



2005 Revenue Requirements

6. Rate Base

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1 Introduction

2
3 This section summarizes the forecast Utility Rate Base (“Rate Base”) for 2004 and 2005. A
4 regulated utility’s Rate Base represents the net investment in assets necessary to provide service
5 to its customers. The utility finances its rate base through a combination of debt and equity,
6 which is often referred to as invested capital. The total of interest and return on equity required
7 to finance the utility’s investment in Rate Base is known as Return on Rate Base and forms a
8 major component of revenue requirement.

9
10 This section reviews the principal components of Rate Base for the Company, principally, Plant
11 in Service, Deferred Charges and Credits, Accumulated Depreciation and Amortization,
12 Allowance for Working Capital and Adjustment for Capital Expenditures. Included in this tab is
13 a summary of the Company’s 2004 and 2005 capital expenditure forecast, which is provided in
14 detail in Tab 9 of this Application.

16 1. Utility Rate Base

17 Utility Rate Base is comprised mostly of the Company’s investment in Plant and
18 Equipment necessary to provide service to its customers (Plant in Service). This
19 investment is net of Accumulated Depreciation and Amortization and contributions
20 received from customers (Contribution in Aid of Construction), and includes
21 Construction Work in Progress (CWIP) and plant held for future use. Also included in
22 Rate Base are certain other expenditures approved by the Commission, primarily
23 comprised of the Plant Acquisition Adjustment related to generation Plants 2, 3 and 4,
24 deferred Demand Side Management (DSM) expenses and other expenditures as approved
25 by the Commission. Finally, an Allowance for Working Capital and an adjustment for
26 the timing of capital additions are also added to, or deducted, from Rate Base to correctly
27 reflect the actual invested capital required to finance that Rate Base.

The detailed calculation of actual and forecast average rate base for 2002 to 2005 is shown in Table 6.1.

Table 6.1
Actual and Forecast Utility Rate Base
(\$000)

| | Actual ⁽¹⁾ 2002 | Actual ⁽¹⁾ 2003 | Forecast 2004 | Forecast 2005 |
|---|-------------------------------|-------------------------------|------------------|------------------|
| 1 Plant in Service, January 1 | 495,876 | 528,739 | 630,676 | 707,601 |
| 2 Net Additions | 32,863 | 101,937 | 76,925 | 125,087 |
| 3 Plant in Service, December 31 | 528,739 | 630,676 | 707,601 | 832,688 |
| 4 Construction Work in Progress | 76,493 | 25,473 | 30,958 | 27,754 |
| 5 Plant Held for Future Use | 741 | 741 | - | - |
| 6 Plant Acquisition Adjustment | 11,912 | 11,912 | 11,912 | 11,912 |
| 7 Deferred and Preliminary Charges | 11,834 | 9,957 | 14,393 | 16,668 |
| 8 | 629,719 | 678,759 | 764,864 | 889,022 |
| 9 Less: | | | | |
| 10 Accumulated Depreciation and | | | | |
| 11 Amortization | 167,676 | 172,711 | 182,237 | 198,309 |
| 12 Contributions in Aid of Construction | 45,994 | 49,764 | 53,213 | 55,493 |
| 13 | 213,670 | 222,475 | 235,450 | 253,802 |
| 14 | | | | |
| 15 Depreciated Utility Rate Base | 416,049 | 456,284 | 529,414 | 635,220 |
| 16 Prior Year Depreciated Utility Rate Base | 350,068 | 416,049 | 456,285 | 529,414 |
| 17 Mean Depreciated Utility Rate Base | 383,058 | 436,167 | 492,850 | 582,317 |
| 18 Allowance for Working Capital | 10,482 | 8,347 | 7,349 | 8,563 |
| 19 Adjustment for Capital Expenditures | (11,037) | (1,826) | (5,487) | (8,641) |
| 20 Mid-Year Utility Rate Base | 382,503 | 442,688 | 494,712 | 582,239 |

21 *1* -Source for actuals is Annual Reports filed with BCUC

2. Plant in Service

The largest component of a Utility Rate Base is Plant in Service. The Company's Plant in Service is composed of plant and equipment used in the generation, transmission and distribution of electricity. The Company's accounting records segregate and separately account for hydraulic production, transmission, distribution and general plant. Included in general plant are buildings, vehicles, computer hardware and software, and other equipment necessary to support the operations of the utility.

