected to continue to exist and be similar under US GAAP. There are no specific savings expected to be realized under US GAAP as compared to the costs currently incurred under CDN GAAP in terms of reconciliation.

Based on the analysis conducted to date on the differences between CDN GAAP and US GAAP, the FBU do expect to have a similar number of reconciling items between external financial reporting under US GAAP and regulatory reporting. Please see BCUCIR 2.1.2 for a description of a few of the adjustments to external financial reporting that may be required on the transition to US GAAP. Most of these new reconciling adjustments between regulatory and external financial reporting are should not impact customer rates.

Due to the absence of rate-regulated accounting being permitted under IFRS, adopting IFRS would require a significantly higher number and new set of reconciliations between external reporting under IFRS and regulatory reporting.

5.1.4 If US GAAP is such a good alternative to IFRS, why wasn't US GAAP considered as a reporting option much sooner?

Response:

US GAAP became a preferred alternative to IFRS during the last few months of 2010 when it became evident that rate-regulated utilities would not be permitted to recognize regulatory accounting under IFRS. As described on page 4 of the Application, up until as recently as late 2010, there was still an expectation that the recognition of regulatory accounting would be permitted under IFRS. The feedback from the IASB and the big four accounting firms that rate-regulated accounting would not be permitted under IFRS was delivered and received in a relatively short period of time, requiring the Fortis BC Utilities to adapt in a timely manner. At this time, there are no expectations that IFRS will permit the inclusion of rate-regulated accounting in time for the FortisBC Utilities to prepare external financial reporting information beginning in 2012; therefore, the US GAAP reporting option was considered as the only appropriate set of accounting standards to adopt for rate-regulated utilities.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 32

6.0 Reference: Existing IFRS Deferred Costs

Exhibit B-1, Section 5, p.9

6.1 Please quantify how much cost FBU has deferred in relation to the adoption of IFRS as of the date of this response.

Response:

As outlined on page 11 of Application, under Section 5.2 - Estimated Costs for adopting IFRS, the Fortis BC Utilities have already incurred approximately \$0.65 million for FortisBC Inc. and approximately \$1.12 million for the FortisBC Energy Utilities (including \$1.00 million for FortisBC Energy Inc., \$0.09 million for FortisBC Energy (Vancouver Island) Inc. and \$0.03 million for FortisBC Energy (Whistler) Inc.) as of the date of the Application. These numbers remain the same as of today.

6.2 Have any of the deferred IFRS costs been included in the analysis presented in either the IFRS or US GAAP columns?

Response:

No, the table on page 9 only reflects IFRS or US GAAP costs to be incurred beginning in 2011 and onwards. The table does not include deferred IFRS costs from prior years. Discussion on IFRS costs previously incurred and deferred is in the third paragraph, on page 11 of the Application.

6.3 If US GAAP is adopted, what is FBU's planned treatment for these deferred IFRS costs?

Response:

The FortisBC Energy Utilities' (formerly the Terasen Utilities) will recover the deferred IFRS costs in 2012 and 2013, as approved. FortisBC Inc. is already recovering the deferred 2010 IFRS costs in 2011.

6.4 What is FBU's plan should US GAAP adopt IFRS in 2015?



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 33

Response:

Currently, the United States standard setters and the Securities and Exchange Commission have not decided to adopt IFRS. A decision on the timing of adoption of IFRS is expected at some point in 2011. The FBU are unable to control if and at what point the US may adopt IFRS. By 2015, there is also the potential that the IASB and FASB will have addressed the rate-regulated accounting issue under IFRS.

- 6.5 If US GAAP adopts IFRS in 2015 (4 years), will FBU require another conversion plan to adopt IFRS at that time including reviewing variances, recasting comparative financial statements, preparing accounting systems and proposing an adoption plan?

Response:

If US GAAP adopts IFRS at a future date, FBU will be required to go through a conversion process at that point to convert from US GAAP to IFRS. It is unknown today whether the US will be adopting IFRS in 2015 or at some future date. Please also see response to BCUC IR 1.6.4.

If the US adopts IFRS, as stated on pages 12 and 13 of the Application,

"It is our belief that the issues around accounting for the effects of rate regulation under IFRS will be resolved in our favour prior to any adoption of IFRS in the United States, and that utilities that prepare and issue financial statements in accordance with US GAAP will not have to derecognize regulatory assets and liabilities upon adoption of IFRS as is currently the case for those utilities transitioning from CDN GAAP to IFRS. This belief is supported by the strong positions taken by FERC and NARUC as evidenced in Appendix A."

In addition, there has been value obtained in the IFRS analysis which is further described on page 11 of the Application, under section 5.2 - Estimated Costs for adopting IFRS:

"...these costs were incurred as part of the transition to IFRS, there has been a great deal of value obtained from the knowledge that was gained and the system changes that were implemented. Many of these costs also support the adoption of US GAAP and any convergence that may eventually occur between US GAAP and IFRS. The costs already incurred for IFRS have assisted in establishing fact patterns and identifying the accounting differences and will be used to address future accounting changes."



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 34

- 6.6 Does FBU believe it is fair to charge ratepayers TWICE for the same IFRS conversion activities?

Response:

The Companies do not believe that the ratepayers are going to pay twice for the same IFRS conversion activities, as the specific activities undertaken in each conversion would differ, and the activities undertaken during the IFRS conversion project should serve to reduce any expected future costs. Please see the response to BCUC IR 1.6.7 for further discussion.

- 6.7 Is FBU's shareholders' willing to accept any costs associated with the current IFRS conversion activities if FBU is unwilling to see the IFRS project through to completion at this time?

Response:

The costs incurred to date with respect to IFRS conversion activities represent justified costs of the FBU that should be recovered from customers.

While these costs were incurred as part of the planned transition to IFRS, there has been a great deal of value obtained from the knowledge gained and the system changes implemented as a result that will continue to provide value despite the fact that IFRS conversion will not be completed. Some of the costs incurred to date have resulted from the FBU involvement in industry initiatives aimed at achieving IFRS changes that would have allowed for the recognition of regulated assets and liabilities, and in doing so would have eliminated the current necessity to adopt US GAAP as opposed to IFRS.

It should be noted that the Canadian and US representatives of the Big Four Accounting firms supported the recognition of regulatory assets and liabilities under IFRS but were unsuccessful in persuading their international colleagues in time to allow for such changes to the IFRS standards to be made prior to the required adoption date by Canadian Utilities. IFRS with regulatory assets and liabilities would have been a standard that the FBU would have accepted and would have avoided the need to move to US GAAP.

The costs already incurred for IFRS have also assisted in establishing fact patterns and identifying accounting differences, and may be used to address future accounting changes.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities (“FEU”) including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. (“TGI”), Terasen Gas Vancouver Island Inc. (“TGI”) and Terasen Gas (Whistler) Inc. (“TGW”) respectively) Application to Adopt US Generally Accepted Accounting Principles (“US GAAP”) effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission (“BCUC” or the “Commission”) Information Request (“IR”) No. 1	Page 35

Many of these costs also support the adoption of US GAAP and any convergence that will likely continue to occur between US GAAP and IFRS.

- 6.8 If US GAAP adopts IFRS in 2015, does FBU believe that some of those conversion costs should be fully borne by the shareholder? Please explain your response?

Response:

Whether it is to IFRS or US GAAP, the costs incurred by the FBU of converting to new and evolving accounting standards are a normal cost of doing business and form a part of the costs of providing utility services. As such they are properly a customer cost.

Changes in accounting standards have been, and will likely continue to be, a regular occurrence as standard setters continue to make changes and evolve existing standards and adjust to changing circumstances. The cost of implementing changes in accounting standards is a cost of doing business that, in the case of a regulated utility, should be reflected in the cost of providing utility service, and therefore in rates charged to the utility’s customers. See also responses to BCUC IR 1.2.12 and BCUC IR 1.8.3.3.

The US is on a course of converging US GAAP and IFRS, which may or may not result in the eventual adoption of IFRS for US financial reporting purposes. The convergence process is likely to result in changes to both US GAAP and IFRS over the next three to four years. This is likely to occur regardless of whether the US formally adopts IFRS or decides to continue down a road of converging US GAAP with IFRS to the extent possible. In any event, as this convergence takes place, companies applying either IFRS or US GAAP will be required to implement standards changes as they occur. The degree of change should, however, be manageable and less costly as compared to a fully fledged one-time adoption, as has been the case with respect to Canada’s adoption of IFRS in 2011.

- 6.9 Please provide a high-level estimate of reasonable conversion costs that would be incurred in 2015 to convert from US GAAP to IFRS, if required.

Response:

It is not possible to provide a reliable estimate of costs without an understanding of the differences between US GAAP and IFRS that will exist at the time of conversion in 2015 or later.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 36

6.10 If US GAAP and IFRS are converged, would FBU intend to deregister from the New York Stock Exchange at that time?

Response:

Efforts to converge US GAAP and IFRS are likely to continue over the next several years. However, it is yet to be determined whether the SEC will eventually replace US GAAP by adopting IFRS.

With respect to the FBU adoption of US GAAP, as stated in the Application:

"...the adoption of US GAAP is reasonable and in the public interest because it is the most appropriate and well-established set of accounting principles that currently allows for the recognition of regulatory assets and liabilities. The Companies maintain that the appropriate and prudent financial reporting standard that is utilized is the standard that best reflects their economic and regulatory status as public utilities, and that standard is US GAAP."

The FBU intend to apply US GAAP as long as it represents the most appropriate set of accounting principles that allow for the recognition of regulatory assets and liabilities.

Should the SEC decide to replace US GAAP by adopting IFRS, then US GAAP and IFRS would essentially become one-in-the-same. The FBU will have to determine at that time whether continuing to be registered with the New York Stock Exchange is still appropriate and necessary in order to report the effects of rate regulation in its publicly disclosed financial statements.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities (“FEU”) including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. (“TGI”), Terasen Gas Vancouver Island Inc. (“TGI”) and Terasen Gas (Whistler) Inc. (“TGW”) respectively) Application to Adopt US Generally Accepted Accounting Principles (“US GAAP”) effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission (“BCUC” or the “Commission”) Information Request (“IR”) No. 1	Page 37

7.0 Reference: US GAAP

Exhibit B-2, Section 5.2, p.11

7.1 *“Stakeholders will benefit from the Companies adopting US GAAP as the accounting standards used to determine rates will be based on US GAAP which represents a mature and proven set of financial reporting standards for rate-regulated utilities. While the one-time conversion costs may be slightly higher under US GAAP than IFRS, they are appropriate and reasonable to incur as they are representative of the cost of having the appropriate accounting principles on which to base rates.”*

7.1.1 Please define “stakeholders”.

Response:

The Fortis BC Utilities have traditionally defined “stakeholders” to include customers, as well as municipal and provincial governments, First Nations, customer and environmental advocacy groups, energy industry participants, other utilities and the Commission. In addition, rating agencies, bond holders and other debt providers to the utilities are stakeholders, all of who would find US GAAP based reporting of use.

