Q70.0 Reference: Volume 1, Tab 8, Revenue Requirements, Section 2.4, p. 11
Operation and Maintenance: Customer Service

Please provide Customer Service, cost per customer metrics for the years 2001 to 2005 inclusive.

A70.0 The information is presented below. The expense has been adjusted for inflation, indexed to 2002 as was shown in Tab 8, Table 8.2.4.

Customer Service Cost per Customer 2001 - 2005

	2001	2002	2003	2004	2005
Actual and Forecast Expense ($000s)	4,549	4,711	3,761	5,827	5,599
Inflation-Adjusted (CPI BC)	4,656	4,711	3,683	4,617	5,260
Average Number of Direct Customers	88,527	89,890	91,736	93,905	95,086
Cost per customer	51.4	52.4	41.0	62.1	58.9
Inflation-Adjusted (CPI BC)	52.6	52.4	40.1	49.2	55.3

71.0 Reference: Volume 1, Tab 8, Revenue Requirements, Section 2.5, pp. 11-12
Operation and Maintenance: Administration & General

On page 11 the Application states: "This function includes the costs of support services such as Information Technology, Procurement, Materials Management, Fleet Services, and Human Resources. It also includes corporate costs associated with Finance and Accounting, Regulatory and Legal Services, and Executive Management."

Q71.1 Please prepare a comparative schedule for the years 2001 to 2005 inclusive, showing a breakdown of Administrative and General costs by the support service categories referred to above. Please confirm that the information for the year 2004 also includes the amounts, which were approved in the 2004 NSP Agreement (Order G-38-04).

A71.1 The information requested is shown in the response to BCUC IR1 Q59. The categories referred to are identified separately in that Table, with the exception of procurement, which is a component of Materials Management. In some cases the function names differ slightly. For reference the named categories and the corresponding names in the O&M table are identified below.

Tab 8 page 11	O&M Table A59
Information Technology	Information Services
Procurement	included in Materials Management
Materials Management	Materials Management
Fleet Services	Transportation Equipment Expenses
Human Resources	Human Resources
Finance and Accounting	Finance and Accounting
Regulatory and Legal Services	Legal
Executive Management	Executive and Senior Management

The 2004 values are Forecast values. As noted in the response to BCUC IR1 Q59, Order G-38-04 did not include O&M expense by Expense Code.

Q71.2 Please prepare a comparative schedule for the years 2001 to 2005 inclusive, showing a breakdown of Administrative and General costs by type of resource e.g. labour, benefits, materials, services, etc. Please confirm that the information for the year 2004 also includes the amounts, which were approved in the 2004 NSP Agreement (Order G-38-04).

A71.2 The requested information is provided below. As noted in the response to BCUC IR1 Q59, the approved O&M did not include specific targets at this level of detail.

Administrative and General Expenses
($000s)

	2001	**2002**	**2003**	**2004**	**2005**
Labour	3,579	4,099	3,939	5,759	5,206
Benefits	1,720	2,147	2,337	3,275	3,330
Materials	2,443	3,212	3,032	1,774	2,498
Insurance	736	844	1,757	1,870	1,661
Special Services (Consultants)	717	817	817	744	753
Transportation Equipment	147	1,924	831	1,261	648
Facilities Maintenance	637	1,178	1,244	2,758	2,227
Transfers and Other	(591)	937	(290)	(225)	(184)
Total	9,388	15,157	13,667	17,216	16,139

Q71.3 For the above schedules, please explain all the variances between the years 2004 (amounts approved per Order G-38-04) and 2005.

A71.3 As noted in the response to BCUC IR1 Q59.0 above, the O&M amount approved by Order G-38-04 does not provide the detail required to provide variance explanations as requested.

72.0 Reference: Volume 1, Tab 8, Revenue Requirements, Section 2.6, pp. 12-13, Table 8.2.6 Operation and Maintenance: Labour

72.1 Please provide the following information for the years 2001 to 2005, inclusive.

Q72.1.1 Number of FTE's for the operation and administration functions (show separate amounts).

A72.1.1 Please find listed below the number of FTE's for operation and administration functions as at December of the respective years.

	Operation	Administration
2001	292	70
2002	276	78
2003*	261	69
2004	288	92
2005F	298	102

* 2003 does not include functions physically located in Alberta and working for the BC operation. These numbers are not available.

For additional information on 2005 staffing, please see the response to BCUC IR 1 Q125.2 which represents 2005 budgeted positions not adjusted on an FTE basis.

Q72.1.2 Salaries, Benefits, pension expense, other post retirement benefits, all other and total.

A72.1.2

Labour Expense

($000s)

	2001	2002	2003	2004	2005
Time away	2,018	2,315	1,880	2,102	2,447
EI/CPP	572	804	562	587	687
Benefits	1,233	1,681	1,860	1,897	2,604
Post Retirement Benefits	144	206	186	222	221
Pension Expense	1,163	1,264	1,707	1,865	2,068
Total Benefits	5,129	6,270	6,194	6,674	8,027
Total Regular Labour	10,675	11,974	10,438	11,736	12,548
Over Time	3,219	2,269	2,440	2,627	2,121
Total Labour	**19,024**	**20,513**	**19,072**	**21,037**	**22,696**

Note that total regular labour is net of Time Aways. Time away, which includes annual vacation, sick days, statutory holidays, etc., forms part of the fringe benefit loading rate.
Reference: Volume 1, Tab 8, Revenue Requirement, Section 2.6, pp. 12-13
Operation and Maintenance: Labour - Pension and Post Retirement Benefits

73.0 Reference: Volume 1, Tab 8, Revenue Requirement, Section 2.6, pp. 12-13

Operation and Maintenance: Labour - Pension and Post Retirement Benefits

Q73.1 Appendix A to Order No. G-134-99 (which approved the West Kootenay Power Ltd. 2000-2002 Preliminary Revenue Requirements Application by negotiated settlement) on page 6 of 29 states in item 14 Additional Items: "Parties agree to a variance from Generally Accepted Accounting Principles ("GAAP") to allow post-retirement benefits to be recorded on a cash basis."

Q73.1.1 Please describe the FortisBC accounting treatment for pension and post retirement benefits?

A73.1.1 For pension benefits, the Company records its annual costs on an accrual basis in accordance with the recommendations of CICA Handbook section 3461.

For other post-retirement benefits, the Company records annual costs on a cash basis. This cash basis treatment is not in accordance with CICA Handbook section 3461, which is the reason the variance from GAAP was required, agreed to, and approved as per BCUC Order G-134-99.

Q73.1.2 Is the utility proposing the same cash basis of accounting for post-retirement benefits for 2005? If not, please elaborate.

A73.1.2 Yes, the Company is proposing that the cash basis of accounting for other post-retirement benefits continue for 2005.

Q73.1.3 If full accrual accounting was used for post-retirement benefits as per CICA Handbook Section 3461 – Employee Future Benefits what would be the post-retirement expense compared to the cash basis for 2005? What is the December 31, 2005 accumulated liability difference between using the cash basis and the accrual basis if the accrual basis was adopted as recommended in the CICA Handbook.

A73.1.3 Assuming full accrual accounting was used for other post-retirement benefits beginning on January 1, 2000 (the effective date for CICA Handbook Section 3461, Employee Future Benefits), the 2005 expense would be $1,380,000 compared to the estimated expense using the cash basis of approximately $300,000. Also on the assumption that CICA Handbook Section 3461 was implemented as of January 1, 2000, the opening accumulated liability as of January 1, 2005 would be $4,400,000.

If the Company were to adopt the accrual basis prospectively beginning in 2005, the accumulated liability ($4,400,000) would also need to be amortized into expense. Amortization would be determined on the Expected Average Remaining

Service Lifetime (EARSL) of the covered group, which is approximately 14 years, resulting in amortization of approximately $320,000 per year ($4,400,000 / 14). Therefore, the total 2005 expense would be approximately $1,700,000 ($1,380,000 + $320,000).