1 Table 6.2 A summarizes actual and forecast plant in service, by classification, as at
 2 December 31, 2002 through Forecast 2005.

3 **Table 6.2 A**
 4 **Actual and Forecast Utility Plant**
 5 **as at December 31**

6

| | | (\$000s) | | | |
|----|---------------------------------|----------------|----------------|------------------|------------------|
| | | Actual 2002 | Actual 2003 | Forecast 2004 | Forecast 2005 |
| 1 | Hydraulic Production Plant | | | | |
| 2 | (Plant #1) | 15,660 | 19,149 | 20,603 | 21,834 |
| 3 | Hydraulic Production Plant | | | | |
| 4 | (Plants #2, 3 & 4) | 50,329 | 66,263 | 95,541 | 111,699 |
| 5 | Other Production Plant | 1,353 | 1,353 | 1,353 | 1,353 |
| 6 | Transmission Plant | 111,022 | 139,875 | 166,344 | 242,893 |
| 7 | Distribution Plant | 284,896 | 330,275 | 348,964 | 370,677 |
| 8 | General Plant | 65,479 | 73,761 | 74,796 | 84,232 |
| 9 | Plant in Service | 528,739 | 630,676 | 707,601 | 832,688 |
| 10 | Construction Work in Progress | 76,493 | 25,473 | 30,958 | 27,754 |
| 11 | Plant Held for Future Use | 741 | 741 | - | - |
| 12 | Plant Acquisition Adjustment | 11,912 | 11,912 | 11,912 | 11,912 |
| 13 | Utility Plant per Balance Sheet | 617,885 | 668,802 | 750,471 | 872,354 |

7
 8
 9 Utility Plant is forecast to increase by 12.2 percent from 2003 to 2004, reaching
 10 approximately \$750.5 million by December 31, 2004, and by 16.2 percent from 2004 to
 11 2005, reaching approximately \$872.4 million by December 31, 2005. The increase in
 12 2004 is the result of forecast capital expenditures of \$90.0 million. The increase in 2005
 13 is the result of forecast capital expenditures of \$124.9 million, largely due to the major
 14 South Okanagan Supply Reinforcement Project and Upgrade and Life Extension projects
 15 for two of the Company's generating units. Overall, FortisBC's increased capital
 16 expenditures reflect the commitment of the utility to improve the reliability and security
 17 of supply of electricity to its customers. The Company's 2005 Capital Plan is presented
 18 in greater detail in Tab 9 of this Application.

1
2 Tables 6.2 B through 6.2 D summarize forecast additions and disposals to Plant in
3 Service, by classification, for 2004 and 2005.

4 **Table 6.2 B**
5 **Forecast 2004 Plant in Service**

6

| | | (\$000s) | | | |
|----|---------------------------------|---------------------|-----------------------|-----------------------|-----------------------|
| | | Actual Dec 31/03 | Forecast Additions | Forecast Disposals | Forecast Dec 31/04 |
| 1 | Hydraulic Production Plant | | | | |
| 2 | (Plant #1) | 19,149 | 1,454 | - | 20,603 |
| 3 | Hydraulic Production Plant | | | | |
| 4 | (Plants #2, 3 & 4) | 66,263 | 29,829 | (551) | 95,541 |
| 5 | Other Production Plant | 1,353 | - | - | 1,353 |
| 6 | Transmission Plant | 139,875 | 28,730 | (2,261) | 166,344 |
| 7 | Distribution Plant | 330,275 | 22,202 | (3,513) | 348,964 |
| 8 | General Plant | 73,761 | 2,306 | (1,271) | 74,796 |
| 9 | Plant in Service | 630,676 | 84,521 | (7,596) | 707,601 |
| 10 | Construction Work in Progress | 25,473 | 5,485 | - | 30,958 |
| 11 | Plant Held for Future Use | 741 | (741) | - | - |
| 12 | Plant Acquisition Adjustment | 11,912 | - | - | 11,912 |
| 13 | Utility Plant per Balance Sheet | 668,802 | 89,265 | (7,596) | 750,471 |