7.1.2 Does stakeholder include those other than ratepayers such as shareholders?

Response:

Please see the response to BCUC IR 1.7.1.1.

7.1.3 Is it not possible to use IFRS adjusted for deferral accounts for the purposes of rate regulated accounting?

Response:

In the long-term, using IFRS is expected to cost more than using US GAAP due the greater degree of reconciling that would be required between external and regulatory financial reports and the need to provide additional material to enable the understanding of the economic effects of regulation. These costs are expected to increase over time as the differences between



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 38

external and regulatory accounting would accumulate over the years making it increasingly more complex.

7.1.4 Is IFRS adjusted for Deferral Accounting as permitted under US GAAP an appropriate accounting basis on which to determine rates?

Response:

As discussed in response to BCUC IR 1.7.1.3, it is possible to use IFRS adjusted for deferral accounts for the purposes of determining rates, and in some cases this may also be appropriate. In the case of the Fortis BC Utilities, US GAAP rather than IFRS is being adopted for financial reporting purposes, and therefore utilizing IFRS adjusted for deferral accounts is not an appropriate basis on which to determine rates.

US GAAP has advantages over IFRS adjusted for deferral accounts for the reasons discussed in BCUC IR 1.7.1.3. The further rate setting and financial reporting diverge, the more challenging it will be to track and reconcile differing accounting treatments. Furthermore, if IFRS were to be used, FBU would not be allowed to reflect in its external financial statements any regulatory accounting determinations of the Commission that differ from IFRS accounting policies. Under US GAAP, there will be consistency between the external financial and regulatory statements and therefore greater transparency. Should the Commission grant the relief requested by the FBU, and in future should there be situations where the Commission wishes to set rates that differ from the US GAAP accounting treatment, at least the Companies will be a position to reflect those differences in the deferral accounts in its external financial reporting which makes it transparent to the users of that financial information. Under IFRS, there is no option for the FBUs to reflect decisions by the Commission and the transparency that currently exists under CDN GAAP will not exist.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities (“FEU”) including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. (“TGI”), Terasen Gas Vancouver Island Inc. (“TGI”) and Terasen Gas (Whistler) Inc. (“TGW”) respectively) Application to Adopt US Generally Accepted Accounting Principles (“US GAAP”) effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission (“BCUC” or the “Commission”) Information Request (“IR”) No. 1	Page 39

8.0 Reference: The Future of US GAAP

Exhibit B-1, Section 6, p.12

8.1 *“It is our belief that the issues around accounting for the effects of rate regulation under IFRS will be resolved in our favour prior to any adoption of IFRS in the United States, and that utilities that prepare and issue financial statements in accordance with US GAAP will not have to derecognize regulatory assets and liabilities upon adoption of IFRS as is currently the case for those utilities transitioning from CDN GAAP to IFRS. This belief is supported by the strong positions taken by FERC and NARUC as evidenced in Appendix A.”*

8.1.1 Was it your belief in the last TGI revenue requirements application that the IFRS rate-regulated exposure draft would be adopted?

Response:

At the time of filing the TGI 2010-2011 RRA in June of 2009, the IFRS Rate-regulated Activities Exposure Draft had not yet been issued. In July of 2009, that Exposure Draft was issued, which provided some comfort that it would eventually be adopted. FortisBC Energy Inc. (then TGI) was encouraged by the progress on the Rate-regulated Activities Exposure Draft, and, during the time period from mid-2009 to mid-2010, was of the belief that the Exposure Draft would be adopted.

As discussed in our Application, in the latter half of 2010, a series of events transpired which resulted in a significantly reduced probability that IFRS will allow the recognition of regulated assets and liabilities in the foreseeable future. Given Canada’s relatively small contribution to the world economy, it appears that the Canadian influence was not persuasive enough to result in the adoption of the Exposure Draft. We believe that the US will be more persuasive than Canada in having its concerns about IFRS dealt with as US GAAP and IFRS continue to converge. The international community wants the US to move to IFRS so will likely be more pragmatic about compromising than was the case for Canada.

8.1.2 Is it not true that FERC and NARUC were active participants in the consideration of the IFRS rate-regulated exposure draft that failed?

Response:

Yes. Please see Appendix A to the Application for the views of NARUC and FERC.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities (“FEU”) including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. (“TGI”), Terasen Gas Vancouver Island Inc. (“TGI”) and Terasen Gas (Whistler) Inc. (“TGW”) respectively) Application to Adopt US Generally Accepted Accounting Principles (“US GAAP”) effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission (“BCUC” or the “Commission”) Information Request (“IR”) No. 1	Page 40

As stated in the previous response, it is expected that the US will be more persuasive than Canada in having its concerns about IFRS dealt with as US GAAP and IFRS continue to converge. The international community wants the US to eventually move to IFRS, therefore it is expected that they will be more pragmatic about compromising on certain issues, such as rate-regulated accounting, than they were for Canada.

- 8.1.3 Is it not true that notable countries around the world, outside of North America, were not supportive of the IFRS rate regulation exposure draft as they use other well established financial means to regulate utilities?

Response:

Support for the IASB’s exposure draft on rate-regulated accounting activities (the “ED”) from countries outside of North and South America was mixed.

According to a summary analysis prepared and presented to the IASB by IASB staff in February 2010, a total of 155 comment letters were received in response to the ED. Respondents included accountancy bodies, accounting firms, preparers (and preparer representative groups), regulators, standard setters and others. Approximately 61 percent (i.e., 95 of the 155) of the respondents were from North or South America. Of these respondents, 95 percent (i.e., 90 of the 95) were in general agreement with the ED. The remaining 39 percent of respondents (i.e., 60 of the 155) represented the regions of Africa, Asia-Pacific and Europe. Of these, 43 percent (or 26 respondents) were also in agreement with the ED. Respondents from Europe (30 in total) were split 50/50 with respect to their general agreement/disagreement with the ED. Only 17 responses were received from the Asia-Pacific region, with 5 in general agreement with the ED and 2 undecided. National standards setters and international accounting firms were also split with respect to their general agreement/disagreement with the ED.

In its final deliberations and discussions with respect to rate-regulated activities, which took place at the IASB meeting in September 2010, the chair of the IASB stated that Board members are split as to how rate-regulated activities should be accounted for under IFRS, and that the matter of how to account for the effects of rate regulation under IFRS could not be resolved quickly.

The reasons why support for the ED was mixed outside of North and South America are not fully known by the FBU. However, it is our understanding that in some European countries, such as the United Kingdom for example, regulatory assets were generally not recognized prior to the adoption of IFRS. Within the European Union generally, the trend is towards open,



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities (“FEU”) including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. (“TGI”), Terasen Gas Vancouver Island Inc. (“TGI”) and Terasen Gas (Whistler) Inc. (“TGW”) respectively) Application to Adopt US Generally Accepted Accounting Principles (“US GAAP”) effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission (“BCUC” or the “Commission”) Information Request (“IR”) No. 1	Page 41

competitive markets without regulated end-user prices. That being the case, the North American regulatory model may not be as prevalent in other regions of the world and the issues with respect to rate-regulated accounting and their pervasive impacts, may not be well understood or applicable.

- 8.1.4 Does management believe that the US will choose to walk away from the massive IFRS-US GAAP project started through the Memo of Understanding and will choose not to adopt IFRS overall just because FERC/NARUC are unsupportive?

Response:

The Companies believe that while the US will continue to work towards the convergence of US GAAP and IFRS, whether the US will decide to replace US GAAP by adopting IFRS is currently unknown. A decision by the US SEC is expected by the end of 2011.

In February 2010, staff at the SEC published a Work Plan, the purpose of which was to consider specific areas and factors relevant to an SEC determination in 2011 as to whether, when, and how the current financial reporting system for U.S. issuers should be transitioned to a system incorporating IFRS.

As part of this Work Plan, the SEC staff is seeking to obtain constituent perspectives regarding the application of IFRS. These efforts largely consist of researching reports and publications; issuing requests for comment; and holding discussions with investors, issuers, auditors, regulators, and academics.

One area of concern noted in the Work Plan Progress Report dated October 29, 2010:

“...is founded in the general absence of industry-specific guidance in IFRS. Comparatively, U.S. GAAP currently contains several industry-specific standards and practices that have developed over time to address the transactions in different industries. For example, IFRS does not currently have a rate-regulated standard similar to ASC Topic 980. The absence of a rate-regulated standard in IFRS may create numerous challenges for regulators of entities currently subject to this standard.”

Given the SEC’s approach to researching the potential impacts of adopting IFRS, and its desire to reach out to the various groups who would be impacted by the adoption of IFRS, the Companies believe that the concerns expressed by organizations as significant as FERC and NARUC will be heard and will have some bearing on the final outcome.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 42

8.2 Please describe how utilities in countries such as the European Union, Australia and parts of Asia set rates given their established experience using IFRS.

Response:

The FBU are not in a position to comment on the rate-setting methodologies used in regulatory jurisdictions outside North America. In an effort to respond, however, the FBU have made inquiries with respect to the manner in which rates are set in countries within the European Union, Australia and parts of Asia, and how the rate-setting process may have been impacted by the adoption of IFRS.

We are told that regulatory environments and rate-setting processes in these parts of the world differ as compared to North America. Within the European Union, for example, the trend is towards open, competitive markets without regulated end-user prices.

It is our understanding that in some European countries, such as the United Kingdom for example, regulatory assets were generally not recognized prior to the adoption of IFRS. Also, in Spain, the government passed legislation that effectively provided the electric utility with a guarantee that revenue shortfalls are recoverable. This guarantee allows the electric utility to recognize these revenue shortfalls (i.e., regulatory assets) as financial assets similar to trade accounts receivable.

In April 2008, the international accounting firm of PriceWaterhouseCoopers released a publication entitled, *Financial reporting in the utilities industry - International Financial Reporting Standards*. The FBU have extracted the following commentary from that publication.

"The regulatory environment differs from country to country, or even within a country, and can be complex and challenging. Pressure to introduce and increase competition and to diversify supply is apparent, as well as schemes that create financial incentives to reduce emissions and increase the use of renewable sources.