The accumulated liability is projected to be $5,550,000 at December 31, 2005.

Q73.2 a) Please describe on the utility's Pension Plan(s) for its employees including the type of plan(s).

b) Please describe the post retirements benefits (other than pension) available to its employees.

A73.2a **PENSION PLANS**

FortisBC has three pension plans:

(a) the IBEW Pension Plan;
(b) the COPE Pension Plan; and
(c) the Fortis Retirement Income Plan.

Each of these three pension plans is described below.

(a) FortisBC IBEW Pension Plan

- Defined Benefit Pension Plan
- All full time and regular part time employees are eligible on his or her date of employment. All full time IBEW members are required to join the plan.
- A temporary employee is eligible on the first day of any month at which time the member is actively at work and has completed 24 months of continuous service in which he or she has earned at least 35% of the Canada Pension Plan's "Year's Maximum Pensionable Earnings" (the "YMPE", e.g., in 2004, 35% of $40,500 or $14,175) in each of two consecutive calendar years.
- Benefits are provided at normal retirement age, upon early retirement or upon death or termination of employment.
- The pension formula is

0.8% x "Best Average Plan Earnings"

x years of credited service before February 1, 1982

PLUS

2% x "Best Average Plan Earnings"

x years of credited service on and after February 1, 1982

This is subject to limits which are, or have been, imposed on registered pension plans by the Income Tax Act. The current limit applicable to members is $1861.20 of annual pension per year of credited service, and this limit is scheduled to be indexed to the average industrial wage in Canada for years after 2004.

The Plan is jointly trusteed. The trustees are employees of the company and consist of equal Company and Union representation with one Trustee (Chair of the Board) who is external and paid by the Plan. The Board of Trustees ensures that the plan is run in accordance with the Plan Text and Trust Agreement. All Plan Amendments or the Amendments to the Trust must be approved by the Union and the Company.

(b) FortisBC-COPE Pension Plan

- Defined Benefit Pension Plan
- All full time and part-time employees of the Company who are represented by Canadian Office & Professional Employees' Union are eligible to join. Full time COPE members are required to join.
- A full-time employee becomes a plan member three months following his or her date of employment.
- A part-time employee is eligible after completing 24 continuous months of employment, if that period covers two consecutive calendar years in which earnings were at least 35 percent of the Year's Maximum Pensionable Earnings.
- Benefits are provided at normal retirement age, upon early retirement or upon death or termination of employment.
- The Pension Formula is:

1.1% x "Best Average Plan Earnings"

x years of credited service before February 1, 1982

PLUS

2% x "Best Average Plan Earnings"

x years of credited service on and after February 1, 1982

This is subject to limits which are, or have been, imposed on registered pension plans by the Income Tax Act. The current limit applicable to members is $1861.20 of annual pension per year of credited service, and this limit is scheduled to be indexed to the average industrial wage in Canada for years after 2004.

The Plan is jointly trusteed. The trustees are employees of the company and consist of equal Company and Union representation. One Trustee (Chair of the Board from COPE Union) is external. The Board of Trustees ensures that the plan is run in accordance with the Plan Text and Trust Agreement. All Plan Amendments or the Amendments to the Trust must be approved by the Union and the Company.

(c) Fortis Retirement Income Plan (FRIP)

- Consists of a defined benefit provision and a defined contribution provision.
- Effective January 1, 2001, the maximum member contribution limit was removed.
- Effective December 31, 2001, a DC provision was added to the plan. Existing members were given a one time option to convert from DB to DC. All members hired after January 1, 2002 are eligible to enrol in the DC provision only.
- Effective December 31, 2001 the maximum pension limit was increased to the maximum permitted under the Income Tax Act.
- Effective December 31, 2001, eligibility for the plan's subsidized early retirement provisions was reduced from age 55 with 20 years of service to age 55 with 2 years of service.
- Effective December 31, 2001, the period for determining the average YMPE was increased from 36 to 60 months.
- The basic pension for the FRIP DB provision is based on the following formula:

1.2% of the members Best Earnings up to the Average YMPE multiplied by his/her years of Credited Service to a maximum of 35 years

plus

1.6% of the members Best Earnings in excess of the Average YMPE multiplied by his/her years of Credited Service to a maximum of 35 years

plus

1.2% of the members Best Earnings multiplied by his/her years of Credited Service in excess of 35 years

A73.2b **POST-RETIREMENT BENEFITS OTHER THAN PENSIONS**

Below is a description of the post retirement benefits available to its employees.

(a) IBEW members:

Extended Health Benefits: Company Paid Premiums (not a taxable benefit)

- Benefits mirror the active benefits at date of retirement. Dental not provided.
- Maximum *Prescription* coverage for those who retiree on or after Feb 1, 2001: $800 per person per year.

Group MSP: Company Paid Premiums (taxable benefit)

Life Insurance: Company Paid Premiums (taxable benefit)

- Equal to 1 times last salary until age 65. Reduces to a flat 2,500 at age 65.

(b) COPE members:

Extended Health Benefits: Company Paid Premiums (not a taxable benefit)

- Benefits mirror the active benefits at date of retirement. Dental not provided.
- Maximum *Prescription* coverage for those who retiree on or after Feb 1, 2000: $800 per person per year.

Group MSP: Company Paid Premiums (taxable benefit)

Life Insurance: Company Paid Premiums (taxable benefit)

(c) Non – Union Employees:

FRIP: They have two options at retirement until 2010. Then the plan was to have a spending account for all Non-Union retirees until age 65 and nothing after, with no MSP coverage.

Option 1: Former “WKP” benefits

Extended Health Benefits:
- Company Paid Premiums (not a taxable benefit)
- Benefits mirror the active benefits at date of retirement. Dental not provided. Booklet attached.
- Maximum Prescription coverage for those who retiree on or after Feb 1, 2000: $800 per person per year.

Group MSP: Company Paid Premiums (taxable benefit)

Life Insurance: Company Paid Premiums (taxable benefit)
One times your annual basic earnings at retirement up to a maximum benefit of $150,000. The benefit amount in effect prior to age 65 reduces as follows:

At age 65 – reduces to 80% of original insurance amount
At age 66 – reduces to 70% of original insurance amount
At age 67 – reduces to 60% of original insurance amount
At age 68 – reduces to 50% of original insurance amount
At age 69 – reduces to 40% of original insurance amount
At age 70 – reduces to 30% of original insurance amount
The maximum benefit is $50,000 when you reach age 70

Option 2: Remain on Elex
Comprehensive Medical and Dental until age 65: Taxable Benefit
NO MSP
Life Insurance: Employee life insurance must be converted to personal policy within 30 days of retirement.

Q73.3 Does the company have a supplemental pension plan? If so, what is the annual expense included in the labour costs?

A73.3 Yes, the Company does have a supplemental pension plan. For 2005, the annual expense included in labour costs is $160,000.

Q73.4 Please provide a table of the Pension Plan's plan assets, accrued benefit obligation, funded status, and accrued benefit asset (liability) balance for the years 2002 to 2005.

A73.4 Please see the following schedule.