7
8
9 **Table 6.2 C**
10 **Analysis of Forecast 2004 Additions to Plant in Service**

11

| | | (\$000s) | | | |
|---|----------------------|-----------------------------|----------------------------------|--------------|-------------------------------|
| | | CWIP ⁽¹⁾ 2003 | Forecast Expenditures 2004 | CWIP 2004 | Forecast Additions 2004 |
| 1 | Hydraulic Production | 8,711 | 23,803 | 1,231 | 31,283 |
| 2 | Transmission Plant | 13,088 | 45,209 | 29,567 | 28,730 |
| 3 | Distribution Plant | 3,335 | 19,027 | 160 | 22,202 |
| 4 | General Plant | 339 | 1,967 | - | 2,306 |
| 5 | TOTAL | 25,473 | 90,006 | 30,958 | 84,521 |

6 ¹ Construction work in progress

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2
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4

Table 6.2 D
Forecast 2005 Plant in Service

| | | (\$000s) | | | |
|----|---------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | | Forecast Dec 31/04 | Forecast Additions | Forecast Disposals | Forecast Dec 31/05 |
| 1 | Hydraulic Production Plant (Plant #1) | 20,603 | 1,231 | - | 21,834 |
| 2 | Hydraulic Production Plant | | | | |
| 3 | (Plants #2, 3 & 4) | 95,541 | 16,772 | (614) | 111,699 |
| 4 | Other Production Plant | 1,353 | - | - | 1,353 |
| 5 | Transmission Plant | 166,344 | 77,572 | (1,023) | 242,893 |
| 6 | Distribution Plant | 348,964 | 23,141 | (1,428) | 370,677 |
| 7 | General Plant | 74,796 | 9,436 | - | 84,232 |
| 8 | Plant in Service | 707,601 | 128,152 | (3,065) | 832,688 |
| 9 | | | | | |
| 10 | Construction Work in Progress | 30,958 | (3,204) | - | 27,754 |
| 11 | Plant Acquisition Adjustment | 11,912 | - | - | 11,912 |
| 12 | Utility Plant per Balance Sheet | 750,471 | 124,948 | (3,065) | 872,354 |

5 For 2004 and 2005, major transmission capital expenditure projects are being directed primarily
6 at improving reliability and increasing capacity through the South Okanagan Supply
7 Reinforcement Project and Kelowna Area Upgrade Project. Forecast distribution capital
8 expenditures are expected to be driven mostly by customer growth, as well as targeted
9 expenditures at improving system reliability.

10
11
12
13

Table 6.2 E
Analysis of Forecast 2005 Additions to Plant in Service

| | | (\$000s) | | | |
|---|--|-----------------------------|----------------------------------|--------------|-------------------------------|
| | | CWIP ⁽¹⁾ 2004 | Forecast Expenditures 2005 | CWIP 2005 | Forecast Additions 2005 |
| 1 | Hydraulic Production | 1,231 | 17,772 | 1,000 | 18,003 |
| 2 | Transmission Plant | 29,567 | 72,109 | 24,104 | 77,572 |
| 3 | Distribution Plant | 160 | 25,631 | 2,650 | 23,141 |
| 4 | General Plant | - | 9,436 | - | 9,436 |
| 5 | TOTAL | 30,958 | 124,948 | 27,754 | 128,152 |
| 6 | ¹ Construction work in progress | | | | |

14 Most of the forecast additions to Plant in Service for 2005 are for system upgrade and life
15 extension to generation, transmission and distribution assets

3. Accumulated Depreciation and Amortization

Section 56 of the *Utilities Commission Act* provides for the depreciation and amortization of assets, so that the capital costs are expensed as a cost of providing electrical service over their useful lives.

Annual Depreciation Expense is calculated for each asset class using rates approved by the Commission (Orders G-37-84 and G-134-99). Depreciation expense for the year is added to Accumulated Depreciation and Amortization, net of retirements. Accumulated Depreciation and Amortization is a reduction to Rate Base.

Forecast Accumulated Depreciation and Amortization by asset class is summarized in Table 6.3 A.