Previously integrated businesses may be split by regulation into generation, transmission, distribution and retail businesses. Competition may then be introduced for the generation and retail segments. Generators will look to compete on price and secure long-term fuel supplies, balancing this against potentially volatile market prices for wholesale power. The distribution business may see the incumbent operator forced to grant access to other suppliers to its network. Power customers are beginning to behave like any other group of retail customers and exercise choice, develop brand loyalty, shop for the best rates or look



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities (“FEU”) including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. (“TGI”), Terasen Gas Vancouver Island Inc. (“TGI”) and Terasen Gas (Whistler) Inc. (“TGW”) respectively) Application to Adopt US Generally Accepted Accounting Principles (“US GAAP”) effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission (“BCUC” or the “Commission”) Information Request (“IR”) No. 1	Page 43

for an attractive bundle of services that might include gas, phone, water and internet services as well as power.

Complete liberalisation of utilities is not practical because of the physical infrastructure required for the transmission and distribution of the commodity. Privatisation and the introduction of competition is often balanced by price regulation. Some utilities continue as monopoly suppliers with prices limited to a version of cost plus margin overseen by the regulator.

The regulatory regime is often unique to each country. The two most common types of regulation are incentive-based regulation and rate-based regulation. The regulator governing an incentive-based regulatory regime usually sets the ‘allowable revenues’ for a period with the intention of encouraging cost efficiency from the utility. A utility entity operating under rate-based regulation is usually permitted the recovery of an agreed level of operating costs, together with a return on assets employed. An entity’s accounting policies should take account of the regulatory regime and the requirements of IFRS. Any regulatory type asset or liability recognised under IFRS needs to be a financial asset, an intangible asset or a financial liability in its own right, as there are no special recognition requirements for regulatory assets or liabilities under IFRS.”

8.3 *“The Companies therefore expect that any future costs related to IFRS convergence will be minimal and that the IFRS conversion costs incurred to date have value going forward.”*

8.3.1 Please define “minimal” and provide a quantitative range for the cost management would expect to incur for a future conversion.

Response:

The Fortis BC Utilities do not believe that “minimal” can be generally defined as a specific amount or a range because the determination of whether an amount is “minimal” depends on the specific circumstances of the item. The circumstances that will exist in 2015 or beyond cannot be known today, although the Companies generally expect IFRS and US GAAP convergence to eventually result in a single set of accounting standards for Rate Regulated Utilities that more closely resembles current US GAAP than current IFRS.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 44

8.3.2 What level of assurance is the shareholder willing to provide ratepayers that any future IFRS convergence will be "minimal"?

Response:

Neither the FBU nor the shareholder has control over the future of accounting standards or the convergence of US GAAP and IFRS. However, management of the FBU does expect that costs to be incurred in future as a result of convergence activities will be reduced due to work already completed in preparing for the transition to IFRS.

8.3.3 Would the shareholder be willing to absorb all possible future IFRS costs in excess of the "minimal" amount?

Response:

The cost of implementing changes in accounting standards is a cost of doing business that, in the case of a regulated utility, should be reflected in the cost of providing utility service, and therefore all prudently incurred costs for implementing accounting changes should be recoverable in rates from the utility's customers.

While management of the FBU will endeavour to implement future changes in accounting standards in a cost-effective manner, all costs prudently incurred by the FBU of converting to new accounting standards should be recovered from customers.

Please see also response to BCUC Confidential IR 1.2.12.



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 45

9.0 Reference: Future of US GAAP

Exhibit B-1, Section 6.2, p.13

9.1 *“Emera Inc. and its wholly-owned rate-regulated subsidiary, Nova Scotia Power Inc. (“NSPI”), are continuing with their plans to adopt US GAAP effective January 1, 2011. Please see Appendix E regarding NSPI’s Transition to US GAAP that was presented to CAMPUT on January 31, 2011. The adoption of US GAAP by NSPI was approved by the Nova Scotia Utility and Review Board in Decision NSUARB-P-111.6.”*

9.1.1 Please confirm that Emera has some operations in the US?

Response:

Based on the Companies’ understanding, over 90% of Emera’s revenues are earned by regulated entities – Nova Scotia Power Inc. (“NSPI”), Bangor Hydro and Brunswick Pipeline.

Bangor Hydro is an electric transmission and distribution company with \$730.4 million of assets serving approximately 118,000 customers in eastern Maine.

NSPI is a wholly-owned fully integrated regulated utility with \$4.0 billion of assets which provides electricity generation, transmission and distribution services to approximately 489,000 customers in the province of Nova Scotia. NSPI has no US operations.

Brunswick Pipeline is a 145-kilometre pipeline carrying re-gasified liquefied natural gas (“LNG”) from the Canaport™ LNG terminal in Saint John, New Brunswick to the United States border. Brunswick Pipeline has no US operations.

9.1.2 Before the Nova Scotia Utility and Review Board approved the US GAAP conversion, please confirm the Utility provided that Board with a high level analysis of all US-Canadian GAAP differences rounded to the nearest \$100,000.

Response:

It is our understanding that Nova Scotia Power Inc. (“NSPI”) did not provide the Nova Scotia Utility Review Board (“UARB”) with any quantitative analysis of US versus CDN GAAP differences as part of the UARB’s review of NSPI’s US GAAP application.

In its decision dated December 20, 2010, the UARB ordered NSPI to file comparable annual financial statements as would have been prepared under the "old" CDN GAAP as compared to



Fortis BC Utilities (comprised of FortisBC Inc. and the FortisBC Energy Utilities ("FEU") including FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc. – formerly Terasen Gas Inc. ("TGI"), Terasen Gas Vancouver Island Inc. ("TGI") and Terasen Gas (Whistler) Inc. ("TGW") respectively) Application to Adopt US Generally Accepted Accounting Principles ("US GAAP") effective January 1, 2012	Submission Date: April 7, 2011
Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1	Page 46

US GAAP for its first year of reporting based on US GAAP (i.e., 2011). In doing this the UARB expected the Company to only report material differences which are in excess of \$100,000.

NSPI responded to the UARB's decision by stating that tracking and recording only US GAAP based reporting for 2011 would reduce costs associated with having to track the differences between US GAAP and CDN GAAP for an additional year. In order to produce 2011 financial statements similar to what would have occurred had NSPI maintained its CDN GAAP reporting, accounting for items such as pension, preferred shares, hedges and income taxes would have to be tracked separately. This would create the potential for market confusion if both US GAAP and CDN GAAP financial documentation is publicly available.

Based on NSPI's response, the UARB amended its previous decision and ordered that NSPI need only file financial statements using both CDN and US GAAP for the years ended December 31, 2009 and 2010.

9.1.3 Does FBU intend to provide a similar conversion analysis with financial impacts before expecting the Commission to make its determination?

Response:

As outlined in the response to BCUC IR 1.9.1.2, it is our understanding that Nova Scotia Power Inc. did not provide the Nova Scotia Utility Review Board ("UARB") with any quantitative analysis of US versus CDN GAAP differences as part of the UARB's review of NSPI's US GAAP application. As the Fortis BC Utilities are currently in the process of assessing the differences between Canadian and US GAAP, the Companies are not in a position to provide this type of analysis at this point. It should be noted that the UARB accepted the use of US GAAP for regulatory purposes without this analysis.

Attachment 2.2.4

Summary of Canadian Utilities Considering or Adopting US GAAP

EMERA and NSPI

Description of Company Structure (from Emera's Management Discussion and Analysis ("MD&A") dated February 11, 2011)

Over 90% of Emera's revenues are earned by regulated entities – Nova Scotia Power Inc. ("NSPI"), Bangor Hydro and Brunswick Pipeline. NSPI is a wholly-owned fully integrated regulated utility with \$4.0 billion of assets which provides electricity generation, transmission and distribution services to approximately 489,000 customers in the province of Nova Scotia. Bangor Hydro is an electric transmission and distribution company with \$730.4 million of assets serving approximately 118,000 customers in eastern Maine. In December 2010, Emera purchased all of the outstanding shares of Maine and Maritimes Corporation ("MAM"), the parent company of MPS, a regulated electric transmission and distribution utility serving approximately 36,000 electricity customers in northern Maine. At December 31, 2010, MAM's assets and liabilities have been included on Emera's consolidated balance sheet. These businesses operate as monopolies in their service territories. Brunswick Pipeline is a 145-kilometre pipeline carrying re-gasified liquefied natural gas ("LNG") from the Canaport™ LNG terminal in Saint John, New Brunswick to the United States border. This regulated pipeline operates under a 25-year firm service agreement with Repsol Energy Canada.

MD&A Commentary Regarding Adoption of US GAAP

In Q4 2009, due primarily to the continued uncertainty around the timing and eventual adoption of a rate-regulated accounting ("RRA") standard under IFRS, management began reviewing the option of adopting United States Generally Accepted Accounting Principles ("US GAAP") instead of IFRS. In Q1 2010, Emera's Board of Directors approved the transition to US GAAP financial reporting standards beginning Q1 2011.

Debt (Emera and NSPI) – all in Canadian dollars (issued in Canadian debt markets)

[Debt of Emera's US subsidiaries are in US dollars and appear to have been issued in the US debt market]

Preferred Shares (Emera) - all in Canadian dollars (issued in Canadian markets)

Preferred Shares (NSPI) - all in Canadian dollars (issued in Canadian markets)

Common shares (Emera) – listed on the TSX only

Common shares (NSPI) – owed 100% by Emera Inc.

ALTAGAS LTD.

Description of Company Structure (from the AltaGas Management Discussion and Analysis (MD&A”), AltaGas 2010 Annual Report)

AltaGas’ Gas business touches more than 2 Bcf/d of gas and includes natural gas gathering and processing transmission and storage. The Power business includes conventional power generation in Alberta and renewable power generation in British Columbia. The Utility business is a rate regulated business earning returns that are driven primarily by regulated rates of return and cost-of-service recovery.

AltaGas acquired AltaGas Utilities Inc. (“AUI”) and Heritage Gas in the acquisition of Utility Group (note 3 of the 2010 Consolidated Financial Statements), which also owns one-third of Inuvik Gas. AUI, Heritage Gas and Inuvik Gas engage in the delivery and sale of natural gas and are regulated by the AUC, NSUARB and the Northwest Territories Public Utilities Board (NWTPUB), respectively.

MD&A Commentary Regarding Possible Adoption of US GAAP

AltaGas is a qualified entity for the deferral period proposed by AcSB, based on the activities of AUI and Heritage Gas. While AltaGas’ IFRS conversion project was on track to meet the original conversion deadline, AltaGas has elected to use the deferral offered by the AcSB given the uncertainty with respect to the application of IFRS to the rate regulated operations, which are pervasive and central to AltaGas’ business model and a component of the Company’s financial reports. AltaGas will reassess the accounting policy choices available and will determine those most appropriate for AltaGas’ business activities, including the option to adopt US GAAP rather than IFRS. If AltaGas decides to adopt IFRS accounting standards, the transition date will be effective January 1, 2011 and the conversion date will be January 1, 2012.

