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September 28, 2006

**Via Email**  
**Original via Courier**

Mr. R.J. Pellatt  
Commission Secretary  
BC Utilities Commission  
Sixth Floor, 900 Howe Street, Box 250  
Vancouver, BC V6Z 2N3

Dear Mr. Pellatt:

***Re: Commission Order G-106-06 and an Application to Transfer Shares and Assets of Princeton Light and Power Company, Limited (“PLP”) to FortisBC Inc. (“FortisBC”) and to Wind-up PLP***

Please find enclosed twenty copies of materials titled “Tab 9 FortisBC – PLP Reorganization” in respect of the Application cited above. The document forms part of FortisBC’s Preliminary 2007 Revenue Requirements, which will be filed on or before October 2, 2006.

The Application stated that the transaction will not harm the customers of either utility, and the financial information in the enclosed materials demonstrates that there is no negative impact on the rates of FortisBC or PLP customers. FortisBC wishes to facilitate the public review process and believes that this information will assist the BC Utilities Commission and Registered Intervenors in preparing Information Requests.

Please direct any inquiries regarding this matter to the undersigned.

Sincerely,

David Bennett  
General Counsel and  
Corporate Secretary  
FortisBC Inc.

cc: Registered Intervenors  
John Hall, President and CEO, PLP



**Preliminary 2007 Revenue Requirements**

**Tab 9**

**FortisBC - PLP Reorganization**

**FortisBC Inc.**

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1 **1. Overview**

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3 On August 18, 2006, Fortis Pacific Holdings Inc. (“FPHI”), FortisBC Inc. (“FortisBC”) and  
4 Princeton Light and Power Company, Limited (“PLP”) (together as the “Applicants”) jointly  
5 filed an application for the acquisition by FortisBC of a reviewable interest in PLP to be  
6 effective December 31, 2006 and the transfer of assets and wind up of PLP to be effective  
7 January 1, 2007 (the “Consolidation Application”). The Applicants submitted that:

8

- 9 1. The consolidation of the Companies is expected to result in increased administrative  
10 and operational efficiencies over time, resulting in Operating and Maintenance  
11 (“O&M”) costs that are lower for all FortisBC and PLP customers than they would be  
12 under the current corporate structure;
- 13 2. Neither FortisBC customers nor PLP customers will be harmed by the reorganization;
- 14 3. The reorganization will result in administrative benefits to the Commission by  
15 eliminating the requirement to regulate one entity and the related utility tariff(s);  
16 regulatory applications, including cost of service applications and rate design  
17 applications; and related activities;
- 18 4. The reorganization will also result in similar administrative benefits to the  
19 Applicant’s, and
- 20 5. The reorganization should result in a more efficient allocation of service crews in  
21 Oliver, Keremeos and Princeton leading to enhanced service capability.

1   **2.   Revenue Requirement Overview**

2

3   A discussion of the impact of the amalgamation on FortisBC's 2007 Revenue Requirements  
4   follows. Financial schedules supporting the Revenue Requirements calculations can be found  
5   in Appendix 1 of this Tab.

6

7   The revenue requirements of the reorganized utility are presented in Table 9.0 below, and a  
8   description of how the revenue requirements were derived follows.

9

10   As noted in the Consolidation Application, the Company is of the opinion that neither  
11   FortisBC customers nor PLP customers will be harmed by the reorganization. FortisBC  
12   expects to accomplish this by recovering the one-time cost of reorganization by retaining  
13   PLP's existing (higher) rates to the current PLP customers for a period of nine months ending  
14   September 30, 2007, whereby the incremental revenue requirements are offset by the  
15   incremental revenue recovered from PLP customers.