Table 6.3 A
Accumulated Depreciation and Amortization
As at December 31
(\$000s)

| | Actual 2002 | Actual 2003 | Forecast 2004 | Forecast 2005 |
|---|----------------|-------------|------------------|------------------|
| 1 Hydraulic Production Plant (#1) | 5,022 | 5,441 | 5,960 | 6,516 |
| 2 Hydraulic Production Plants (#2, #3, #4) | 8,616 | 9,955 | 11,899 | 14,798 |
| 3 Other Power Plant Equipment | 1,353 | 1,353 | 1,353 | 1,353 |
| 4 Transmission Plant | 35,143 | 34,113 | 34,505 | 36,662 |
| 5 Distribution Plant | 93,679 | 95,581 | 98,750 | 104,372 |
| 6 General Plant | 22,771 | 24,958 | 28,204 | 32,786 |
| 7 | 166,584 | 171,401 | 180,671 | 196,487 |
| 8 | | | | |
| 9 Utility Plant Acquisition Adjustment | 3,536 | 3,722 | 3,908 | 4,095 |
| 10 Leasehold Improvements | 665 | 697 | 767 | 836 |
| 11 Rate Stabilization Adjustment | (3,109) | (3,109) | (3,109) | (3,109) |
| 12 | 1,092 | 1,310 | 1,566 | 1,822 |
| 13 Total Accumulated Depreciation per Balance Sheet | 167,676 | 172,711 | 182,237 | 198,309 |

The Rate Stabilization Adjustment of \$3.1 million was the result of a Negotiated Settlement Process, and provided for an adjustment of Accumulated Depreciation in respect of Transmission and Distribution plant, in order to hold rate increases at or below

5 percent for the period 2000 to 2002. Commission Order G-134-99 approving the Rate Stabilization provision also increased, on a prospective basis, an increase in the amortization period from 35 to 50 years for depreciation of Transmission and Distribution assets.

Both the Rate Stabilization provision and the change in depreciation rates were grounded in a desire to mitigate rate increases during a period of very high rate base additions.

Neither amount was based on an expert-prepared depreciation study examined by the Commission. FortisBC intends to undertake a Depreciation and Amortization study during 2005, for submission with the 2006 Revenue Requirements application.

Tables 6.3 B and Table 6.3 C set out the forecast changes to Accumulated Depreciation, by asset class, for 2004 and 2005, respectively.

Table 6.3 B
Forecast 2004 Accumulated Depreciation and Amortization

| | Acc. Deprec. Dec 31/03 (\$000s) | Composite Deprec. Rate (%) | Asset Balance Dec 31/03 (\$000s) | Forecast Deprec. Expense 2004 (\$000s) | Forecast Charges less Recoveries (\$000s) | Forecast Acc. Deprec. Dec 31/04 (\$000s) |
|-----------------------------------|--|-------------------------------------|---|--|---|--|
| 1 Hydraulic Production Plant #1 | 5,441 | 2.7 | 19,149 | 519 | - | 5,960 |
| 2 Hydraulic Production Plant | | | | | | |
| 3 # 2, #3, & #4 | 9,955 | 3.8 | 66,263 | 2,495 | (551) | 11,899 |
| 4 Other Power Plant Equipment | 1,353 | 3.0 | 1,353 | - | - | 1,353 |
| 5 Transmission Plant | 34,113 | 1.9 | 139,875 | 2,653 | (2,261) | 34,505 |
| 6 Distribution Plant | 95,581 | 2.0 | 330,275 | 6,682 | (3,513) | 98,750 |
| 7 General Plant | 24,958 | 6.2 | 72,371 | 4,517 | (1,271) | 28,204 |
| 8 Total Accumulated Depreciation | 171,401 | 2.7 | 629,286 | 16,866 | (7,596) | 180,671 |
| 9 Portion of CIAC Amortized | | | | (2,115) | | |
| 10 Amortization Expense | | | | 14,751 | | |
| 11 Utility Plant Acquisition | | | | | | |
| 12 Adjustment | 3,722 | | 11,912 | 186 | | 3,908 |
| 13 Leasehold Improvements | 697 | | 1,390 | 70 | | 767 |
| 14 Rate Stabilization Adjustment | (3,109) | | - | - | | (3,109) |
| 15 Total Accumulated Amortization | 1,310 | | 13,302 | 256 | | 1,566 |
| 16 Accumulated Amortization per | | | | | | |
| 17 Balance Sheet | 172,711 | | 642,588 | 15,007 | | 182,237 |