Debt – all in Canadian dollars (issued in Canadian debt markets)

Preferred Shares – all in Canadian dollars (issued in Canadian markets)

Common shares – listed on the TSX only

ENBRIDGE INC.

Description of Company Structure (from Enbridge Inc.’s Management Discussion and Analysis (“MD&A”) dated February 18, 2011)

As a transporter of energy, Enbridge operates, in Canada and the United States, the world’s longest crude oil and liquids transportation system. The Company also has a significant involvement in the natural gas transmission and midstream businesses. As a distributor of energy, Enbridge owns and operates Canada’s largest natural gas distribution company and provides distribution services in Ontario, Quebec, New Brunswick and New York State.

MD&A Commentary Regarding Possible Adoption of US GAAP

As a United States Securities and Exchange Commission registrant, Enbridge is permitted by Canadian securities regulation to prepare its financial statements in accordance with U.S. GAAP. During the 2011 deferral period, the Company will present its financial statements in accordance with Part V, will continue

to closely monitor developments of the IASB, and will determine whether IFRS or U.S. GAAP would provide the most useful and reliable presentation of its financial results for 2012 and future periods.

Debt – includes Canadian and US dollar debt (raised only in Canadian debt markets)

Preferred Shares - the company's preferred shares are traded on the TSX under the symbol ENB.PR.A.

Common shares – The common shares are traded on the Toronto Stock Exchange (TSX) in Canada, the principal market for Enbridge's common shares, and on the New York Stock Exchange (NYSE) in the United States under the symbol ENB.

ENBRIDGE GAS DISTRIBUTION INC.

Description of Company Structure (from Enbridge Gas Distribution Inc.'s Management Discussion and Analysis ("MD&A") dated February 18, 2011)

Enbridge Gas Distribution Inc. serves approximately 2 million residential, commercial and industrial customers in its franchise areas of central and eastern Ontario, including the City of Toronto and surrounding areas of Peel, York and Durham regions, as well as the Niagara Peninsula, Ottawa, Brockville, Peterborough, Barrie and many other Ontario communities. In addition, the Company serves areas in northern New York State through its wholly owned subsidiary, St. Lawrence Gas Company, Inc. (St. Lawrence). Enbridge Gas Distribution Inc. is a wholly owned subsidiary of Enbridge Inc.

MD&A Commentary Regarding Possible Adoption of US GAAP

While the Company's IFRS conversion project was on track to meet the original conversion deadline, the Company has elected to use the one year deferral offered by the Canadian Accounting Standards Board. This decision was made given the continuing uncertainty with respect to the basis of application of IFRS to the rate regulated operations of the Company, which are pervasive and central to its business model and performance measurement... During the 2011 deferral period, the Company will present its financial statements in accordance with Part V of the CICA Handbook, will continue to closely monitor developments of the IASB, and will determine whether IFRS or U.S. GAAP would provide the most useful and reliable presentation of its financial results for 2012 and future periods.

Debt – all in Canadian dollars (issued in Canadian debt markets)

Preferred Shares - all in Canadian dollars (held direct or indirectly by Enbridge Inc.)

Common shares – owed 100% by Enbridge Inc.

ENBRIDGE PIPELINES INC. (“EPI”)

Description of Company Structure (from EPI’s Management Discussion and Analysis (“MD&A”) dated February 18, 2011)

EPI includes the operation of the Canadian crude oil mainline system and other pipelines, primarily serving markets in the midwest region of the United States and eastern Canada and major refining centers in Ontario. The Company has interests in a refined products pipeline and other liquids pipelines in the United States, as well as equity investments in Enbridge Energy Partners, L.P. (EEP) and Enbridge Energy, L.P. (EELP). EEP transports crude oil and other liquid hydrocarbons through common carrier and feeder pipelines and transports, gathers, processes and markets natural gas and NGLs in the United States. EPI is ultimately a wholly-owned subsidiary of Enbridge Inc.

MD&A Commentary Regarding Possible Adoption of US GAAP

While the Company’s IFRS conversion project was on track to meet the original conversion deadline, the Company has elected to use the one year deferral offered by the Canadian Accounting Standards Board (AcSB). This decision was made given the continuing uncertainty with respect to the application of IFRS to the rate regulated operations of the Company, which are pervasive and central to its business model and performance measurement... During the 2011 deferral period, the Company will present its financial statements in accordance with Part V of the CICA Handbook, continue to closely monitor developments of the IASB, and determine whether IFRS or U.S. GAAP would provide the most useful and reliable presentation of its financial results for 2012 and future periods.

Debt – all in Canadian dollars (issued in Canadian debt markets)

Preferred Shares - all in Canadian dollars (issued in Canadian markets)

Common shares – owed 100% by Enbridge Inc.

TRANSCANADA CORPORATION (“TRANSCANADA”)

Description of Company Structure (from TransCanada’s Management Discussion and Analysis (“MD&A”) dated February 14, 2011)

TransCanada’s businesses are organized into three segments – Natural Gas Pipelines, Oil Pipelines and Energy.

The Natural Gas Pipelines and Oil Pipelines businesses consist of large-scale natural gas and crude oil pipelines, respectively, primarily situated in Canada and the U.S. TransCanada is also the general partner of TC PipeLines, LP (PipeLines LP), a limited partnership that owns interests in U.S. natural gas pipelines.

TransCanada’s Energy business primarily consists of a portfolio of essential power generation assets in select regions of Canada and the U.S., and unregulated natural gas storage assets in Alberta.

TransCanada owns, controls or is developing more than 10,800 MW of power generation, comprising a diverse portfolio that includes power sourced from natural gas, nuclear, coal, hydro and wind assets.

TransCanada's power business is primarily located in Alberta, Ontario and Quebec and in the northeastern U.S., mainly in the New England states, and New York.

TransCanada conducts wholesale and retail electricity marketing and trading throughout North America from its offices in Western Canada, Ontario and the northeastern U.S.

MD&A Commentary Regarding Possible Adoption of US GAAP

As an SEC registrant, TransCanada prepares and files a "Reconciliation to United States GAAP" and has the option to prepare and file its consolidated financial statements using U.S. GAAP. Previously, TransCanada disclosed that effective January 1, 2011, the Company expected to begin reporting under IFRS.

As a result of the developments noted below (MD&A, page 87), management expects that the Company will adopt U.S. GAAP effective January 1, 2012... The impact of adopting U.S. GAAP is consistent with that currently reported in the Company's publicly filed "Reconciliation to United States GAAP". Significant changes to existing systems and processes are not required to implement U.S. GAAP as the Company's primary accounting standard.

Debt – includes Canadian and US dollar debt (raised in both US and Canadian debt markets)

Preferred Shares - TransCanada's Series 1 Preferred Shares, Series 3 Preferred Shares and Series 5 Preferred

Shares have been listed for trading on the TSX since September 30, 2009, March 12, 2010 and June 29, 2010, respectively under the symbols "TRP.PR.A", "TRP.PR.B", and "TRP.PR.C", respectively.

Common shares – TransCanada's Common Shares are listed on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE") under the symbol "TRP".

TRANSCANADA PIPELINES LIMITED ("TCPL")

Description of Company Structure (from TCPL's Management Discussion and Analysis ("MD&A") dated February 14, 2011)

TCPL's businesses are organized into three segments – Natural Gas Pipelines, Oil Pipelines and Energy.

The Natural Gas Pipelines and Oil Pipelines businesses consist of large-scale natural gas and crude oil pipelines, respectively, primarily situated in Canada and the U.S. TransCanada is also the general partner of TC PipeLines, LP (PipeLines LP), a limited partnership that owns interests in U.S. natural gas pipelines.

TCPL's Energy business primarily consists of a portfolio of essential power generation assets in select regions of Canada and the U.S., and unregulated natural gas storage assets in Alberta.

TCPL owns, controls or is developing more than 10,800 MW of power generation, comprising a diverse portfolio that includes power sourced from natural gas, nuclear, coal, hydro and wind assets. TCPL's

power business is primarily located in Alberta, Ontario and Quebec and in the northeastern U.S., mainly in the New England states, and New York.

TCPL conducts wholesale and retail electricity marketing and trading throughout North America from its offices in Western Canada, Ontario and the northeastern U.S.

MD&A Commentary Regarding Possible Adoption of US GAAP

As an SEC registrant, TCPL prepares and files a “Reconciliation to United States GAAP” and has the option to prepare and file its consolidated financial statements using U.S. GAAP. Previously, TCPL disclosed that effective January 1, 2011, the Company expected to begin reporting under IFRS. As a result of the developments noted below (MD&A pages 79-80), management expects that the Company will adopt U.S. GAAP effective January 1, 2012. The impact of adopting U.S. GAAP is consistent with that currently reported in the Company’s publicly filed “Reconciliation to United States GAAP”. Significant changes to existing systems and processes are not required to implement U.S. GAAP as the Company’s primary accounting standard.

Debt – includes Canadian and US dollar debt (raised in both US and Canadian debt markets)

Preferred Shares - TCPL’s preferred shares, series U and series Y, are listed on the TSX under the symbols "TCA.PR.X", and "TCA.PR.Y", respectively.

Common shares – owned 100% by TransCanada Corporation

NOVA GAS TRANSMISSION LIMITED (“NGTL”)

Description of Company Structure (from NGTL’s Management Discussion and Analysis (“MD&A”) dated March 2, 2011)

NGTL, a wholly owned subsidiary of TransCanada PipeLines Limited (TCPL), owns and operates a 24,187 kilometer (km) natural gas transportation system in Alberta and northeastern British Columbia (B.C.) (the Alberta System). The Alberta System collects and transports natural gas for use in Alberta and connects to pipelines at the provincial borders for export to Canada and the United States (U.S.). The Alberta System is subject to the authority of the National Energy Board (NEB) of Canada. Prior to April 2009, the Alberta System was regulated by the Alberta Utilities Commission (AUC). The Alberta System’s operations are regulated with respect to construction, operations and the determination of rates. The timing of recognition of certain revenues and expenses in this rate-regulated business may differ from that otherwise expected in non-rate-regulated businesses under Canadian GAAP to appropriately reflect the economic impact of the regulator’s decisions regarding revenues and rates.

TransCanada Pipeline Ventures Limited Partnership (Ventures LP), which is wholly owned by NGTL, owns a 161 km pipeline and related facilities that supply natural gas to the oil sands region of northern Alberta and a 27 km pipeline that supplies natural gas to a petrochemical complex at Joffre, Alberta. The rates, tolls and other charges, and terms and conditions of service by Ventures LP are established pursuant to negotiated contracts.

