



**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](mailto:diane.roy@fortisbc.com)  
[www.fortisbc.com](http://www.fortisbc.com)

Regulatory Affairs Correspondence  
Email: [gas.regulatory.affairs@fortisbc.com](mailto:gas.regulatory.affairs@fortisbc.com)

April 7, 2011

Commercial Energy Consumers Association of British Columbia  
c/o Owen Bird Law Corporation  
P.O. Box 49130  
Three Bentall Centre  
2900 – 595 Burrard Street  
Vancouver, BC  
V7X 1J5

Attention: Mr. Christopher P. Weafer

Dear Mr. Weafer:

**Re: The Fortis BC Utilities  
Application to Adopt US Generally Accepted Accounting Principles (“US  
GAAP”) effective January 1, 2012  
Response to the Commercial Energy Consumers Association of British  
Columbia (“CEC”) Information Request (“IR”) No. 1**

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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.<sup>1</sup>]), 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 CEC 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](mailto:roger.dall'antonia@fortisbc.com).

Yours very truly,

**on behalf of the FORTIS BC UTILITIES**

***Original signed:***

Diane Roy

Attachment

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

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<sup>1</sup> Formerly Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc. respectively



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**1. Reference: Section 3.1 Transparency under US GAAP**

"To become an SEC issuer, Fortis BC and Terasen Gas 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."

- 1.1 Is FBU still required to provide a non-convertible instrument for each entity (Terasen Gas and Fortis BC) with Terasen changing their name to Fortis BC?

**Response:**

Yes, while Terasen Gas Inc. has changed its name to FortisBC Energy Inc., effective March 1, 2011, it still remains a separate legal entity. Accordingly, each of FortisBC Inc. and FortisBC Energy Inc. will be required to list an existing investment grade, non-convertible debt instrument on the New York Stock Exchange.

- 1.2 Are the non-convertible instruments existing or is this non-convertible instrument mentioned a new debt instrument?

**Response:**

The investment grade, non-convertible debt instruments are existing debt instruments of FortisBC Inc. and FortisBC Energy Inc.

- 1.3 If so how are rate payers impacted.

**Response:**

The impact of US GAAP adoption on rate payers is limited to the differing costs for converting to US GAAP vs. IFRS, the timing differences between when expenditures may be recognized for regulatory purposes under US GAAP vs. IFRS, and any additional costs associated with SEC registration and listing on NYSE.



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- 1.4 Would rate payers be impacted indefinitely by the issuance of this non-convertible instrument?

**Response:**

Please see response to CEC IR 1.1.3.

- 1.5 Does this debt get rolled over automatically when maturity comes due?

**Response:**

No, the debt instruments are bullet debentures, which means that at maturity the full par value of the debentures (i.e. the principal) will be repaid to debenture holders.

- 1.6 Will Fortis be registered on both NYSE and Toronto Stock Exchanges?

**Response:**

Fortis Inc. will register a class of its equity securities under Section 12(g) of the Exchange Act on Form 40-F in order to qualify as an SEC issuer. Neither the equity nor the debt securities of Fortis Inc. will be listed on the NYSE upon registration; however, Fortis Inc. may elect to list a class of its equity or debt at a later date. Fortis Inc. will continue to be listed on the Toronto Stock Exchange.

- 1.7 If so, how are rate payers impacted since there are costs associated with having Fortis traded on both exchanges?

**Response:**

Please refer to the response to BCOAPO IR 1.3.1 part (ii).



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**2. Reference: 3.2.1 US GAAP versus current regulatory treatment**

“Any difference between current CDN GAAP and US GAAP are expected to be balance sheet items only and may be recognized as regulatory assets and liabilities. 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.”

- 2.1 Wouldn't reducing discrepancies between regulatory and financial reporting also reduce costs associated with reconciling differences that would be passed onto rate payers?

**Response:**

A reduction in reconciling differences between regulatory and external financial reporting is expected to result in reduced costs which would be passed on to customers. Regardless of adopting US GAAP or IFRS, there will still be a degree of differences required for reconciliation just as there is today under CDN GAAP. Due to the absence of rate-regulated accounting under IFRS, adopting IFRS would require a higher number of reconciling items and a new set of reconciliations between external reporting and regulatory reporting. 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 an administrative burden and complexity is avoided as compared to adopting IFRS for regulatory purposes. If IFRS was adopted for either financial reporting or regulatory reporting, there may be additional costs incurred to reconcile between external financial reporting and regulatory reporting. Therefore there are no specific costs expected to be passed on to rate payers as a result of maintaining the same level of reconciling differences by adopting US GAAP.



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**3. Reference: 3.2.1.2 Accounting for income taxes and uncertain income tax positions**

"Under US GAAP, enacted taxes are used, whereas current regulatory treatment is to record income tax expense at substantively enacted tax rates."

3.1 How does the change to US GAAP impact the deferred income tax account?

**Response:**

Under current CDN GAAP and for regulatory purposes, a deferred (future) income tax liability is recognized with an offsetting regulatory asset the net of which results in no impact on current rates.