	2002	2003	2004
Change in accrued benefit obligation		($000s)	
Balance, beginning of year	66,659	74,604	85,771
Member contributions	1,671	1,424	1,509
Current service cost	965	1,261	1,721
Interest costs	4,674	4,785	5,178
Benefits paid	(3,506)	(4,456)	(3,848)
Actuarial losses	4,724	5,905	4,868
Transfers	(583)	2,248	1,199
Balance, end of year	74,604	85,771	96,398
Change in fair value of plan assets			
Balance, beginning of year	58,513	58,819	64,819
Actual return on plan assets	(688)	5,486	7,282
Employer contributions	3,498	2,172	2,577
Member contributions	1,671	1,424	1,509
Benefits paid	(3,506)	(4,456)	(3,848)
Transfers and non-investment expenses	(669)	1,374	1,066
Fair value, end of year	58,819	64,819	73,405
Composition of accrued benefit asset			
Accrued benefit obligation	74,604	85,771	96,398
Fair value of assets	58,819	64,819	73,405
Funded status – plan deficit	(15,785)	(20,952)	(22,993)
Contributions received after the measurement date	521	660	740
Unamortized net actuarial loss	9,720	14,727	16,700
Unamortized transitional obligation	9,888	8,909	8,270
Unamortized prior service cost	2,713	2,470	2,531
Accrued benefit asset	7,057	5,814	5,248
Reconciliation of accrued benefit asset			
Accrued benefit asset at beginning of year	6,611	6,775	5,814
Net benefit cost	(2,411)	(3,094)	(3,335)
Funding contribution	2,857	2,133	2,769
Accrued benefit asset at end of year	7,057	5,814	5,248

Similar information about the pension plans assets, accrued benefit obligation, funded status and accrued benefit asset (liability) balance for 2005 will not be available until the end of 2005.

Q73.5 Please provide a table of the calculation of the pension plan net expense from 2002 to 2005.

A73.5 The table below shows the calculation of net pension plan expense from 2002 to 2005:

	2002	2003	2004	2005 (forecast)
	($000s)			
Employer current service cost	965	1,261	1,721	1,710
Interest cost	4,674	4,785	5,178	5,770
Actual/expected return on assets	688	(5,486)	(7,282)	(5,540)
Actual loss on accrued benefit obligation	4,724	5,905	4,868	
Difference between actual and expected return on assets	(5,148)	1,114	2,085	
Amortization:				
Net actuarial gain	(4,724)	(5,703)	(4,536)	600
Net transitional obligations	980	978	1,009	1,030
Prior service cost	252	240	292	290
Total net benefit plan expense	2,411	3,094	3,335	3,860

Q73.6 Please provide the significant actuarial assumptions for 2001 to 2005 used by the utility including the discount rate, expected long-term rate of return on plan assets, general rate of compensation increase, and inflation rate. Please explain any changes in assumptions during this period.

A73.6 Below are the significant actuarial assumptions for 2001 to 2005. The assumptions have remained consistent over this period.

	2001	2002	2003	2004	2005
Discount rate	7.0%	6.5%	6.0%	6.0%	6.0%
Expected long term rate of return on assets	8.0%	7.5%	7.5%	7.5%	7.5%
General rate of compensation increase	3.5%	3.5%	3.5%	3.5%	3.5%
Inflation rate [1]	2.0%	2.0%	2.0%	2.0%	2.0%

(1) For determining net benefit cost

Q73.7 Please file the latest pension actuarial report prepared by the utility's independent actuary.

A73.7 Please refer to the attachment BCUC A73.7.

PRIVATE AND CONFIDENTIAL

January 7, 2005

Mr. Jacques de Leeuw
KPMG LLP
1200, 205 – 5th Avenue SW
Calgary, AB
T2P 4B9

Dear Mr. Leeuw:

FORTISBC INC.
FINANCIAL INFORMATION UNDER CICA 3461

This letter has been prepared for FortisBC Inc. (the "Company") and presents financial information with respect to pension benefits and post-retirement benefits other than pensions provided to employees of the Company, in accordance with Section 3461 of the Canadian Institute of Chartered Accountants' Handbook ("CICA3461").

The purpose of this letter is to provide information on the net benefit cost for 2004 and the information required for 2004 year-end disclosure under CICA3461.

SALE OF THE COMPANY

Effective May 31, 2004, Aquila Networks Canada (British Columbia) Ltd. was purchased by Fortis Inc., and renamed to be FortisBC Inc.

Our understanding is that the nature of the purchase and sale transaction was such that purchase accounting standards do not apply and that the existing balance sheet and unamortized amounts were retained. However, the assets and the accrued benefit obligations were remeasured as at the sale date. Therefore, the net periodic cost for the first 5 months of 2004 has been determined based on the financial position of the plans at December 31, 2003 (using a measurement date of September 30, 2003) and the net periodic cost for the last 7 months of 2004 has been determined based on the financial position of the plans at May 31, 2004 (using a measurement date of February 28, 2004).

TOWERS PERRIN
HR SERVICES

COVERED BENEFITS

Registered Pension Plans

The Company sponsors the following registered pension plans:

- FortisBC IBEW Pension Plan (the "IBEW Plan"), formerly known as the Aquila IBEW Pension Plan;
- C.O.P.E. FortisBC Pension Plan (the "COPE Plan"), formerly known as the O.P.E.I.U. – W.K.P. Pension Plan; and
- FortisBC Retirement Income Plan ("FRIP"), formerly known as the Aquila Basic Retirement Income Plan.

A summary of the provisions of each of these registered pension plans may be found in the most recent actuarial funding valuation reports of the respective plans, which were completed as shown in the following table:

	IBEW Plan	COPE Plan	FRIP
Most recent actuarial funding valuation	December 31, 2003	December 31, 2002	December 31, 2001
Next required actuarial funding valuation	December 31, 2004	December 31, 2005	December 31, 2004

The IBEW Plan and the COPE Plan are final average earnings defined benefit plans, and FRIP contains both a closed final average earnings defined benefit provision and a defined contribution provision. This letter provides information on all members who participate in the defined benefit provisions of the registered pension plans.

Certain highly-paid employees of the Company participate in either a Group RRSP sponsored by the Company or in another registered pension plan sponsored by a related employer. This letter does not contain information with respect to the benefits earned by these employees under these arrangements.

Supplemental Pension Arrangements

There are two former employees (Mr. D. Bacon and Mr. R. Siddall) and the surviving spouse of one former employee (Ms. R. Drennan) who are in receipt of supplemental pensions. The expense and related disclosure items provided in this letter reflect the supplemental benefits payable to these three individuals.

In addition, the Company expects to adopt a supplemental retirement plan (the "Supplemental Plan") for certain employees of the Company whose earnings are such that the Income Tax Act limits restrict their benefits under the FRIP. While the terms of the Supplemental Plan are not yet finalized, it is expected that the plan provisions will provide benefits consistent with those provided under the Supplemental Employee Retirement Plan of Fortis Inc. This plan provides for amounts equal to 13% of earnings above the maximum earnings limit under the respective pension arrangement to be allocated to notional accounts on behalf of the members of the Supplemental Plan.

This letter assumes that the Supplemental Plan has been adopted and includes an estimate of the net benefit cost and accrued benefit obligation in respect of this benefit.

Post-Retirement Benefits Other Than Pensions

Employees of the Company who retire are entitled to post-retirement benefits other than pensions. A summary of these post-retirement benefits is provided in Appendix B.

ACCOUNTING POLICIES

We have incorporated the following accounting policies for the purposes of determining the future benefit cost:

- CICA3461 was adopted prospectively effective January 1, 2000 in a manner that amortized the net transition asset/(obligation) at the transition date over the expected average remaining service lifetime (EARSL) of employees who were active as of the transition date;

- Net actuarial gains or losses that exceed 10% of the greater of the accrued benefit obligation and the fair value of plan assets as of the beginning of the period (the "10% corridor"), are amortized over the Expected Average Remaining Service Lifetime (EARSL) of employees who are active as of the date such amounts are recognized;

- Increases in past service costs are amortized over the EARSL of employees who are active as of the date such costs are first recognized;

- For defined benefit provisions and post-retirement benefits other than pensions, a measurement date of three months prior to the disclosure date is used. For the defined contribution portion of the Supplemental Plan, a measurement date the same as the disclosure date is used;

- The market value ("fair value") of assets is used to determine the expected return on plan assets and the net actuarial gain or loss; and

- As a result of a GAAP variance, the Company expenses post-retirement benefits other than pensions on a pay-as-you-go basis. Accordingly, this letter provides information with respect to the accrued benefit obligations associated with post-retirement benefits other than pensions, but does not provide information with respect to the net benefit cost associated with these benefits.