MD&A Commentary Regarding Possible Adoption of US GAAP

NGTL will continue to actively monitor the IASB developments with respect to RRA and other IFRS, but has also initiated a review to assess the Company's options of potentially adopting U.S. GAAP on January 1, 2012. Significant changes to existing systems and processes would not be required if the Company is permitted to adopt U.S. GAAP as its primary accounting standard.

Debt – includes Canadian and US dollar debt (raised only in Canadian debt markets)

Preferred Shares - all in Canadian dollars (held by parent, TransCanada Pipelines Limited)

Common shares – owned 100% by TransCanada PipeLines Limited

ALGONQUIN POWER AND UTILITIES CORPORATION (“APUC”)**Description of Company Structure (from APUC's Management Discussion and Analysis (“MD&A”) dated March 2, 2011)**

APUC is incorporated under the Canada Business Corporations Act. APUC currently conducts its business primarily through two separate and autonomous subsidiaries: Algonquin Power Co. (“APCo”) owns and operates a diversified portfolio of renewable energy assets and Liberty Utilities Co. (“Liberty Utilities”) owns and operates a portfolio of North American utilities.

APCo generates and sells electrical energy through a diverse portfolio of clean, renewable power generation and thermal power generation facilities across North America. As at December 31, 2010, APCo owns or has interests in 44 hydroelectric facilities operating in Ontario, Québec, Newfoundland, Alberta, New Brunswick, New York State, New Hampshire, Vermont, Maine and New Jersey with a combined generating capacity of approximately 165 MW. APCo also owns a 104 MW wind powered generating station in Manitoba and holds debt securities in a 26 MW wind powered generating station recently completed in Saskatchewan.

Liberty Utilities provides utility services related to electricity, natural gas, water and wastewater services. Liberty Water Co. (“Liberty Water”), a subsidiary of Liberty Utilities, provides water and wastewater utility services to approximately 75,000 customers through 19 water distribution and wastewater collection and treatment utility systems located in four U.S. States (Arizona, Illinois, Missouri and Texas). These utilities operate under rate regulation, generally overseen by the public utility commissions of the States in which they operate. Liberty Energy Utilities Co. (“Liberty Energy”), a subsidiary of Liberty Utilities, provides local electrical and natural gas utility services. On January 1, 2011, in partnership with Emera Inc. (“Emera”), Liberty Energy acquired a California-based electricity distribution utility and related generation assets, and now provides electric distribution service to approximately 47,000 customers in the Lake Tahoe region (the “California Utility”). Liberty Energy has entered into agreements to acquire two additional utilities which currently provide electric and natural gas distribution services to approximately 125,000 customers in New Hampshire.

MD&A Commentary Regarding Possible Adoption of US GAAP

APUC evaluated the three options and assessed which of the three accounting frameworks would provide its shareholders and other interested readers of its financial statements the most useful basis for financial

reporting. Considering the short-term nature of the CICA solution and the uncertainty around the eventual adoption of a rate-regulated accounting standard under IFRS, U.S. GAAP financial statements represent the least disruptive accounting framework for readers of APUC's financial statements. This option would result in minimal changes having to be made to its financial statements as there are fewer differences between U.S. GAAP and current Canadian GAAP. U.S. GAAP also includes accounting standards for rate-regulated activities within the financial statements.

As such, APUC has decided to adopt U.S. GAAP effective January 1, 2011 for purposes of Canadian and U.S. reporting requirements. U.S. GAAP reporting is permitted by Canadian securities laws and the TSX for companies subject to reporting obligations under U.S. securities laws.

Debt – APUC's Series IA Debentures, Series 2A Debentures and Series 3 Debentures have been listed and posted for trading on the TSX since October 28, 2009 under the symbols "AQN.DB", "AQN.DB.A" and "AQN.DB.B" respectively.

Preferred Shares - None

Common shares – APUC's Common Shares have been listed and posted for trading on the TSX since October 28, 2009 under the symbol "AQN".

UNION GAS

Description of Company Structure (from Union Gas' Management Discussion and Analysis ("MD&A") dated March 16, 2011)

Union Gas is a major Canadian natural gas storage, transmission and distribution company based in Ontario with 100 years of experience and service to customers. The distribution business serves approximately 1.3 million residential, commercial and industrial customers in more than 400 communities across northern, southwestern and eastern Ontario.

MD&A Commentary Regarding Possible Adoption of US GAAP

While the Company's IFRS conversion project was on track to meet the original conversion deadline, we have elected to use the deferral offered by the AcSB. This decision was made to allow us to convert at the same time as many companies in our industry, and to review our reporting options, including registering with the Securities and Exchange Commission (SEC) of the United States, so that we could report under U.S. GAAP instead of IFRS.

At this time, it is the Company's intention to take the steps necessary to report under U.S. GAAP starting in 2012.

Debt – all in Canadian dollars (issued in Canadian debt markets)

Preferred Shares - all in Canadian dollars (issued in Canadian markets)

Common shares – Union Gas' common shares are held by Great Lakes Basin Energy L.P., a wholly-owned limited partnership of Westcoast Energy Inc. (Westcoast). Westcoast is a wholly-owned subsidiary of Spectra Energy Corporation.

WESTCOAST ENERGY INC. (“WESTCOAST”)

Description of Company Structure (from Westcoast's Management Discussion and Analysis (“MD&A”) dated March 17, 2011)

Westcoast is a wholly-owned subsidiary of Spectra Energy Corp and is an integrated natural gas and natural gas liquids (NGLs) company comprised of gathering, processing, transmission, storage, and distribution assets located in Canada.

MD&A Commentary Regarding Possible Adoption of US GAAP

While the Company's IFRS conversion project was on track to meet the original conversion deadline, we have elected to use the deferral offered by the AcSB. This decision was made to allow us to convert at the same time as many companies in our industry, and to review our reporting options, including registering with the Securities and Exchange Commission (SEC) of the United States, so that we could report under U.S. GAAP instead of IFRS. At this time, it is the Company's intention to take the steps necessary to report under U.S. GAAP beginning in 2012.

Debt – all in Canadian dollars (issued in Canadian debt markets)

Preferred Shares - all in Canadian dollars (issued in Canadian markets)

Common shares – wholly-owned subsidiary of Spectra Energy Corporation

Attachment 5.1.2

TGI + FT NELSON BALANCE SHEET	Financial	Reclasses	Reg Differences	Timing Differences	Annual Report	TGI Annual Report Rate Base (exc. Mid-year)	FNG Annual Report Rate Base (exc. Mid-year)	Non Rate Base /Non Reg	Description
ASSETS									
<u>Current Assets</u>									
Cash & Cash Equivalents	\$ 5,710				\$ 5,710			\$ 5,710	Not included in working capital calculation
Accounts Receivable	\$ 277,939	\$ 5,909 ¹			\$ 283,848			\$ 283,848	Not included in working capital calculation
Inventories of Gas in storage and supplies	\$ 149,344				\$ 149,344	\$ 149,326	\$ 18		
Prepaid Expenses	\$ 2,577				\$ 2,577			\$ 2,577	Not included in working capital calculation
Future Income Taxes	\$ 20,500				\$ 20,500			\$ 20,500	FIT for financial purposes only
Current portion of Rate Stabilization accounts	\$ 68,920				\$ 68,920	\$ 68,920			
Property, Plant & Equipment	\$ 2,373,654	\$ 909,812 ^{2,14,15,16}	\$ (82,169) ^{3,4,5,6,7,8,10,11}		\$ 3,201,297	\$ 3,193,151	\$ 8,146		
Plant Under Construction	\$ -		\$ 40,778 ³		\$ 40,778			\$ 40,778	WIP
Lower Mainland Acquisition Premium	\$ -		\$ 176,740 ⁴		\$ 176,740			\$ 176,740	
BCUC Disallowances	\$ -		\$ 224 ⁵		\$ 224			\$ 224	
SCP CIAC	\$ -		\$ (64,030) ⁶		\$ (64,030)			\$ (64,030)	
LILO Assets	\$ -		\$ (109,811) ⁷		\$ (109,811)			\$ (109,811)	
Vehicles leases	\$ -		\$ 24,729 ⁸		\$ 24,729			\$ 24,729	
Regulated CIAC		\$ (164,656) ^{2,14}			\$ (164,656)	\$ (163,385)	\$ (1,271)		
Intangible Assets	\$ 76,100	\$ 33,050 ²			\$ 109,150	\$ 109,150	\$ -		
Investments in and advances to subs	\$ 201,622				\$ 201,622			\$ 201,622	Investments in subs not regulated
Other Assets	\$ 339,227	\$ (330,180) ⁹			\$ 9,047			\$ 9,047	Not included in working capital calculation
Deferred Charges - (Rate Base)	\$ -	\$ 74,874 ⁹	\$ (9,675) ^{11,12,20}	\$ (35,121) ²²	\$ 30,078	\$ 30,047	\$ 31		
Deferred Charges - (Non-Rate Base)	\$ -		\$ 8,968 ²⁰	\$ 35,121 ²²	\$ 44,089			\$ 44,089	Non rate base deferrals and timing adjustments
Future Income Tax	\$ -	\$ 255,306 ⁹	\$ 14,653 ¹⁰		\$ 269,959			\$ 269,959	FIT for financial purposes only
Goodwill	\$ -		\$ 531 ¹²		\$ 531			\$ 531	Goodwill is non-regulated
Long-term Debt Issue costs	\$ -	\$ 13,560 ¹³			\$ 13,560			\$ 13,560	Long-term debt issue costs are non-regulated
TOTAL ASSETS	\$ 3,515,593	\$ 797,675	\$ 938	\$ -	\$ 4,314,206				
LIABILITIES									
<u>Current Liabilities</u>									
Short term notes	\$ 204,000				\$ 204,000			\$ (204,000)	Debt for financial purposes only
Accounts Payable and Accrued	\$ 338,833		\$ (1,814) ¹⁸		\$ 337,019	\$ (25,255)	\$ (282)	\$ (311,482)	Cash working capital component broken out
LILO Benefits	\$ -		\$ 1,814 ¹⁸		\$ 1,814	\$ (1,814)			
Income and other taxes	\$ 35,546		\$ (1,039) ¹¹		\$ 34,507			\$ (34,507)	Tax payable for financial purposes only
Current Portion of Rate Stabilization accounts	\$ 11,694				\$ 11,694	\$ (11,694)			
Future Income Taxes	\$ 8,168				\$ 8,168			\$ (8,168)	FIT for financial purposes only
Current Portion of Long Term Debt	\$ 2,232				\$ 2,232			\$ (2,232)	Debt for financial purposes only
Allowance for Doubtful Accounts		\$ 5,909 ¹			\$ 5,909			\$ (5,909)	Not included in working capital calculation
Long Term Debt	\$ 1,590,323	\$ 13,560 ¹³			\$ 1,603,883			\$ (1,603,883)	Debt for financial purposes only
Accumulated Depreciation - Gas Plant	\$ -	\$ 789,186 ^{2,15,16}	\$ (40,335) ^{4,6,7,8}		\$ 748,851	\$ (746,818)	\$ (2,033)		
Accumulated Depreciation - Lower Mainland Acquisition Premium	\$ -		\$ 87,547 ⁴		\$ 87,547			\$ (87,547)	
Accumulated Depreciation - SCP CIAC	\$ -		\$ (16,001) ⁶		\$ (16,001)			\$ 16,001	
Accumulated Depreciation - LILO Assets	\$ -		\$ (44,780) ⁷		\$ (44,780)			\$ 44,780	
Accumulated Depreciation - Vehicles Leases	\$ -		\$ 13,569 ⁸		\$ 13,569			\$ (13,569)	
Accumulated Depreciation - Regulated CIAC	\$ -	\$ (44,716) ²			\$ (44,716)	\$ 44,264	\$ 452		
Accumulated Depreciation - Intangibles	\$ -	\$ 33,050 ²			\$ 33,050	\$ (33,050)			
Rate Stabilization accounts	\$ 23,518				\$ 23,518	\$ (23,518)			
Other long-term liabilities and deferred credits	\$ 149,817	\$ (42,797) ¹⁷	\$ (9,291) ²¹		\$ 97,729	\$ (97,694)	\$ (35)		
Deferred Credits (Non-Rate Base)	\$ -		\$ 9,291 ²¹		\$ 9,291			\$ (9,291)	Non rate base deferred credits
LILO Deferred Gains	\$ -	\$ 42,130 ¹⁷			\$ 42,130			\$ (42,130)	
Construction Advances	\$ -	\$ 667 ¹⁷			\$ 667	\$ (667)			
Future Income Taxes (Non-Regulated)	\$ 269,871		\$ 1,368 ^{10,19}		\$ 271,239			\$ (271,239)	FIT for financial purposes only
Future Income Taxes (Regulated)	\$ -		\$ 609 ¹⁹		\$ 609	\$ (609)			
EQUITY									
Common Stock	\$ 593,959				\$ 593,959				
Contributed Surplus	\$ 246,501				\$ 246,501				
Retained Earnings, opening difference				\$ -	\$ -				
Retained Earnings, current year-regulated	\$ 41,131	\$ -	\$ 30,827	\$ -	\$ 71,958				
Retained Earnings, current year-non-regulated		\$ 686 ¹⁶	\$ (30,827) ^{25-32,34-38}		\$ (30,141)				
TOTAL LIABILITIES + EQUITY	\$ 3,515,593	\$ 797,675	\$ 938	\$ -	\$ 4,314,206	\$ 2,490,354	\$ 5,026		
						2489932	5025 amount per annual report		
						\$ 422	\$ 1 rounding/unexplained		