Under US GAAP, the use of enacted rates will temporarily change the measurement of the deferred income tax liability and offsetting regulatory asset. The temporary difference in measurement is a timing issue between when tax rates become enacted versus when they receive royal assent. Given that both the deferred (future) income tax liability and the offsetting regulatory asset would be affected by the same amount, there is not expected to be any impact on rates due to this change.



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**4. Reference: 5.2 Estimated costs for adopting IFRS**

“Due to absence of regulatory assets and liabilities under IFRS, the Companies are expecting increased audit fees due to increased sensitivity around costs and revenues that may be deferred under an RRA but would need to be flowed through to the income statement for IFRS.”

4.1 Wouldn't the forgoing of increased in audit fees due to adoption of US GAAP be favorable for rate payers?

**Response:**

As compared to the audit fees currently incurred under CDN GAAP, it is expected that there will be an increase in audit fees regardless of whether the Companies proceed with the adoption of either IFRS or US GAAP.

Audit fees are generally referred to as the costs for an external auditor to conduct the annual audit and quarterly reviews. The nature of these services is the same under CDN GAAP, US GAAP and IFRS. The specific audit fees relating to annual audit and quarterly reviews should be lower under US GAAP as compared to IFRS, based on estimates received to date.

Adopting US GAAP will also require an incremental audit service for SOX 404 attestation. These are the estimated annual costs to be incurred by having an external independent audit firm provide an opinion (i.e., auditor attestation) on internal controls over financial reporting. Such auditor attestation is not currently required under CDN GAAP, nor is it anticipated to be required under IFRS. Once the incremental costs relating to SOX 404 attestation under US GAAP are considered, the total audit service fees are higher under US GAAP as compared to IFRS.

However, the fact that FBU cannot recognize the effect of rate regulated accounting under IFRS will mean that the underlying economic effect of regulation would not be reflected in FBU external financial statements. So while avoiding a higher increase in total audit services under IFRS as compared to US GAAP, on the one hand, would be favourable to rate payers; IFRS would not allow FBU to reflect the underlying economic effects of rate regulation, and would result in offsetting costs with respect to the need for increased reconciliations and explanations.



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**5. Reference: 6.2 Future of US GAAP for Rate Setting**

“Due to being a crown corporation, BC Hydro has the ability to not fully adopt IFRS and has indicated that it will continue to recognize deferral accounts, which is not permissible under IFRS. While other utilities in BC and throughout Canada may adopt IFRS or US GAAP, or some combination of these, the Companies believe that the US GAAP approach is the best solution to reflect the economic realities of our business.”

- 5.1 Does the BC government decision to have BC Hydro continue to report deferral accounts even though they have adopted IFRS validate Fortis BC approach as most pragmatic approach?

**Response:**

The Companies believe that it does validate FBU's approach. The BC Government's decision to have BC Hydro continue to report deferral accounts even though they have adopted IFRS allows the regulatory and financial accounting treatments to remain in sync, but that approach is not available to publicly traded companies such as the Fortis BC Utilities. The adoption of US GAAP for both regulatory and financial reporting purposes is the most pragmatic approach for the Fortis BC Utilities as outlined in the Application as it is the only option available that allows regulatory and financial reporting on the same basis assuming the BCUC will continue to set rates based on the recognition of regulatory assets and liabilities.



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**6. Reference: Appendix B, 1.3(b) IFRS Summary of anticipated impacts**

"The following matters have been specifically excluded from this report: Discussion of how these IFRS changes may be implemented in revenue requirements applications and other filings"

- 6.1 Since substantive work has been done to comply with IFRS. Isn't the work done for IFRS conversion sufficient to provide a view of potential impacts to rates if IFRS was implemented?

**Response:**

Substantive work had occurred with respect to the IFRS analysis, up until the last half of 2010 when it became evident that the IASB would not support the recognition of rate-regulated accounting under existing IFRS as documented on page 3 and 4 of the Application. The work that was completed on the adoption of IFRS assumed that regulatory assets and liability could continue to be recognized under IFRS. The potential rate impacts of adopting IFRS for both external financial reporting and regulatory reporting, as it stands today, would include the derecognition of all deferral accounts which would cause significant income and rate volatility.





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**7. Reference: Appendix B 1.3(c), page 6 of appendix B**

“As with all accounting standards, IFRS will continue to evolve over time, whereas this document has been prepared as of the date specified on the cover title page”

- 7.1 Is there an implied impact the Commission or ratepayers should be aware of relative to this statement about change or is this simply a clarifying caution that the decision to adopt US Gap is dependent on circumstances which can change in the future?

**Response:**

The statement referred to in the preamble and included in Appendix B “A Summary of Anticipated Impacts of Transition to IFRS on Rate Regulated Utilities in British Columbia” prepared on June 10, 2009, was intended as a caution that the status of IFRS at the time of actual adoption by utilities may differ from our interpretation of those standards at the date of the preparation of the Appendix B document. At the time the Appendix B document was prepared, the Fortis BC Utilities still anticipated adopting IFRS for both regulatory and financial reporting purposes, since the adoption of an IFRS standard on Rate-regulated Activities seemed imminent. The statement was not made in anticipation of US GAAP adoption, but as accounting standards can be expected to evolve over time, the same statement could be applied to US GAAP.