Table 6.3 C
Forecast 2005 Accumulated Provision for Depreciation
(\$000s)

| | Estimated Acc. Prov. For Deprec. Dec 31/04 | Composite Deprec. Rate. | Estimated Asset Balance Dec 31/04 | Forecast Deprec. Expense 2005 | Forecast Charges less Recoveries | Forecast Acc. Prov. For Deprec. Dec 31/05 |
|---|--|-------------------------------|--|--|---|---|
| 1 Hydraulic Production Plant #1 Plant | 5,960 | 2.7% | 20,603 | 556 | - | 6,516 |
| 2 Hydraulic Production Plant #2, #3, & #4 | 11,899 | 3.7% | 95,540 | 3,513 | (614) | 14,798 |
| 3 Other Power Plant Equipment | 1,353 | 3.0% | 1,353 | - | - | 1,353 |
| 4 Transmission Plant | 34,505 | 1.9% | 166,344 | 3,180 | (1,023) | 36,662 |
| 5 Distribution Plant | 98,750 | 2.0% | 348,964 | 7,050 | (1,428) | 104,372 |
| 6 General Plant | 28,204 | 6.2% | 73,406 | 4,582 | - | 32,786 |
| 7 Total Accumulated Amortization | 180,671 | 2.7% | 706,210 | 18,881 | (3,065) | 196,487 |
| 8 Portion of CIAC Amortized | | | | (2,282) | | |
| 9 Amortization Expense | | | | 16,599 | | |
| 10 Utility Plant Acquisition Adjustment | 3,908 | | 11,912 | 187 | | 4,095 |
| 11 Leasehold Improvements | 767 | | 1,390 | 69 | | 836 |
| 12 Rate Stabilization Adjustment | (3,109) | | - | - | | (3,109) |
| 13 Total Accumulated Amortization | 1,566 | | 13,302 | 256 | | 1,822 |
| 14 Accumulated Amortization per 15 Balance Sheet | 182,237 | | 719,512 | 16,855 | | 198,309 |

4. Deferred Charges and Credits

Deferred Charges and Credits are costs or credits that will be recorded in expense or income in future periods. For a regulated utility the treatment of deferred charges or credits are subject to Commission approval. FortisBC's Deferred Charges and Credits consist principally of:

Energy Management Costs: The costs of developing and delivering energy efficiency programs, as described in Tab 10, are deferred and recovered through amortization expense.

Deferred Regulatory Expenses: Expenses incurred in regulatory proceedings such as rate setting or other Commission proceedings, including the costs of participating in the proceedings of other utilities when the Company is required to represent the interests of

1 its customers are deferred until approved by the BC Utilities Commission. Also included
2 are amounts arising from the incentive mechanisms, which are used to adjust rates in
3 subsequent years.

4
5 ***Other Deferred Charges and Credits:*** The largest component of this category is prepaid
6 pension expense relating to the Company's various pension plans. Costs of investigation
7 and feasibility studies preliminary to undertaking capital projects are deferred and, once
8 approved, charged to the appropriate capital project. Deferral and disposition of other
9 items approved by the Commission are also included.

10
11 ***Debt Issue Expense:*** Legal and other costs associated with issuing long term debt are
12 deferred and amortized over the term of the debt issue, also subject to Commission
13 approval.

1 Table 6.4 A and 6.4 B summarize the forecast changes to deferred charges and credits for
2 2004 and 2005.

3 **Table 6.4 A**
4 **Forecast 2004 Deferred Charges and Credits**
5 **(\$000s)**