TGI + FT NELSON
INCOME STATEMENT

	Financial	Reclasses	Reg Differences	Timing Differences	Annual Report	TGI Annual Report Earned Return	FNG Annual Report Earned Return
REVENUE							
Natural Gas Transmission & Distribution	\$ 1,435,416	\$ (14,384) ²³			\$ 1,421,032	\$ 1,415,944	\$ 5,088
Other Operating Revenue	\$ -	\$ 10,187 ^{23,33}	\$ 10,786 ^{34,35,36,37,38}		\$ 20,973	\$ 20,941	\$ 32
Management Fees	\$ 7,552	\$ (7,552) ²⁴			\$ -		
TOTAL REVENUE	\$ 1,442,968	\$ (11,749)	\$ 10,786	\$ -	\$ 1,442,005		
EXPENSES							
Cost of natural gas	\$ 909,278				\$ 909,278	\$ (905,678)	\$ (3,600)
Operation and Maintenance	\$ 195,026	\$ (11,749) ^{24,33}	\$ (20,593) ^{25,26,27,28}		\$ 162,684	\$ (162,026)	\$ (658)
Vehicle Lease costs	\$ -		\$ 1,804 ²⁹		\$ 1,804	\$ (1,804)	
Depreciation & Amortization	\$ 72,046		\$ (1,252) ^{29,30,31,32}		\$ 70,794	\$ (70,632)	\$ (162)
Amortization of intangible assets	\$ 9,036				\$ 9,036	\$ (9,036)	
Property and other taxes	\$ 47,750				\$ 47,750	\$ (47,593)	\$ (157)
TOTAL EXPENSES	\$ 1,233,136	\$ (11,749)	\$ (20,041)	\$ -	\$ 1,201,346		
OPERATING INCOME (LOSS)	\$ 209,832	\$ -	\$ 30,827	\$ -	\$ 240,659		
Financing costs	\$ 108,313				\$ 108,313		
EARNINGS (LOSS) BEFORE INCOME TAXES	\$ 101,519	\$ -	\$ 30,827	\$ -	\$ 132,346		
Income tax expense (recovery)	\$ 17,814				\$ 17,814		
NET INCOME (LOSS)	\$ 83,705	\$ -	\$ 30,827	\$ -	\$ 114,532	\$ 240,116	\$ 543
						240050	543 amount per annual report Page 16
						\$ 66	\$ - rounding/unexplained
RETAINED EARNINGS							
Balance Beginning of Year	\$ 23,926				\$ 23,926		
Add: Net Income	\$ 83,705	\$ -	\$ 30,827	\$ -	\$ 114,532		
Less: Dividends	\$ (66,500)				\$ (66,500)		
Balance End of Year	\$ 41,131				\$ 71,958		

TGI + FT NELSON Entries

- ¹ Reclass allowance for doubtful account classified as liability for reg purposes and asset for financial purposes
- ² Reclass accumulated depreciation classified as liability for reg purposes and asset for financial purposes
- ³ To recognize Gas Plant under Construction is non-rate base
- ⁴ To recognize Lower Mainland Acquisition Premium is non-regulated
- ⁵ To recognize BCUC Disallowances are non-regulated
- ⁶ To recognize SCP CIAC is non-regulated
- ⁷ To recognize LILO assets are non-regulated
- ⁸ To recognize Vehicle leases are capital leases for accounting purposes and operating leases for reg purposes
- ⁹ To separate out Deferred Charges and Future Income Tax embedded in other assets in financial statements
- ¹⁰ To recognize Future Income Tax on CIAC is non-regulated
- ¹¹ To reclass long-term receivable account to bring net of tax balances to a gross basis
- ¹² To recognize Goodwill is non-regulated
- ¹³ Reclass unamortized long-term debt issue costs classified as assets for reg purposes and liabilities for financial purposes
- ¹⁴ To separate out Regulated CIAC embedded in Property, Plant & Equipment
- ¹⁵ Opening balance adjustment for BC Gas WIP in financial statements not recognized for reg purposes
- ¹⁶ Opening balance adjustment for BC Gas assets in financial statements not recognized for reg purposes
- ¹⁷ To separate out LILO Deferred gains and Construction Advances embedded in other long-term liabilities in financial statements
- ¹⁸ To separate out embedded LILO benefits for regulatory purposes
- ¹⁹ To recognize regulated portion of FIT
- ²⁰ To reclassify non-rate base deferred charges
- ²¹ To reclassify non-rate base deferred credits
- ²² To recognize timing variances in regulated deferrals per Page 61.8 of annual report
- ²³ To separate out other operating revenues per annual report
- ²⁴ Management fees reclass done for financial purposes only
- ²⁵ To recognize Stock options are non-regulated
- ²⁶ To recognize provision for BioGas costs is non-regulated
- ²⁷ To recognize SCP Financing Lease costs are non-regulated
- ²⁸ To recognize LILO rent is non-regulated
- ²⁹ To recognize Vehicle leases are treated as operating leases for regulatory purposes
- ³⁰ To recognize depreciation on Lower Mainland Acquisition Premium is non-regulated
- ³¹ To recognize depreciation on SCP CIAC is non-regulated
- ³² To recognize depreciation on LILO assets are non-regulated
- ³³ Rent recoveries reclass done for financial purposes only
- ³⁴ To remove Earnings Sharing from utility earnings
- ³⁵ To remove equity AFUDC from utility earnings
- ³⁶ To remove LILO gain from utility earnings
- ³⁷ To remove GSMIP from utility earnings
- ³⁸ To remove non-regulated gains from utility earnings

US GAAP differences

- Classification difference - will continue
- Classification difference - will continue
- Classification difference - will continue
- Will continue under US GAAP
- Will continue under US GAAP
- Wound up in early 201 but would not expect a change under US GAAP
- Under US GAAP, the financial reporting treatment is expected to change so this different will likely also change
- This became a capital for regulatory starting in 2010 so the difference is eliminated already
- Classification difference - will continue
- Will continue under US GAAP
- Classification difference - will continue
- Will continue under US GAAP
- Classification difference - will continue
- Will continue under US GAAP
- Will continue under US GAAP
- Under US GAAP, the financial reporting treatment is expected to change so this different will likely also change
- Under US GAAP, the financial reporting treatment is expected to change so this different will likely also change
- Will continue under US GAAP
- Classification difference - will continue
- Classification difference - will continue
- Will continue under US GAAP
- Classification difference - will continue
- Will continue under US GAAP
- Will continue under US GAAP
- See above re: scp assets
- Under US GAAP, the financial reporting treatment is expected to change so this different will likely also change
- See above re treatment of capital asset portion of capital lease
- See above re lower mainland acquisition premium
- See above re scp assets
- Under US GAAP, the financial reporting treatment is expected to change so this different will likely also change
- Classification difference
- Will continue under US GAAP
- Will continue under US GAAP
- Under US GAAP, the financial reporting treatment is expected to change so this different will likely also change
- Will continue under US GAAP
- Will continue under US GAAP