**Table 9.0 – Revenue Requirements Overview**

|    |  | <b>2007</b>        |               |                    |
|----|--|--------------------|---------------|--------------------|
|    |  | <u>FortisBC</u>    | <u>PLP</u>    | <u>FortisBC</u>    |
|    |  | <u>Stand Alone</u> | <u>Impact</u> | <u>Reorganized</u> |
|    |  | (\$000s)           |               |                    |
| 1  | Sales Volume (GW.h)                        | 3,077              | -             | 3,077              |
| 2  | Rate Base (000s)                           | 764,103            | 7,190         | 771,293            |
| 3  | Return on Rate Base                        | 7.46%              | -             | 7.46%              |
| 4  |  |                    |               |                    |
| 5  | <b>REVENUE DEFICIENCY</b>                  |                    |               |                    |
| 1  |  |                    |               |                    |
| 2  | <b>POWER SUPPLY</b>                        |                    |               |                    |
| 3  | Power Purchases                            | 70,722             | -             | 70,722             |
| 4  |  |                    |               |                    |
| 5  | <b>OPERATING</b>                           |                    |               |                    |
| 6  | O&M Expense                                | 43,135             | 1,089         | 44,223             |
| 7  | Capitalized Overhead                       | (8,627)            | (218)         | (8,845)            |
| 8  | One Time Reorganization Costs              | -                  | 251           | 251                |
| 9  | Wheeling                                   | 3,541              | -             | 3,541              |
| 10 | Other Income                               | (4,534)            | (154)         | (4,688)            |
| 11 |  | <u>33,515</u>      | <u>968</u>    | <u>34,483</u>      |
| 12 | <b>TAXES</b>                               |                    |               |                    |
| 13 | Property and Capital Taxes                 | 10,926             | 90            | 11,016             |
| 14 | Water Fees                                 | 7,955              |               | 7,955              |
| 15 | Income Taxes                               | 2,290              | 58            | 2,348              |
| 16 |  | <u>21,171</u>      | <u>148</u>    | <u>21,319</u>      |
| 17 | <b>FINANCING</b>                           |                    |               |                    |
| 18 | Cost of Debt                               | 29,372             | 257           | 29,629             |
| 19 | Cost of Equity                             | 27,599             | 260           | 27,859             |
| 20 | Depreciation and Amortization              | 30,565             | 486           | 31,052             |
| 21 | AFUDC                                      | (4,100)            | -             | (4,100)            |
| 22 |  | <u>83,437</u>      | <u>1,004</u>  | <u>84,441</u>      |
| 23 |  |                    |               |                    |
| 24 | <b>INCENTIVE ADJUSTMENTS</b>               | (2,087)            | -             | (2,087)            |
| 25 |  |                    |               |                    |
| 26 | <b>TOTAL REVENUE REQUIREMENT</b>           | <u>206,758</u>     | <u>2,120</u>  | <u>208,878</u>     |
| 27 |  |                    |               |                    |
| 28 | <b>Less: REVENUE AT APPROVED RATES</b>     | <u>200,836</u>     | <u>2,139</u>  | <u>202,975</u>     |
| 29 |  |                    |               |                    |
| 30 | <b>REVENUE DEFICIENCY for Rate Setting</b> | <u>5,922</u>       | <u>(19)</u>   | <u>5,903</u>       |
| 31 |  |                    |               |                    |
| 32 | <b>RATE INCREASE</b>                       | <b>2.9%</b>        |               | <b>2.9%</b>        |

### 3. Revenue at Approved Rates

The impact on FortisBC's Revenue at Approved Rates for 2007 is the net of sales revenue from PLP customers and the reduction of FortisBC revenue currently derived from the sale of power to PLP.

As stated above, FortisBC proposes to retain current PLP Tariff rates until September 30, 2007. Estimated 2007 PLP Tariff revenue to September 30 was calculated by escalating PLP's 2006 Sales Revenue forecast (net of disallowed salary, management fee and legal costs) per the 2006 Revenue Requirements Application as approved by Commission Order G-65-06 by a forecast 2007 load increase of 0.8 percent on a pro rata basis for 9 months as shown below:

|                                   | (000's)         |
|-----------------------------------|-----------------|
| 1 PLP 2006 Forecast Sales Revenue | \$ 5,756        |
| 2 Disallowed Costs:               |                 |
| 3     Salary adjustments          | (14)            |
| 4     Management Fee              | (18)            |
| 5     Amortization Expense        | (12)            |
| 6 2006 Adjusted Revenue           | <u>5,711</u>    |
| 7 2007 Load Growth                | <u>46</u>       |
| 8 PLP 2007 Forecast Sales Revenue | <u>5,757</u>    |
| 9 Pro-rated 9 months              | <u>\$ 4,318</u> |

Tariff revenue for October through December 2007 was calculated by applying FortisBC's 2007 rates (assuming a 2.9 percent rate increase over 2006 rates) to the 3-month forecast sales load of 17.8 GWh which is calculated as follows:

|                                 | <u>GWh</u>  |
|---------------------------------|-------------|
| PLP 2006 Forecast Gross Load    | 74.9        |
| 2007 Load Growth @ .08%         | 75.5        |
| Less: Losses @ 5.9%             | 4.2         |
| PLP 2007 Forecast Billable Load | <u>71.3</u> |
| Pro-rated 3 months              | <u>17.8</u> |