| | Actual Balance Dec 31/03 | Forecast Additions | Forecast Amortization | Forecast Balance Dec 31/04 |
|---|---|-------------------------------|----------------------------------|---|
| 1 Energy Management | 4,447 | 1,318 | (996) | 4,769 |
| 2 | | | | |
| 3 Deferred Regulatory Expense | | | | |
| 4 Deferred Revenue - Incentive Adjustment | (1,663) | 1,837 | - | 174 |
| 5 Deferred Revenue - Power Purchase Incentive | (1,105) | (971) | - | (2,076) |
| 6 Deferred Revenue - Provision for True-Up | (594) | 594 | - | - |
| 7 2003 Revenue Requirements and NSP | 47 | - | (47) | - |
| 8 2004 Revenue Requirements and NSP | 35 | 25 | - | 60 |
| 9 2005 Revenue Requirements | - | 100 | - | 100 |
| 10 | (3,280) | 1,585 | (47) | (1,742) |
| 11 Other Deferred Charges and Credits | | | | |
| 12 Head Office Lease Costs | 239 | - | (12) | 227 |
| 13 Head Office Rental to SD#20 | (485) | (24) | - | (509) |
| 14 20 Year Transmission System Plan | - | 800 | - | 800 |
| 15 Resource Plan Study | - | 100 | - | 100 |
| 16 Prepaid Pension Costs | 5,814 | (72) | - | 5,742 |
| 17 Turbine & Generation Studies | 181 | 43 | - | 224 |
| 18 Preliminary Engineering Studies | 746 | (62) | - | 684 |
| 19 Teck Cominco Property Tax Appeal | 133 | - | (133) | - |
| 20 Deferred Telecommunications Planning | 66 | (66) | - | - |
| 21 Renegotiation of Canal Plant Agreement | 262 | 150 | - | 412 |
| 22 Brilliant Terminal Station 2003 Expense | 672 | 363 | (543) | 492 |
| 23 Other Deferred Charges and Credits | 2 | (2) | - | - |
| 24 | 7,630 | 1,230 | (688) | 8,172 |
| 25 Deferred Debt Issue Expense | | | | |
| 26 Series E | 19 | - | (3) | 16 |
| 27 Series F | 181 | - | (13) | 168 |
| 28 Series G | 153 | - | (9) | 144 |
| 29 Series H | 163 | - | (14) | 149 |
| 30 Series I | 252 | - | (13) | 239 |
| 31 Series J | 392 | - | (64) | 328 |
| 32 Series 04-1 | - | 2,150 | - | 2,150 |
| 33 | 1,160 | 2,150 | (116) | 3,194 |
| 34 TOTAL | 9,957 | 6,283 | (1,847) | 14,393 |

Table 6.4 B
Forecast 2005 Deferred Charges and Credits
(\$000s)

| | Forecast Balance Dec 31/04 | Forecast Additions (Reductions) | Forecast Amortization | Forecast Balance Dec 31/05 |
|---|----------------------------------|---------------------------------------|--------------------------|----------------------------------|
| 1 Energy Management | 4,769 | 1,181 | (1,016) | 4,934 |
| 2 Deferred Regulatory Expense | | | | |
| 3 Deferred Revenue - Incentive Adjustment | 174 | (174) | - | - |
| 4 Deferred Revenue - Power Purchase Incentive | (2,076) | 2,076 | - | - |
| 5 2004 Revenue Requirements and NSP | 60 | - | (60) | - |
| 6 2005 Revenue Requirements | 100 | 250 | - | 350 |
| 7 2006 Revenue Requirements | - | 75 | - | 75 |
| 8 Other regulatory proceedings | - | 150 | - | 150 |
| 9 | (1,742) | 2,377 | (60) | 575 |
| 10 Other Deferred Charges and Credits | | | | |
| 11 Head Office Lease Costs | 227 | - | (12) | 215 |
| 12 Head Office Rental to SD#20 | (509) | (27) | - | (536) |
| 13 20 Year Transmission System plan | 800 | (160) | - | 640 |
| 14 Integrated Resource Plan Study | 100 | (20) | - | 80 |
| 15 Prepaid Pension Costs | 5,742 | 700 | - | 6,442 |
| 16 Turbine & Generation Studies | 224 | - | - | 224 |
| 17 Preliminary Engineering Studies | 684 | - | - | 684 |
| 18 Renegotiation of Canal Plant Agreement | 412 | 135 | - | 547 |
| 19 Brilliant Terminal Station 2003 Expense | 492 | - | (492) | - |
| 20 | 8,172 | 628 | (504) | 8,296 |
| 21 Deferred Debt Issue Expense | | | | |
| 22 Series E | 16 | - | (3) | 13 |
| 23 Series F | 168 | - | (13) | 155 |
| 24 Series G | 144 | - | (9) | 135 |
| 25 Series H | 149 | - | (14) | 135 |
| 26 Series I | 239 | - | (13) | 226 |
| 27 Series J | 328 | - | (64) | 264 |
| 28 Series 04-1 | 2,150 | - | (215) | 1,935 |
| 29 | 3,194 | - | (331) | 2,863 |
| 30 TOTAL | 14,393 | 4,186 | (1,911) | 16,668 |