TGVI BALANCE SHEET	Financial	Reclasses	Reg Differences	Timing Differences	Annual Report Page 1.6	Annual Report Rate Base	Non Rate Base /Non Reg	Description
						(exc. Mid-year)		
ASSETS								
<i>Current Assets</i>								
Cash & Cash Equivalents	\$ 10,506				\$ 10,506	\$ 4,702	\$ 5,804	Cash working capital component broken out
Accounts Receivable	\$ 31,811	\$ 803 ³	\$ 285 ⁶		\$ 32,899		\$ 32,899	Not included in working capital calculation
Due from Related Parties	\$ 38				\$ 38		\$ 38	Investments in subs not regulated
Gas Inventory	\$ 9,966				\$ 9,966	\$ 9,966		
Prepaid Expenses	\$ 662				\$ 662		\$ 662	Not included in working capital calculation
Future Income Taxes	\$ 2,832		\$ 54,706 ⁹		\$ 57,538	\$ 57,538		
Employee Benefit Plan	\$ 1,343	\$ (1,343) ⁴			\$ -			
Gas Plant in Service	\$ 537,964	\$ 243,372 ^{1,2}			\$ 781,336	\$ 781,232	\$ 104	TGW common plant allocation double-counted incorrectly in annual report
Gas Plant under Construction	\$ 124,025				\$ 124,025		\$ 124,025	WIP
Non-Rate Base Plant	\$ 908	\$ 9 ¹			\$ 917		\$ 917	Non-rate base land and Sooke assets
Unamortized Debt Discount and Expense	\$ -	\$ 2,177 ⁷			\$ 2,177	\$ 2,177		
Deferred Charges	\$ 75,626	\$ 5,625 ⁵	\$ (76,383) ^{8,9}		\$ 4,868	\$ 2,033	\$ 2,835	Goodwill, VIJV legal costs and Sechelt are non-rate base
TOTAL ASSETS	\$ 795,681	\$ 250,643	\$ (21,392)	\$ -	\$ 1,024,932			
LIABILITIES								
<i>Current Liabilities</i>								
Short term notes	\$ 156,000				\$ 156,000		\$ (156,000)	Debt for financial purposes only
Accounts Payable and Accrued	\$ 44,624		\$ (20,440) ^{6,8}		\$ 24,184	\$ (1,043)	\$ (23,141)	Employee withholdings included in rate base
Due to related parties	\$ 2,064				\$ 2,064		\$ (2,064)	Investments in subs not regulated
Income and other taxes	\$ 7,516				\$ 7,516		\$ (7,516)	Tax payable for financial purposes only
Security Deposits	\$ 2,193				\$ 2,193	\$ (2,193)		
Current Portion of Long Term Debt	\$ 24,105			\$ (3,575) ¹⁰	\$ 20,530		\$ (20,530)	Debt for financial purposes only
Allowance for Doubtful Accounts	\$ -	\$ 803 ³			\$ 803		\$ (803)	Not included in working capital calculation
Accumulated Revenue Surplus	\$ 8,528			\$ 260 ¹¹	\$ 8,788		\$ (8,788)	Not part of rate base
Pension Liabilities	\$ 5,510	\$ (1,343) ⁴			\$ 4,167	\$ (4,167)		
Customer Deposits	\$ 289				\$ 289	\$ (289)		
Accumulated Depreciation - Gas Plant	\$ -	\$ 194,249 ¹			\$ 194,249	\$ (194,249)		
Accumulated Depreciation - Non-Rate Base Plant	\$ -	\$ 9 ¹			\$ 9		\$ (9)	Depreciation on non rate base plant above
Deferred Credits	\$ 1,620	\$ 5,625 ⁵	\$ (392) ⁹	\$ (260) ¹¹	\$ 6,593	\$ (6,349)	\$ (244)	Mark to market-LNG in non-rate base deferrals
Long Term Debt	\$ 247,823	\$ 2,177 ⁷			\$ 250,000		\$ (250,000)	Debt for financial purposes only
Future Income Taxes	\$ 55,630		\$ (560) ⁹		\$ 55,070	\$ (57,537)	\$ 2,467	To recognize non-regulated portion of FIT
TOTAL LIABILITIES + EQUITY	\$ 795,681	\$ 250,643	\$ (21,392)	\$ -	\$ 1,024,932	\$ 539,123		
								539132 amount per annual report
								\$ (9) rounding/unexplained

TGV1					
INCOME STATEMENT					
	Financial	Reclasses	Reg Differences	Timing Differences	Annual Report Page 1.6
REVENUE					
Natural Gas Distribution	\$ 184,796		\$ (3,347) ¹²		\$ 181,449
Transportation	\$ 24,106				\$ 24,106
Royalty Income	\$ 21,891				\$ 21,891
TOTAL REVENUE	\$ 230,793	\$ -	\$ (3,347)	\$ -	\$ 227,446
EXPENSES					
Cost of natural gas	\$ 103,889			\$ (372) ¹¹	\$ 103,517
Operation and Maintenance	\$ 22,309				\$ 22,309
Depreciation & Amortization	\$ 22,616		\$ (2) ¹⁴		\$ 22,614
Property and other taxes	\$ 9,108				\$ 9,108
Wheeling	\$ 3,391				\$ 3,391
TOTAL EXPENSES	\$ 161,313	\$ -	\$ (2)	\$ (372)	\$ 160,939
OPERATING INCOME (LOSS)	\$ 69,480	\$ -	\$ (3,345)	\$ 372	\$ 66,507
Financing costs	\$ 16,266		\$ (1,305) ^{13,15}		\$ 14,961
Interest on Sub-ordinated Debt	\$ -		\$ 1,282 ¹⁵		\$ 1,282
EARNINGS (LOSS) BEFORE INCOME TAXES	\$ 53,214	\$ -	\$ (3,322)	\$ 372	\$ 50,264
Income tax expense (recovery)	\$ 13,262			\$ 112 ¹¹	\$ 13,374
EARNINGS (LOSS) BEFORE REVENUE SURPLUS	\$ 39,952	\$ -	\$ (3,322)	\$ 260	\$ 36,890
Revenue Surplus	\$ 13,210			\$ 260 ¹¹	\$ 13,470
Higher Rate Base for financial than regulatory	\$ -		\$ 147 ¹⁶		\$ 147
Special Direction Provision	\$ -		\$ (1,867) ¹⁷		\$ (1,867)
O&M expense adjustment from actual to allowed	\$ -		\$ 4,697 ¹⁸		\$ 4,697
NET INCOME (LOSS)	\$ 26,742	\$ -	\$ (6,299)	\$ -	\$ 20,443
					Earned Return on Equity
RETAINED EARNINGS					
Balance Beginning of Year	\$ 79,301				\$ 79,301
Add: Net Income	\$ 26,742	\$ -	\$ (6,299)	\$ -	\$ 20,443
Less: Dividends	\$ (20,500)				\$ (20,500)
Balance End of Year	\$ 85,543				\$ 79,244

TGVI Entries

- ¹ Reclass accumulated depreciation classified as liability for reg purposes and asset for financial purposes
- ² Reclass Contributions and Grants classified as equity for reg purposes and asset for financial purposes
- ³ Reclass allowance for doubtful account classified as liability for reg purposes and asset for financial purposes
- ⁴ Reclass employee benefit plan classified as liability for reg purposes and asset for financial purposes.
- ⁵ Reclass GCVA classified as liability for reg purposes and asset for financial purposes.
- ⁶ Reclass Royalty Revenue receivable classified as liability for reg purposes and asset for financial purposes.
- ⁷ Reclass unamortized long-term debt issue costs classified as assets for reg purposes and liabilities for financial purposes
- ⁸ Ineffective hedges relating to cost of gas for financial purposes only
- ⁹ Non-regulated FIT for financial purposes only (FIT included on Reg schedules beginning 2010).
- ¹⁰ Government loan reclass-timing. Booked in Reg books in 2009, financial books in 2008.
- ¹¹ GCVA adjustment-timing. Booked in Reg books in 2009, financial books in 2010.
- ¹² To recognize AFUDC-Equity is non-regulated
- ¹³ To recognize Interest on Goodwill is non-regulated
- ¹⁴ To recognize depreciation on Sooke assets is disallowed
- ¹⁵ To recognize interest on sub-ordinated debt is non-regulated
- ¹⁶ To recognize that rate base for financial purposes is higher than rate base for Reg purposes
- ¹⁷ Special Direction provision dis-allowed for Reg purposes
- ¹⁸ To adjust O&M from actual to allowed for Reg purposes

US GAAP differences

- Classification difference - will continue
- Will continue under US GAAP

TGW

BALANCE SHEET	Financial	Reclasses	Reg Differences	Timing Differences	Annual Report Page 1.6	Annual Report Rate Base (exc. Mid-year)	Non Rate Base /Non Reg	Description
ASSETS								
<u>Current Assets</u>								
Accounts Receivable	\$ 2,324	\$ 40 ²		\$ 4 ⁷	\$ 2,368	\$ 64	\$	2,304 Cash working capital component broken out
Due from Related Parties	\$ 1,094				\$ 1,094		\$	1,094 Investments in subs not regulated
Future Income Taxes	\$ 326		\$ (326) ³		\$ -			
Gas Inventory	\$ -		\$ 337 ⁴		\$ 337	\$ 337		
Property, Plant & Equipment	\$ 13,196	\$ (1,409) ¹		\$ 4,368 ¹⁵	\$ 16,155	\$ 16,011	\$	144 WIP
Intangible Assets	\$ 83				\$ 83	\$		
Deferred Charges	\$ 30,739		\$ 4,867 ^{3,5}	\$ (4,171) ^{6,15}	\$ 31,435	\$ 29,548	\$	1,887 Pipeline development costs in non-rate base deferral
TOTAL ASSETS	\$ 47,762	\$ (1,369)	\$ 4,878	\$ 201	\$ 51,472			
LIABILITIES								
<u>Current Liabilities</u>								
Accounts payable and accrued liabilities	\$ 200		\$ 337 ⁴		\$ 537	\$ (47)	\$	(490) Employee withholdings included in rate base
Income and other taxes payable	\$ 173			\$ 1 ⁷	\$ 174		\$	(174) Tax payable for financial purposes only
Due to related parties	\$ 7,680				\$ 7,680		\$	(7,680) Investments in subs not regulated
Deferred credits	\$ 1,800				\$ 1,800	\$ (1,800)		
Customer deposit	\$ 117				\$ 117	\$ (117)		
Allowance for Doubtful Accounts	\$ -	\$ 40 ²			\$ 40		\$	(40) Not included in working capital calculation
Accumulated Depreciation - Gas Plant	\$ -	\$ (1,409) ¹			\$ (1,409)	\$ 1,409		
Long-term advance due to parent	\$ 20,000				\$ 20,000		\$	(20,000) Investments in subs not regulated
Deferred credits	\$ 797		\$ (550) ⁵	\$ (48) ^{7,8,9}	\$ 199	\$ (199)		
Future income taxes	\$ 1,414		\$ 254 ^{3,5}		\$ 1,668	\$ (1,668)		
EQUITY								
Share capital	\$ 16,671				\$ 16,671			
Retained Earnings, opening difference	\$ -			\$ 43 ^{10,11,12}	\$ 43			
Retained Earnings, current year-regulated	\$ (1,090)		\$ 4,564	\$ 205	\$ 3,679			
Retained Earnings, current year-non-regulated	\$ -		\$ 273 ^{13,14}		\$ 273			
TOTAL LIABILITIES + EQUITY	\$ 47,762	\$ (1,369)	\$ 4,878	\$ 201	\$ 51,472	\$ 43,621		
						\$ 43,622		amount per annual report
						\$ (1)		rounding/unexplained