SIGNIFICANT EVENTS WITH RESPECT TO PENSION PLANS

Amendments to the COPE Plan and the IBEW Plan are currently being considered which would alter the method of determining indexing of pensions. The terms of these amendments are still under consideration by the Trustees of both plans, and discussions with the Financial Institutions Commission of BC are currently taking place to ensure the amendments are appropriate. As the terms of the amendments are not yet known, our calculations do not include any provision for the amendments.

MEMBERSHIP DATA

Registered Pension Plans

The accrued benefit obligations as at September 30, 2004 have been estimated based on membership data as at December 31, 2003 for all three registered pension plans.

In projecting the accrued benefit obligations, no attempt has been made to adjust the membership data for any changes in the membership profile, except that the assumed current service costs reflect estimated payrolls for the employee groups, based on information provided by the Company. A summary of the membership data can be found on page 1 of Appendix A.

Supplemental Pension Arrangements

The accrued benefit obligations as at September 30, 2004 and 2004 notional contributions in respect of the supplemental arrangements have been estimated based on membership data as at September 30, 2004, as provided by the Company. A summary of the membership data can be found on page 1 of Appendix A.

Post-Retirement Benefits Other Than Pensions

The accrued benefit obligations for FortisBC have been estimated based on membership data as at January 1, 1999. A summary of the membership data is provided on page 2 of Appendix A. In projecting the accrued benefit obligations, no attempt has been made to adjust the membership data for any changes in the membership profile.

PLAN ASSETS

The fair value of pension plan assets as at December 31, 2004 is equal to the market value of plan assets as at September 30, 2004 as shown in financial statements prepared by Canadian Western Trust for the IBEW Plan, Royal Trust for the COPE Plan and CIBC Mellon for FRIP. The fair value of assets excludes assets attributable to the defined contribution provision of FRIP.

Information with respect to contributions remitted in the last quarter of 2004 was provided by the Company.

The value of plan assets has been relied upon by Towers Perrin following tests of reasonableness with respect to contributions, benefit payments and investment income.

There are no assets in respect of supplemental pension arrangements or post-retirement benefits other than pensions.

As at September 30, 2004, the assets of the defined benefit component of the registered pension plans are invested as follows:

	IBEW Plan	COPE Plan	FRIP	Total Assets
Equity Securities	63.2%	64.9%	59.0%	61.5%
Debt Securities	24.7%	24.5%	41.0%	32.1%
Real Estate	10.5%	10.3%	0.0%	5.7%
Cash	1.6%	0.3%	0.0%	0.7%

ACTUARIAL BASIS

The actuarial cost method used is the projected unit credit method. The actuarial assumptions used in our calculations are summarized in Appendix C. It is our understanding that, with the exception of the liability discount rate, which is prescribed under CICA3461, these assumptions are acceptable to management and represent management's best estimates for the purposes of the accounting valuation.

2004 NET BENEFIT COST AND YEAR-END DISCLOSURE ITEMS

The development of the net benefit cost for 2004, including the required year-end disclosure items, is shown in Appendix D. A reconciliation of the obligations for the post-retirement benefits other than pensions is shown in Appendix E.

We note that the net benefit cost for FRIP is in respect of the defined benefit component only. The benefit cost for the defined contribution component is simply the contributions made by the Company. The estimated contributions made by the Company in 2004 are $280,000.

Further to discussions earlier this year, we understand that, as at 2003 year-end, the Company reported an accrued benefit asset of $5,814,000, compared to the $6,260,000 shown in our letter of January 27, 2004. We have adjusted our beginning year accrued benefit asset for FRIP so that the total accrued benefit asset matches the actual amount on the Company's financial statements. A corresponding adjustment has also been made to the unamortized net actuarial gain (loss) for FRIP.

LIMIT ON CARRYING AMOUNT OF ACCRUED BENEFIT ASSET

Under CICA3461, a valuation allowance must be held for the excess, if any, of the accrued benefit asset (subject to certain adjustments) over the expected future benefit. In my opinion, as at September 30, 2004, no such valuation allowances are required.

ACTUARIAL OPINION

The calculations presented in this letter have been made in accordance with Section 3461 of the Canadian Institute of Chartered Accountants (CICA) Handbook with which we are familiar. The assumptions used for the calculations were determined by the management of the Company as being their best estimate of long-term expectations, after discussions with Towers Perrin. The discount rate used to determine the accrued benefit obligations and benefit cost in accordance with Section 3461 was based on AA corporate bond yields at the following dates:

- September 30, 2003 for the December 31, 2003 valuation and the first five months of 2004 benefit cost;
- February 29, 2004 for the May 31, 2004 valuation and the last seven months of 2004 benefit cost; and
- September 30, 2004 for the December 31, 2004 valuation.

TOWERS PERRIN
HR SERVICES

In our opinion, the data used are sufficient and reliable and the methods are appropriate. This letter has been prepared in accordance with accepted actuarial practice.

We are not aware of any matters or events occurring between the date of the projection and the date of this letter which have not been accounted for and which materially affect the financial position of the plans. However, emerging experience, differing from the assumptions, will result in gains and losses that will be revealed in future valuations.

*   *   *   *   *

I trust that this letter provides you with the information you require. If you have any questions regarding the information contained in this letter or if you require any further information, please call me.

Sincerely,

Stephen J. Butterfield, FCIA

Enclosures

cc: Mr. I. Lorimer — FortisBC Inc.
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FORTISBC INC.

SUMMARY OF MEMBERSHIP DATA

	FRIP	IBEW Plan	COPE Plan	Supplemental Pensions
Date of Membership Data	*December 31, 2003*	*December 31, 2003*	*December 31, 2003*	*September 30, 2004*
Active and Disabled Members				
Number	46 [1]	208	58	2
Average age	48.9	45.7	44.7	N/A
Average credited service	17.9	13.6	11.5	0.6
Annual covered payroll	$ 4,281,098	$ 11,878,658	$ 3,224,782	$ 414,625
Average covered payroll	$ 93,067	$ 57,109	$ 55,600	$ 207,313
Retired Members and Beneficiaries				
Number	212	44	40	3
Average age	74.7	66.4	64.2	65.4
Total annual pension	$ 2,161,931	$ 519,617	$ 447,822	$ 79,228
Average annual pension	$ 10,198	$ 11,809	$ 11,196	$ 26,409
Terminated Vested Members				
Number	30	24	18	N/A
Average age	52.9	45.4	44.0	N/A
Total annual pension (not including bridge)	$ 112,925	$ 245,508	$ 135,098	N/A
Average annual pension	$ 3,764	$ 5,412	$ 7,505	N/A

Note:

[1] This summary includes only members of the defined benefit provision of FRIP. Under FRIP, there were approximately 42 active members of the defined contribution provision at December 31, 2004, with an annual covered payroll of approximately $4,100,000.

FORTISBC INC.

POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

MEMBERSHIP DATA AS OF JANUARY 1, 1999

	Exempt Staff	OPEIU Staff	IBEW Staff
Active Members			
Number	96	85	189
Average age	45.2	43.7	43.6
Average service	12.8	13.5	13.9
Average salary rate at January 1, 1999	$ 67,171	$ 46,245	$ 49,303
Retired Members			
Number	77	19	83
Average age	69.8	65.7	72.7
Beneficiaries			
Number	22	29	0
Average age	77.7	79.7	N/A

FORTISBC INC.

POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

SUMMARY OF PLAN PROVISIONS

FortisBC Employees – Prior to January 1, 2002

Full eligibility date:	Age employee is eligible to retire under the pension plan
Group life insurance:	1 x salary to a maximum of $150,000 For exempt staff and COPE employees: amount reduced by 10% per year to age 70 For IBEW employees: amount reduces to $2,500 at age 65
Extended health benefits:	80% of first $1,000 of eligible expenses and 100% thereafter $100,000 annual maximum $25 annual deductible
Medical Services Premiums:	100% company paid

FortisBC Employees – Following January 1, 2002

IBEW and COPE employees, as well as exempt staff who were employees of FortisBC prior to January 1, 2002 and who retire prior to January 1, 2010, remain entitled to the benefits noted above.

Exempt staff other than those just described who retire prior to January 1, 2010 are entitled to post-retirement benefits other than pensions which include the continuation of extended health benefits and dental benefits to age 65.

Exempt staff who retire on or after January 1, 2010 will receive a Health Spending Account to cover health and/or dental expenditures.

FORTISBC INC.

ACTUARIAL ASSUMPTIONS

Economic Assumptions	
Discount rate to determine year-end accrued benefit obligation:	6.0% per year
Discount rate used for determining net benefit cost:	
■ January 1, 2004 to May 31, 2004:	6.0% per year
■ June 1, 2004 to December 31, 2004:	5.75% per year
Rate of compensation increases	
■ For determining year-end accrued benefit obligation	3.5% per year
■ For determining net benefit cost	3.5% per year
Rate of Inflation	
■ For determining year-end accrued benefit obligation	2.5% per year
■ For determining net benefit cost	2.0% per year
Expected rate of return on assets	7.5% per year
Rate of increase in YMPE	3.0% per year
Rate of escalation of Income Tax Act maximum pension limit	$1,833 for 2004; $2,000 for 2005; increasing by 3.0% per year commencing in 2006
Extended health care annual cost (1999) [1] (figures shown are for single premium)	
■ IBEW Staff	$55 per year
■ OPEIU Staff	$155 per year
■ Management Staff	$155 per year
Medical trend rate	10.0% in 2004 9.0% in 2005 8.0% in 2006 7.0% in 2007 6.0% per year thereafter
Trend rate of MSP premiums	5.0% per year
Demographic Assumptions	
Mortality	UP 1994 table projected 18 years with Scale AA
Withdrawal	Service related rates (as per pension valuations)
Retirement	Age and service related rates (as per pension valuations)
Other Assumptions	
Percentage of members with eligible spouses	90% for IBEW Plan and COPE Plan, 90% of males and 70% of females for FRIP.
Years male spouse older than female spouse	3

Notes:

[1] Increases in the Extended Health Care annual cost between 1999 and 2003 include 48% for inflation, and additional increases of 15% effective January 1, 2002 and 15% effective May 1, 2003 to reflect changes in government provided benefits.

FORTISBC INC.

CICA 3461 ACCOUNTING INFORMATION FOR 2004
REGISTERED PENSION PLANS AND SUPPLEMENTAL PENSION ARRANGEMENTS

	IBEW Plan	COPE Plan	FRIP	Supplemental	Total
Net Benefit Cost					
Current service cost	$ 908	$ 263	$ 505	$ 45	**$ 1,721**
Past service cost arising from plan amendment	-	-	-	-	**-**
Interest cost on accrued benefit obligation	2,253	814	2,053	58	**5,178**
Actual return on assets	(2,789)	(980)	(3,513)	-	**(7,282)**
Actual gains/losses on accrued benefit obligation	2,988	1,532	312	36	**4,868**
Difference between actual and expected return on assets	679	256	1,150	-	**2,085**
Other adjustments to allocate costs:					
- Past service costs	106	50	73	63	**292**
- Actuarial gains/losses	(2,851)	(1,449)	(200)	(36)	**(4,536)**
- Transition amounts	346	128	535	-	**1,009**
Net benefit cost	$ 1,640	$ 614	$ 915	$ 166	**$ 3,335**
Change in Benefit Obligation					
Benefit obligation at date of fiscal year-end - prior year	$ 36,339	$ 13,373	$ 33,516	$ 957	**$ 84,185**
Transfers between plans	-	-	2,785	-	**2,785**
Member contributions	1,048	292	169	-	**1,509**
Benefits paid	(788)	(555)	(2,447)	(58)	**(3,848)**
Current service cost	908	263	505	45	**1,721**
Interest cost on accrued benefit obligation	2,253	814	2,053	58	**5,178**
Plan amendments	-	-	-	-	**-**
Actuarial (gain)/loss	2,988	1,532	312	36	**4,868**
Benefit obligation at date of fiscal year-end - current year	$ 42,748	$ 15,719	$ 36,894	$ 1,038	**$ 96,398**
Change in Plan Assets					
Fair value of assets at date of fiscal year-end -prior year	$ 25,473	$ 8,711	$ 29,251	$ -	**$ 63,435**
Transfers between plans	-	-	2,450	-	**2,450**
Employer contributions	1,272	807	440	58	**2,577**
Member contributions	1,048	292	169	-	**1,509**
Benefits paid	(788)	(555)	(2,447)	(58)	**(3,848)**
Actual return on plan assets	2,789	980	3,513	-	**7,282**
Fair value of assets at date of fiscal year-end -current year	$ 29,794	$ 10,235	$ 33,376	$ -	**$ 73,405**
Composition of Accrued Benefit Asset (Liability)					
Accrued benefit obligation	$ 42,748	$ 15,719	$ 36,894	$ 1,038	**$ 96,398**
Fair value of assets	29,794	10,235	33,376	-	**73,405**
Resulting plan surplus (deficit)	$ (12,954)	$ (5,484)	$ (3,518)	$ (1,038)	**$ (22,993)**
Unamortized amounts:					
- Past service costs	962	532	563	474	**2,531**
- Net actuarial loss (gain)	7,989	3,914	4,824	(27)	**16,700**
- Transitional obligation (asset)	2,840	1,285	4,145	-	**8,270**
Contributions after measurement date	388	245	87	21	**741**
Accrued benefit asset (liability)	$ (775)	$ 492	$ 6,101	$ (570)	**$ 5,248**
Reconciliation of Accrued Benefit Asset (Liability)					
Accrued benefit asset (liability) at start of period	$ (501)	$ 210	$ 6,583	$ (478)	**$ 5,814**
Net benefit cost	1,640	614	915	166	**3,335**
Funding contribution	1,366	896	433	74	**2,769**
Accrued benefit asset (liability) at end of period	$ (775)	$ 492	$ 6,101	$ (570)	**$ 5,248**
Classification of Accrued Benefit Asset (Liability)					
Current liabilities	$ (1,462)	$ (986)	$ (386)	$ (83)	**$ (2,917)**
Other long-term liabilities	-	-	-	(487)	**(487)**
Other assets	687	1,478	6,487	-	**8,652**
Accrued benefit asset (liability) at end of period	$ (775)	$ 492	$ 6,101	$ (570)	**$ 5,248**
EARSL	11.0	14.3	11.5	19.6	

Notes:

1) All amounts are shown in thousands of Canadian dollars.

2) Amounts shown for FRIP include the defined benefit provision only. The net benefit cost for the defined contribution provision is estimated to be $280,000.

Appendix E

FORTISBC INC.

2004 DISCLOSURES FOR POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

Change in Benefit Obligation		
Benefit obligation at date of fiscal year-end - prior year	$	10,736
Benefits paid		(334)
Current service cost		232
Interest cost on accrued benefit obligation		641
Plan amendment		0
Actuarial (gain)/loss		0
Benefit obligation at date of fiscal year-end - current year	$	11,275
Change in Plan Assets		
Fair value of assets at date of fiscal year-end -prior year	$	0
Employer contributions		334
Member contributions		0
Benefits paid		(334)
Actual return on plan assets		0
Fair value of assets at date of fiscal year-end -current year	$	0
Accrued Benefit Asset (Liability)	$	(11,275)
Effect of 1% Increase in Health Care Trend Rates		
Effect on total of service and interest cost components for 2004	$	170
Effect on post-retirement benefit obligation at date of fiscal year-end - current year	$	1,670
Effect of 1% Decrease in Health Care Trend Rates		
Effect on total of service and interest cost components for 2004	$	(140)
Effect on post-retirement benefit obligation at date of fiscal year-end - current year	$	(1,460)

Notes:

1) All amounts are shown in thousands of Canadian dollars.