Deferred charges and credits are forecast to increase by \$4.4 million in 2004, from \$10.0 million at December 31, 2003 to \$14.4 million at December 31, 2004. The increase is driven primarily by a \$2.1 million deferral of debt issue expense for the \$140 million Series 04-1 debenture issue and deferral of the \$0.8 million cost to develop a System Development Plan. The Company proposes to amortize the deferred debt issue costs (as amortized expenses) over the ten-year term of the debentures. The \$0.8 million in costs associated with the *System Development Plan* will be amortized to operating expense

1 over five years beginning in 2005. Finally, the deferred charges associated with the
2 renegotiation of the Canal Plant agreement will also be amortized to operating expense
3 over a five year period beginning in 2005.

4
5 The largest additions to deferred charges and credits in both 2004 and 2005 relate to
6 incentive and flow through adjustments pursuant to the terms of Negotiated Settlement
7 Agreements for the 2003 and 2004 test years. The calculation of these adjustments have
8 been included in Tab 8 of this Application.

9
10 FortisBC also applies to defer the regulatory costs associated with this Application and
11 other regulatory proceedings that may occur in 2005. An estimate of these costs has been
12 included in the forecast of 2004 and 2005 deferred charges.

13 **5. Allowance for Working Capital**

14
15 Allowance for Working Capital is an amount added to Rate Base that represents the
16 Company's investment in current assets, such as receivables and inventory, net of
17 liabilities, such as payables.

18
19 The Allowance for Working Capital is determined through a lead-lag study. The study
20 examines the timing differences between the provision of services or use of goods, and
21 the exchange of funds between FortisBC and the customer or vendor. The impact of
22 these timing differences is added to the average value of inventory and other current
23 assets to arrive at the Allowance for Working Capital.

24
25 Table 6.1.5 A and Table 6.1.5 B set out the calculation of the forecast Allowances for
26 Working Capital for 2004 and 2005, respectively.

1
2

Table 6.5 A
Forecast 2004 Allowance for Working Capital

| | Lag (Lead) Days | 2004 (\$000s) | 2004 Extended (\$000s) | Weighted Average Lag Days |
|----------------|-----------------------|------------------|------------------------------|---------------------------------|
| REVENUE | | | | |
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Table 6.5 B
Forecast 2005 Allowance for Working Capital