TGW
INCOME STATEMENT

	Financial	Reclasses	Reg Differences	Timing Differences	Annual Report Page 12.0	
REVENUE						
Natural gas and propane distribution	\$ 15,434		\$ (136) ¹⁴	\$ 308 ^{6,9,12}	\$ 15,606	
TOTAL REVENUE	\$ 15,434	\$ -	\$ (136)	\$ 308	\$ 15,606	
EXPENSES						
Cost of natural gas and propane	\$ 10,020				\$ 10,020	
Operation and maintenance	\$ 6,560		\$ (5,860) ³		\$ 700	
Depreciation and amortization	\$ 434				\$ 434	
Property and other taxes	\$ 369				\$ 369	
Wheeling	\$ 1,995				\$ 1,995	
TOTAL EXPENSES	\$ 19,378	\$ -	\$ (5,860)	\$ -	\$ 13,518	
OPERATING (LOSS) INCOME	\$ (3,944)	\$ -	\$ 5,724	\$ 308	\$ 2,088	
Financing costs	\$ 1,022			\$ 68 ^{8,10,11}	\$ 1,090	Earned Return on Short-term + Long-term debt
(LOSS) EARNINGS BEFORE INCOME TAXES	\$ (4,966)	\$ -	\$ 5,724	\$ 240	\$ 998	
Income tax (recovery) expense	\$ (1,393)		\$ 1,160 ^{3,13}	\$ 35 ^{7,8,9}	\$ (198)	
NET (LOSS) INCOME	\$ (3,573)	\$ -	\$ 4,564	\$ 205	\$ 1,196	Earned Return on Equity
RETAINED EARNINGS						
Balance Beginning of Year	\$ 2,483				\$ 2,527	
Add: Net Income	\$ (3,573)	\$ -	\$ 4,564	\$ 205	\$ 1,196	
Balance End of Year	<u>\$ (1,090)</u>				<u>\$ 3,723</u>	

TGW Entries

- ¹ Reclass accumulated depreciation classified as liability for reg purposes and asset for financial purposes
- ² Reclass allowance for doubtful account classified as liability for reg purposes and asset for financial purposes
- ³ Provision for conversion costs booked for financial purposes only
- ⁴ Allocate Gas Inventory from TGI for reg purposes only
- ⁵ Non-regulated FIT for financial purposes only (FIT included on Reg schedules beginning 2010).
- ⁶ Income tax on conversion costs-timing. Booked in Reg books 2009, financial books 2010.
- ⁷ Gas sales correction-timing. Booked in Reg books 2009, financial books 2008.
- ⁸ 2009 Short-term debt adjustment-timing. Booked in Reg books in 2009, financial books in 2010.
- ⁹ 2009 ROE adjustment-timing. Booked in Reg books in 2009, financial books in 2010.
- ¹⁰ 2008 Short-term debt adjustment-timing. Booked in Reg books in 2008, financial books in 2009.
- ¹¹ 2008 ROE adjustment-timing. Booked in Reg books in 2008, financial books in 2009.
- ¹² 2008 Long-term debt adjustment-timing. Booked in Reg books in 2008, financial books in 2009.
- ¹³ To recognize difference in regulated vs. non-regulated income tax expense
- ¹⁴ To recognize AFUDC-Equity is non-regulated
- ¹⁵ Loss on disposal of propane assets. Transferred in Reg books in 2010, financial books in 2009.

US GAAP differences

- Classification difference - will continue
 Classification difference - will continue
 Will be adjusted in 2010 based on BCUC decision
 Will continue under US GAAP
 Will continue under US GAAP
 See comment above
 Will continue under US GAAP
 Will continue under US GAAP

FortisBC Inc. - RECONCILIATION OF FINANCIAL STATEMENTS

BALANCE SHEET CORPORATE & REGULATED

YEAR ENDED DECEMBER 31, 2009

	Corporate (external)		Regulated
		(\$000s)	
ASSETS			
Plant and Equipment & Intangibles	1,265,801	77,929 ^{1,2,3,4}	1,343,730
Less accumulated depreciation	(282,029)	(19,356) ^{1,2,3,4}	(301,385)
	983,773	58,572	1,042,345
Capital Lease Asset (non-rate base)	-	21,566 ³	21,566
Other Assets	13,218	2,611 ^{5,6,7,8,9,10}	15,829
Regulated Assets	103,852	(103,852) ^{7,11}	-
Non-Rate Base Assets	-	97,547 ¹¹	97,547
	117,071	(3,695)	113,376
Goodwill	1,209	(1,209) ¹²	-
Current Assets			
Cash	23	(23) ⁴	-
Accounts receivable	41,069	(14,504) ^{4,5,13,14}	26,565
Unbilled revenue	-	18,624 ¹³	18,624
Prepaid expenses	1,284	(25) ⁴	1,259
Future income taxes	1,072	(1,072) ¹⁵	-
Other assets	815	(815) ⁵	-
Inventory	530	-	530
Regulated assets	326	(326) ⁶	-
	45,119	1,859	46,978
TOTAL ASSETS	1,147,172	77,093	1,224,265
CAPITAL AND LIABILITIES			
Capitalization			
Shareholder's Equity			
Common shares	191,851	(21,729) ¹⁴	170,122
Retained earnings	205,056	10,076 ¹⁴	215,132
Total Shareholder's Equity	396,907	(11,653)	385,254
Long-Term Debt			
Secured debentures	40,000	-	40,000
Unsecured debentures	500,000	-	500,000
Debt issue costs	(5,446)	5,446 ^{8,14}	-
Bank Loan	37,797	(2,870) ⁴	34,927
Total Long-Term Debt	572,351	2,576	574,927
Contributions in Aid of Construction	-	90,267 ¹	90,267
Obligation under Capital Lease and Other (non-rate base)	28,933	(1,427) ^{10,16}	27,506
Other Post-Retirement Benefit Liability (non-rate base)	12,001	-	12,001
Future income taxes (non-rate base)	81,907	(2,301) ^{4,15}	79,606
Future income taxes	418	-	418
	82,325	(2,301)	80,024
Current Liabilities			
Accounts payable and accrued liabilities	41,486	1,416 ^{4,14,16}	42,902
Current portion of debt	3,700	(3,700) ^{4,17}	-
Accrued interest	4,036	-	4,036
Income Taxes Payable	1,008	3,484 ^{4,14}	4,492
Bank Loans	-	2,856 ¹⁷	2,856
Regulated liability	4,426	(4,426) ^{9,14}	-
	54,655	(370)	54,286
TOTAL CAPITAL AND LIABILITIES	1,147,172	77,093	1,224,265

FortisBC Inc. - RECONCILIATION OF FINANCIAL STATEMENTS

STATEMENT OF EARNINGS CORPORATE & REGULATED
YEAR ENDED DECEMBER 31, 2009

	Corporate (external)	(\$000s)	Regulated
REVENUE			
Sale of power	240,151	(1,579) ⁴	238,572
Other	3,949	1,237 ^{18,19}	5,187
	<u>244,100</u>	<u>(341)</u>	<u>243,759</u>
EXPENSES			
Operating and Maintenance	37,765	(1,063) ^{4,14}	36,702
Power Purchases	71,553	(777) ¹⁹	70,776
Wheeling	4,003	-	4,003
Property taxes	11,899	(326) ⁴	11,573
Water fees	8,760	(104) ⁴	8,656
Depreciation & Amortization of Deferreds	37,114	263 ^{2,4,20}	37,376
	<u>171,094</u>	<u>(2,008)</u>	<u>169,086</u>
EARNINGS FROM OPERATIONS	<u>73,006</u>	<u>1,666</u>	<u>74,672</u>
INTEREST EXPENSE			
Long-term debt	34,428	(1,065) ^{4,21}	33,363
Short-term debt	971	(923) ^{21,22}	48
Amortization of deferred financing costs	405	(405) ²⁰	-
Allowance for funds used during construction	(3,234)	3,234 ²³	-
	<u>32,570</u>	<u>841</u>	<u>33,411</u>
REGULATORY INCENTIVE ADJUSTMENTS	<u>-</u>	<u>2,014¹⁸</u>	<u>2,014</u>
EARNINGS BEFORE INCOME TAXES	<u>40,436</u>	<u>(1,189)</u>	<u>39,248</u>
INCOME TAXES	<u>4,212</u>	<u>537^{4,14}</u>	<u>4,749</u>
NET EARNINGS	<u>36,224</u>	<u>(1,726)</u>	<u>34,499</u>

Note: Minor differences due to rounding

CDN GAP Differences

- ¹ To separate CIAC embedded in Property, Plant & Equipment
- ² To remove Non-Regulated asset (Warfield Garage Expansion)
- ³ To separate Capital Lease Asset (non-rate base)
- ⁴ To remove Non-Regulated Walden Power Partnership
- ⁵ To reclass Energy Management Loans to Accounts Receivable
- ⁶ To reclass Current Regulated Assets to Other Assets
- ⁷ To reclass Long-Term Regulated Assets to Other Assets
- ⁸ To reclass Debt Issue Costs to Other Assets
- ⁹ To reclass Regulated Liability to Other Assets
- ¹⁰ To reclass Other Liabilities to Other Assets
- ¹¹ To reclass Regulated Asset (non-rate base)
- ¹² To remove Non-Regulated Goodwill
- ¹³ To separate Unbilled Revenue
- ¹⁴ To remove Non-Regulated operations
- ¹⁵ To reclass Future Income Tax Asset to Future Income Tax Liability (non-rate base)
- ¹⁶ To reclass to Current Portion of Capital Lease from Accounts Payable
- ¹⁷ To reclass Current Portion of Debt to Bank Loans
- ¹⁸ To separate Incentive Adjustments
- ¹⁹ To reclass sale of surplus power from Other Revenue to Power Purchases
- ²⁰ To reclass Amortization of Deferred Financing Costs
- ²¹ To reclass Short-Term Interest Expense
- ²² To remove Non-Regulated CWIP Interest
- ²³ To remove Non-Regulated AFUDC

US GAP Differences

- Classification difference - will continue
- Non-regulated operations - difference will continue
- Classification difference - will continue
- Non-regulated operations - difference will continue
- Classification difference - will continue
- Non-regulated operations - difference will continue
- Classification difference - will continue
- Non-regulated operations - difference will continue
- Classification difference - will continue
- Non-regulated operations - difference will continue
- Non-regulated operations - difference will continue