Q74.0 Reference: Volume 1, Tab 8, Revenue Requirement, Section 2.6, pp. 12-13
Operation and Maintenance: Labour - Stock Options

Does 2005 or any other year include employee stock option expense in the utility financial schedules?

A74.0 No. All stock option expenses have been and will be borne by the parent company.

75.0 Reference: Volume 1, Tab 8, p. 13, Table 8.2.6

Q75.1 Please provide an explanation for the significant increase in the cost of contracted manpower.

A75.1 The majority of the increase relates to inter-provincial contract charges with FortisAlberta. After adjusting for these costs, 2005 contracted manpower actually decreased by $25,000 when compared to 2002.

Contracted Manpower

	($000s)
2005 Forecast	5,199
Deduct: FortisAlberta Services	
Call Center	500
Billing	200
Meter Shop	200
	900
	4,299
2002 Actual	4,324
Decrease over 2002	(25)

Q75.2 Why is the value of uncollectible accounts for 2004 significantly above 2003 and expected 2005 levels? What specific actions, if any, are being taken to reduce the costs associated with such accounts? (The Commission notes FortisBC's partial explanation at Tab 8, p. 14).

A75.2 The value of uncollectible accounts for 2004 is above 2003 and expected 2005 levels due to the resolution of issues outstanding from previous years including:

- The 2004 expense includes a $200,000 increase in the provision for bad debts to ensure that expected uncollectible accounts are properly accounted for.
- The 2004 expense also includes an adjustment of approximately $450,000 for bad debts from 2001 to 2003 that had been carried as a receivable.

In 2005, FortisBC plans to achieve the forecast reduction in bad debt expense by improving processes associated with the administration of security deposits, monitoring of aged accounts receivable and collections.

**76.0 Reference: Volume 1, Tab 8, Revenue Requirement, Section 2.10, pp 13-14
Operation and Maintenance: Uncollectable Accounts**

Q76.1 Table 8.2.6 (Operating and Maintenance Expense) in line 8 shows Uncollectable Accounts have ranged from a high of $1.259 million in 2004 to a low of $0.438 million in 2003. Why is the 2004 amount significantly above 2003 and Forecast 2005 levels? Has the utility changed its policy on debt recognition or collection over the last five years? What specific actions, if any, are being taken to reduce the costs associated with such accounts?

A76.1 Please refer to the response in BCUC IR1 Q75.2.

Q76.2 Please provide a 10 year schedule from 1996 to 2005 showing the uncollectible account amount, the total revenues, and the percentage of uncollectible amount to total revenues. Please explain any large amount and percentage difference.

A76.2 The percentage of uncollectible amounts to total revenues from 1996 to 2005 were as follows:

Bad Debt to Sales % - 10 year Average - 1996 - 2005

	Actual								Forecast	
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
	($000s)									
Bad Debt Expense ($000s)	457	373	583	360	645	229	951	438	1,259	445
Sales Revenue ($000s)	123,156	121,004	122,049	123,413	133,304	141,819	148,439	162,955	175,604	184,388
% Bad Debt to Revenue	0.371%	0.308%	0.478%	0.292%	0.484%	0.161%	0.641%	0.269%	0.717%	0.241%

Explanations for large percentage differences:

- In 2001, not all uncollectible accounts were properly identified as bad debts. An adjustment of approximately $350,000 to recognize these accounts as bad debts was made in 2002. This accounts for the low percentage of bad debts to revenue of .161 percent in 2001 and the high percentage of 0.641 percent in 2002.
- An explanation of the increase in bad debt expense in 2004 can be found in the response to BCUC IR1 Q75.2.

Q76.3 In a similar format for Actual 2000 to 2004 show the forecast uncollectible amount and percentage of revenues, the actual results, and the differences. Please any significant forecast error differences.

A76.3 The forecast and actual bad debt to revenue percentages for 2000 to 2004 are as follows:

		2000	2001	2002	2003	2004
Bad Debt Expense ($000s)	Actual	645	229	951	438	1,259
Sales Revenue ($000s)	Actual	133,304	141,819	148,439	162,955	175,604
% Bad Debt to Revenue	Actual	0.484%	0.161%	0.641%	0.269%	0.717%
Bad Debt Expense ($000s)	Forecast	472	522	474	552	540
Sales Revenue ($000s)	Forecast	130,839	140,690	151,915	160,169	169,926
% Bad Debt to Revenue	Forecast	0.361%	0.371%	0.312%	0.345%	0.318%
Differences		0.123%	-0.210%	0.329%	-0.076%	0.399%

Explanations for significant differences in forecast and actual percentages can be found in the responses to BCUC IR1 Q75.2 and BCUC IR1 Q76.2.

Q76.4 On page 14 it explains that the estimated $0.4 million uncollectible account represents one-quarter of one percent of revenues from electricity sales and that "these costs are generally influenced by local economic conditions." If revenues paid by municipalities are excluded what would be the bad debt percentage? Please elaborate further with examples on how local economic conditions have affected the uncollectible account.

A76.4 If revenues paid by FortisBC's wholesale customers are excluded from the bad debt to revenue percentages for 2005, the bad debt percentage would be 0.33 percent.

Various local economic conditions can impact a customer's ability to pay their bill on time including unemployment rates, bankruptcy rates and reductions in any major industries. Although FortisBC understands that these issues impact the number of and value of uncollectible accounts, the Company has not undertaken a detailed study on the direct correlation between these items and our actual or forecast numbers.

Q76.5 Please elaborate on the accounting policy for uncollectible accounts. When does an account become uncollectible? Does the utility set-up an uncollectible reserve account by a pre-defined percentage rate and when bad debt is realized it is taken from the reserve account?

A76.5 The accounting treatment of uncollectible accounts follows. The Company does have a reserve for uncollectible accounts, but bad debts are not processed through the reserve account. When an account has been unpaid for more than 90 days, the amount is transferred to bad debt expense and the account is placed with a collection agency. Any amounts recovered by the collection agency are credited back to bad debt expense net of associated commission.

In 2005, the Company plans to modify the accounting for bad debts by transferring uncollectible accounts to the reserve account when the account is placed with the collection agency, and adjust bad debt expense based on an analysis of the reserve account. Any amounts recovered by the collection agency will be credited back to the reserve account net of associated commission. The reserve provision will be periodically adjusted based on analysis of aged accounts receivable.

77.0 Reference: Volume 1, Tab 8, Revenue Requirement, Section 2.11, pp. 14-15
Operation and Maintenance: Insurance

On pages 14 and 15 the utility states: "For 2005 the Company has been able to gain access to lower cost insurance premiums through its affiliates and to decrease insurance expense below the 2003 level." Page 9 of Tab 3 elaborates this lower cost has been achieved through "participation in the Fortis Inc. insurance program."

Q77.1 Please provide the 2003, 2004 and 2005 insurance policies that include the term, coverage, premiums, and deductibles. Elaborate on any changes to 2005 for any unfavourable terms or coverage.

A77.1 The insurance policies include information confidential to the Company and Fortis Inc., our brokers and our insurers that prevents the Company from providing copies of the policies. However, FortisBC has included a high-level summary of the policies and the purpose behind each policy. This high-level summary is applicable to each of the years requested.

1. *Liability Insurance*. These policies are intended to provide coverage for legal liability to 3rd parties for bodily injury and property damage.

2. *Property & Boiler Insurance*. To provide coverage against all risks of direct physical loss or damage, including expenses or measures taken to minimize loss, general salvage charges or other charges, unless specifically excluded in the policy wording.