| | Lag (Lead) Days | 2005 (\$000s) | 2005 Extended (\$000s) | Weighted Average Lag Days |
|---|----------------------------|--------------------------|---------------------------------------|--|
| 1 REVENUE | | | | |
| 2 Tariff Revenue | 46.0 | 184,406 | 8,480 | |
| 3 Other Revenue: | | | | |
| 4 Apparatus and Facilities Rental | 26.7 | 2,102 | 56 | |
| 5 Contract Revenue | 44.2 | 1,154 | 51 | |
| 6 Miscellaneous Revenue | 48.5 | 529 | 26 | |
| 7 Investment Income | (15.2) | 0 | 0 | |
| 8 | | 188,191 | 8,613 | 45.8 |
| 9 EXPENSES | | | | |
| 10 Power Purchases | 44.1 | 62,644 | 2,765 | |
| 11 Wheeling | 40.2 | 3,878 | 156 | |
| 12 Water Fees | (1.0) | 7,722 | (8) | |
| 13 Operating Labour: | | | | |
| 14 Salaries & Wages | 5.3 | 17,685 | 408 | |
| 15 Employee Benefits | 6.7 | 6,214 | 66 | |
| 16 Contracted Manpower | 50.6 | 5,199 | 263 | |
| 17 Taxes Other than Income | 2.5 | 10,850 | 27 | |
| 18 Rental of T&D Facilities | 0.0 | 3,318 | 0 | |
| 19 Office Lease - Kelowna | (15.2) | 259 | (4) | |
| 20 Office Lease - Trail | 91.3 | 600 | 55 | |
| 21 Insurance | (182.5) | 1,661 | (303) | |
| 22 General Operating Expenses | 45.6 | 5,669 | 256 | |
| 23 Income Tax | 15.2 | 7,300 | 111 | |
| 24 Interest | 83.3 | 25,164 | 2,096 | |
| 25 | | 158,163 | 5,888 | 35.6 |
| 26 | | | | |
| 27 NET LAG (LEAD) DAYS | | | | 10.1 |
| 28 | | | | |
| 29 2005 FORECAST WORKING CAPITAL ALLOWANCE | | | | |
| 30 Lead-Lag Study Allowance | | | | |
| 31 Net lag days x capital ratio x total expenses | | | | \$ 4,398 |
| 32 Add Funds Unavailable: | | | | |
| 33 Customer Loans (related to energy management) | | | 2,305 | |
| 34 Employee Loans | | | 280 | |
| 35 Uncollectible Accounts | | | 37 | |
| 36 Inventory (forecast monthly average investment) | | | 5,200 | 7,822 |
| 37 Less Funds Available: | | | | |
| 38 Employee Payroll Deductions | | | 324 | |
| 39 Customer Deposits | | | 1,793 | |
| 40 Provincial Sales Tax | | | 1,065 | |
| 41 Goods and Services Tax | | | 475 | |
| 42 | | | | 3,657 |
| 43 2005 FORECAST ALLOWANCE FOR WORKING CAPITAL | | | | \$ 8,563 |

The lag for tariff revenue increases for 2005 because of a change in payment periods for residential customers. Concurrent with the elimination of the Residential Discount Forfeit in November 2004, FortisBC extended the payment period for residential customers to 30 days.

6. Adjustment for Capital Expenditures

Utility Rate Base is determined using weighted average capital expenditures for the period. To provide for the weighted average, the following adjustment for capital expenditure is made. First, the weighted expenditure for each quarter is calculated by multiplying the quarterly capital expenditures by the average number of months remaining for the year. Second, the weighted expenditures for each quarter are summed to calculate the weighted average. Total capital expenditures are then divided by two to calculate the simple average and this is subtracted from the weighted average. Comparing the weighted expenditure value to a simple average of the expenditures provides the timing impact of the expenditure profile on funding requirements.

Table 6.6 A and Table 6.6 B set out the calculations of the forecasted adjustment for capital expenditures for 2004 and 2005. In 2004 and 2005, capital expenditure are heavier in the second half of the year, resulting in a reduction in average Rate Base in each year.

Table 6.6 A
Forecast 2004 Adjustment for Capital Expenditures

| | Forecast Expenditures ⁽¹⁾ (\$000s) | Months in Rate Base | Forecast Weighted Expenditures (\$000s) |
|--|--|------------------------|--|
| 1 Quarter One | 17,787 | 10.5 | 15,563 |
| 2 Quarter Two | 20,566 | 7.5 | 12,854 |
| 3 Quarter Three | 18,566 | 4.5 | 6,962 |
| 4 Quarter Four | 33,086 | 1.5 | 4,136 |
| 5 | 90,005 | | 39,515 |
| 6 Simple average | | | 45,002 |
| 7 Required adjustment | | | (5,487) |
| 8 (1) Expenditures are reduced by contributions in aid of construction | | | |

1
2
3

Table 6.6 B
Forecast 2005 Adjustment for Capital Expenditures

| | Forecast Expenditures ⁽¹⁾ (\$000s) | Months in Rate Base | Forecast Weighted Expenditure (\$000s) |
|-----------------------|--|------------------------|---|
| 1 Quarter One | 18,798 | 10.5 | 16,448 |
| 2 Quarter Two | 24,635 | 7.5 | 15,397 |
| 3 Quarter Three | 40,351 | 4.5 | 15,132 |
| 4 Quarter Four | 36,602 | 1.5 | 4,575 |
| 5 | 120,386 | | 51,552 |
| 6 Simple average | | | 60,193 |
| 7 Required adjustment | | | (8,641) |

(1) Expenditures are reduced by contributions in aid of construction

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