3. *Directors & Officers*. Provides coverage for all current and past Directors, Officers and employees in claims brought against FortisBC during the policy period and reported during the period.

4. *Auto Insurance*. Provides coverage for 3rd party liability for bodily injury and property damage and 1st party property damage arising from the use of vehicles owned and leased by FortisBC.

5. *Professional Liability*. Provides coverage for liabilities arising out of providing professional engineering services to 3rd parties.

6. *Non-Owned Aviation*. Provides coverage for legal liabilities for bodily injury and property damage arising out of the operation of a non-owned aircraft.

7. *Comprehensive Crime*. Provides coverage for losses arising from crime, burglary and employee dishonesty.

The 2003 and 2004 policies were one year in length. Premiums associated with the 2003 and 2004 policies are $1.5 million and $1.3 million respectively. The coverage and deductible for the 2003 and 2004 policies is outlined below. The 2005 policies have not yet been bound (July 1 renewal) Insurance renewals are always subject to prevailing market conditions and events.

However, FortisBC is not anticipating any unfavorable terms or coverage in the 2005 policies.

2003	**Limit of Liability ($ millions)**	**Deductible**	**Currency**	**Premium**
Commercial General Liability	3.0	0.3	CAD	
Excess liability	205.0	nil	CAD	
Property	100.0	0.1	CAD	
Boiler	35.0	0.1	CAD	
Directors and Officers	100.0	1.0	USD	
Fiduciary	20.0	1.0	USD	
Employee Practices Liability	95.0	1.0	USD	
Crime	20.0	1.0	USD	
Professional Liability	10.0	1.0	USD	
Auto	3.0	-	CAD	
				$ 1.5

Jan 1 - May 31, 2004	**Limit of Liability**	**Deductible**	**Currency**	**Premium**
Commercial General Liability	3.0	0.3	CAD	
Excess liability	205.0	nil	CAD	
Property	100.0	0.1	CAD	
Boiler	35.0	0.1	CAD	
Directors and Officers	140.0	5.0	USD	
Fiduciary	105.0	1.0	USD	
Employee Practices Liability	50.0	1.0	USD	
Crime	25.0	2.5	USD	
Professional Liability	10.0	1.0	USD	
Auto	3.0	-	CAD	
				$ 0.7

June 1 - Dec 31, 2004	**Limit of Liability**	**Deductible**	**Currency**	**Premium**
Commercial General Liability	1.0	0.2	CAD	
Excess liability	60.0	nil	CAD	
Property	2,000.0	0.1	CAD	
Boiler	75.0	0.1	CAD	
Directors and Officers	75.0	0.3	CAD	
Fiduciary	10.0	0.1	CAD	
Employee Practices Liability			CAD	
Crime	5.0	0.0	CAD	
Professional Liability	4.0	-	CAD	
Auto	2.0	-	CAD	
				$ 0.6

Q77.2 Approximately how much more would it have cost FortisBC in 2005 if it had to purchase insurance without participating in the Fortis Inc. insurance program?

A77.2 The cost cannot be reasonably quantified without going to all the various markets with a complete underwriting submission specifically prepared for FortisBC on a standalone basis. Based on a study undertaken by Newfoundland Power a couple of years ago to determine the benefits of its participation in the Fortis Group program, there were a number of benefits identified which contributed to a substantially lower insurance cost than would be realized on a standalone basis. The savings to Newfoundland Power from reduced premium costs, broker fees and administration expenses were estimated at $390,000 per year on a $1.5 million program. With FortisBC having risks similar to Newfoundland Power, it is not unreasonable to assume that similar savings are being realized by FortisBC. The benefits of participation in the Fortis Group insurance program, which were identified in the Newfoundland Power study, and which can be expected to apply to FortisBC as much as they do to Newfoundland Power or any of the other participants, are summarized as follows:

- *Pooling of Risk* –Pooling allows groups of individuals or organizations to bring their risks together for insurance purposes, thereby balancing the consequences of the realization of individual risks. At the same time, participants in the pool share the total costs of insurance coverage.

By spreading its exposure over different types of operations and over different geographic locations, an insurance provider reduces its proportionate exposure to individual losses. The resulting reduction in loss expectancy enables the insurer to charge lower insurance premiums.

- *Access to Specialized Markets* – The unique risks inherent with electric utilities can only be properly insured by a select and limited number of specialty insurers. Many of these are global insurance providers that tend to focus on larger accounts and are not typically attracted to electric utilities of the size of FortisBC with a relatively small premium base. By combining the insurable risks of FortisBC with those of other Fortis companies, the premium base is substantially increased, giving the centralized insurance program access to a broader range of insurers.

- *Reduced Insurance Costs* – The most tangible advantage of FortisBC's participation in the centralized insurance program is a reduction in insurance costs. Costs that are reduced are: (1) insurance premiums, (2) broker fees, and (3) the day-to-day costs of administering the insurance function for the Company.
  - *Insurance Premiums* – Discussions with various insurance markets and analysis have concluded that premiums for most types of insurance would be higher on a stand-alone basis than under the centralized insurance program. For the remaining types of insurance, the premiums would be the same on a stand-alone

basis as they were for a centralized insurance program. Under no circumstances would it be expected that FortisBC would obtain lower premiums for comparable coverages on a stand-alone basis. (Note: The only possible exception for FortisBC is Auto Liability insurance that must be purchased from ICBC.)

- *Broker Fees* - FortisBC and all other participating related companies are allocated a portion of the annual broker service fee on the basis of their percentage of total insurance premiums.
- *Program Administration Costs* –A centralized program lowers the day-to-day administration costs of the insurance function. This includes processing claims, coordinating property inspections, preparing for policy renewals, arranging for insurance coverage and providing general risk management information to both internal and external parties. The Director, Risk Management, an employee of Newfoundland Power, handles all insurance administrative duties for the Fortis Group. Only time spent on matters specific to FortisBC is charged to FortisBC.

Q77.3 On page 15 it states: "Offsetting this reduction is the B.C. government's introduction of a fire suppression insurance premium in 2004 of $0.2 million." Please elaborate on this 'fire suppression insurance premium'. Is this a mandatory cost for 2005?

A77.3 FortisBC has entered into an agreement with Ministry of Forests for fire suppression services. For the annual fee of $210,000, the province will provide fire fighting services to control, suppress and extinguish fires threatening the Company's buildings, towers, storage facilities and other structures used in the transmission and distribution of electricity.

The fire suppression insurance premium will protect ratepayers from potentially large suppression costs in years, like 2003, when the fire hazard is high.

78.0 Reference: Volume 1, Tab 8, Revenue Requirements, Section 2.12, p. 13, Table 8.2.6 and p. 15
Operation and Maintenance: Capitalized Overhead

Q78.1 Please provide a detailed description of the overhead capitalization methodology used in the 2005 revenue requirement, including a listing of the cost accounts affected. Has the methodology changed in any way during the years 2001 to 2005, inclusive?

A78.1 The calculation for capitalized overhead varies depending on the employee group doing the work. For Transmission and Distribution projects, capitalized overhead is calculated as a percentage of direct labour. For Generation projects, overheads are collected in pool accounts that are distributed to project as a percentage of total project cost. The rates for accumulating capitalized overhead are 30 percent of direct T&D labour and 6.5 percent of generation project costs. In addition to these charges, a 5 percent loading is applied to inventory items charged to capital projects.

In 2005, capitalized overhead attributed to:

	($000s)
Transmission & Distribution projects	2,156
Generation projects	1,025
Material services	215
Total capitalized overheads	$3,396

There was a change in methodology of charging overheads to capital that was discussed in detail as part of Tab 2, Section 4.1.4 Capital Projects Accounting, pages 17 -18 of the February 12, 2004 Update to the Preliminary 2004 Revenue Requirements. That section is repeated below:

> "The level of Capitalized Overhead that is and has been included in Revenue Requirements represents the amount appropriate for a "base" level of capital expenditures. Beginning in 2000, capital programs began to increment past those base levels subsequent to the acceptance of the System Development Plan and the Generator Life Extension/Upgrade Program. The increased activity generates increased overheads. As a result, Aquila (at that time West Kootenay Power) responded to this issue in an Information Request pursuant to the 2000-2002 Revenue Requirements Application. (BCUC IR Q 5.1). In that IR, the Company stated "Any incremental overheads will be direct charged to the project". This was done to ensure consistency within the PBR mechanisms relating to O&M targets, Capitalized Overhead account and the underlying capitalization policy. In 2004,

we have refined that process and, to ensure transparency, are including this information in this application.

All overheads that relate to a capital project that are incremental to our historical base capital budget (i.e. the "Extraordinary Projects") are direct charged to capital cost collection orders for Extraordinary Distribution, Transmission and Substations. These orders then clear to their capital projects on a pro-rata basis and provide credits directly back to the gross Operating and Maintenance budget. These credits do not flow to Capitalized Overhead.

The setting up of these "overhead capital orders" is a new process in 2004. Aquila's extensive capital program requires over 6000 project-specific capital orders set up to receive costs in 2004; the practicality of charging every overhead (i.e. long distance phone call) to those orders individually, is not feasible due to the extensive labour that would be required to post these transactions. A better mechanism is needed to ensure accurate and efficient clearing of costs to capital orders as a result of the greatly increased levels of capital expenditure. The 2004 capital budget is nearly four times what it was in 1999.

It must be noted that every timesheet, phone bill, invoice, or other item that is capital in nature is identified and directly charged to these capital orders. There is no allocation made – these are direct charges, at source. It is in the distribution from those "overhead" capital orders to the individual projects where a pro-rata loading mechanism is used.

In Generation, the process is slightly different but the effect is the same. The overheads "pool" is populated with the costs of the incremental overheads via the existing generation absorption costing model (rather than direct charging). The pool is relieved by a burden added to our labour rates when generation labour is charged to capital (rather than on a pro-rata basis)."

Q78.2 Please show the derivation of the 2005 Capitalized Overhead amount of $3,396,000.

A78.2 Please see the response to BCUC IR1 Q78.1.

Q79.0 Reference: Volume 1, Tab 8, Revenue Requirements, Section 2.14, pp. 15-16 Operation and Maintenance: Forecast Other Income

A79.0 The following table shows Table 8.2.14 in greater detail and is provided in reference to BCUC Q79.1 through Q79.8 below.

FORECAST OTHER INCOME DETAIL
Table 8.2.14 a
Actual and Forecast Other Income

	Actual 2002	Actual 2003	Forecast 2004	Forecast 2005
	($000s)			
Electric Aparatus Rentals	1,990	1,883	2,112	1,909
Rental of Facilities	346	314	61	61
Lease Revenue	106	141	139	132
Apparatus and Facilities Rental	2,442	2,337	2,311	2,102
Waneta Management Fee	355	895	244	337
Waneta Management Fee Capital	406	186	116	190
Waneta Carrying Costs	87	86	86	86
Brilliant Management Fee (including BTS)	157	478	209	137
Brilliant Management Fee Capital	1,348	15	190	88
Fortis Pacific Holdings Inc.	443	366	311	316
Contract Revenue	2,796	2,026	1,155	1,154
Connection Charges	431	447	504	515
NSF Cheque Charges	22	20	13	14
Sundry Revenue	77	136	36	-
Miscellaneous Revenue	530	603	553	529
Investment Income	148	284	154	-
TOTAL OTHER INCOME	5,916	5,250	4,173	3,785

Q79.1 Why does the Apparatus and Facilities Rental category show a steady decline from 2002 through 2005?

A79.1 Apparatus and Facilities Rental consists of three components, as shown in the table in response to BCUC IR1 Q79.0 above:

Electric Apparatus Rentals is revenue from FortisBC's Joint Use partners, who are telecommunications and cable companies with plant on FortisBC transmission and distribution poles.

The following table shows the Apparatus Rentals by year, and the impact on revenue of two significant adjustments; audit revenue and 2003 billing lag. Audit revenue is a periodic billing adjustment associated with a physical count of pole contacts, carried out on a five-year cycle. The 2003 billing lag represents an amount of $204,000 related to 2003 rentals not actually billed until 2004.

In addition, smaller adjustments are made from year to year because of the manner in which billings are determined by the contracts between parties. A mid-year billing is based on an estimate of pole contacts for the year, and is trued–up to the actual contacts the following January, resulting in positive or negative adjustments.

After adjusting for audit revenue and billing lag, revenue from this category has been stable over the period, as illustrated in the table below.

	2002	2003	2004	2005
Annual Revenue	$ 1,990	$ 1,883	$ 2,112	$ 1,909
Audit Revenue		(196)	(36)	
2003 Billing Lag		204	(204)	
Adjusted Revenue	1,990	1,891	1,872	1,909

The second category, Rental of Facilities, includes rental revenue from TeckCominco related to interconnected transmission and distribution facilities. The nature of the interconnections changed in 2004 with the completion of the Kootenay 230kV System Development Project. As a result, revenue from this source was reduced significantly.

Lease Revenue consists primarily of revenue from lease tenants in the J.A. Drennan building in Trail.

Q79.2 Please provide a detailed breakdown of projected 2004 and forecast 2005 Apparatus and Facilities Rental.

A79.2 The breakdown of projected revenue is provided in response to BCUC IR1 Q79.1 above and in further detail in response to Karow IR1 Q19b.

Q79.3 What is the basis of the forecast revenue e.g. existing contracts, etc.?

A79.3 **Apparatus & Facilities Rental**
Forecast revenue is based on a projection of the number of pole contacts for the year. The rate per pole, based on existing contract rates, is escalated using a forecast inflation factor and multiplied by the number of contacts.

Contract Revenue
Forecast revenue is based on the planned contract activities. The cost recoveries are calculated based on the cost of those activities and the contract margins are then applied.

Miscellaneous Revenue
Forecast revenue is based on projections of Connection Charges and Non Sufficient Funds Charges to customers.

Investment Income
The amount of Customer loans is forecast and the applicable interest rates are applied.

Q79.4 How were the prices established, e.g. market, cost, etc.?

A79.4 Prices were negotiated with third parties and are based on all costs that FortisBC incurs as a result of joint use contacts, including depreciation and carrying costs of the pole itself.

Q79.5 Please provide a detailed breakdown of projected 2004 and forecast 2005 Contract Revenue

A79.5 Please refer to Table 8.2.14a above.

Q79.6 Please provide a detailed breakdown of projected 2004 and forecast 2005 Miscellaneous Revenue.

A79.6 Please refer to Table 8.2.14a above.

Q79.7 Please explain, in detail, "non-regulated contracts" and the premium on labour and material transfers associated with these.

A79.7 FortisBC's affiliate, Fortis Pacific Holdings Inc., has contracts to provide utility services to several entities, primarily the City of Kelowna and Arrow Lakes Power Corp. The affiliate, in turn, subcontracts these services from FortisBC. These subcontracts are the "non-regulated contracts" referred to. The transactions between the utility and non-regulated affiliates are guided by FortisBC's Code of Conduct and Transfer Pricing Policy, both of which have been approved by the BCUC. The intent of these policies is to ensure that regulated utility customers do not provide any benefit or subsidy to the non-regulated business. The premium on labour and materials are outlined in the Transfer Pricing Policy, and include a 10 percent profit margin on all services supplied from the regulated utility to the non-regulated business. This 10 percent margin is recorded as "Other Income" by FortisBC.

Q79.8 Please explain why you have not forecast any Investment Income in 2005.

A79.8 A forecast $185,000 of interest on Energy management loans was omitted from the November 26, 2004 filing as noted in the response to BCOAPA IR1 Q15.2.