1 Sales revenue by customer class was then forecast based on the number of customers and  
2 related volume of sales by rate class as presented below:

|                                  | Estimated FortisBC Tariffs Revenue |         |            |              |            | Total |
|----------------------------------|------------------------------------|---------|------------|--------------|------------|-------|
|                                  | October - December 2007            |         |            |              |            |       |
|                                  | General                            |         |            |              |            |       |
|                                  | Residential                        | Service | Industrial | Street Light | Irrigation |       |
| 2007 Average Number of Customers | 2,682                              | 397     | 1          | 123          | 34         | 3,238 |
| % of total Forecast Volumes      | 36%                                | 30%     | 32%        | 1%           | 1%         | 100%  |
| Forecast Volumes (MWh)           | 6.4                                | 5.3     | 5.8        | 0.1          | 0.2        | 17.8  |
|                                  | (\$000's)                          |         |            |              |            |       |
| Monthly Charges                  | 88                                 | 16      | 2          | -            | 1          | 107   |
| Energy Charges                   | 438                                | 322     | 221        | 17           | 12         | 1,010 |
| Demand Charges                   | -                                  | 186     | 75         | -            | 11         | 272   |
| 3 Total                          | 526                                | 523     | 298        | 17           | 24         | 1,389 |

4  
5 FortisBC's revenue at wholesale rates from PLP for 2007 was calculated by multiplying  
6 PLP's gross load (assuming 0.8 percent load growth) and by FortisBC's 2006 average  
7 Wholesale rate escalated for a forecast 2007 2.9 percent FortisBC rate increase as presented  
8 below.

| 2007 Wholesale Billing Estimate |              |          |
|---------------------------------|--------------|----------|
| Gross Load                      | Average Cost | Total    |
| (GWh)                           | \$/kWh       | Billings |
| 75.512                          | \$ 0.04725   | \$ 3,568 |

10  
11

12 The impact of the reorganization on Revenue at Approved Rates is the difference between the  
13 forecast Sales Revenue and the foregone Wholesale revenue which yields the Gross Margin  
14 as shown below.

|   | 2007<br>Forecast<br>(\$000's) |
|---|-------------------------------|
| 1 Estimated Princeton Revenue (9 months) Jan-Sep 2007 | 4,318                         |
| 2 Estimated FortisBC Revenue (3 months) Oct-Dec 2007  | 1,389                         |
| 3 FortisBC Wholesale/Princeton Revenue                | <u>(3,568)</u>                |
| 4 Gross Margin  | <u>2,139</u>                  |

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1 **4. Power Supply**

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3 There are no incremental power supply costs as a result of the consolidation. PLP currently  
4 purchases all of its power supply from FortisBC and that cost is already incorporated in  
5 FortisBC's power supply cost.

6

7 **5. Operating Expense and Capitalized Overhead**

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9 The FortisBC and PLP electrical systems are currently operated by separate staff. Corporate  
10 reorganization will result in some redundancies that will, so far as possible, be reduced  
11 through existing vacancies and future attrition.

12 **Gross O&M Expense**

13 PLP's 2007 Gross O&M Expense was calculated as follows:

|   | (\$000's)       |
|---|-----------------|
| 1 PLP 2006 O&M Budget                       | \$ 2,375        |
| 2 Addback PLP CapOH                         | 60              |
| 3 Interest Expense                          | (260)           |
| 4 Depreciation and Amortization             | (562)           |
| 5 Disallowed Costs ( <i>Order G-65-06</i> ) | (32)            |
| 6 Property Taxes                            | (88)            |
| 7 Synergies                                 | <u>(425)</u>    |
| 8 PLP 2006 Gross O&M                        | 1,067           |
| 9 Cost Escalation @ 2.0% (BC CPI)           | <u>21</u>       |
| 10 Forecast PLP 2006 Gross O&M              | <u>\$ 1,089</u> |

1           Operational and administrative synergies are expected in the following areas:

2           1. Customer Service costs are expected to be lower by taking advantage of  
3           economies of scale;

4           2. Network Services expects to also be able to provide more efficient  
5           delivery of their services in the combined operation by redeploying the  
6           combined workforce; and

7           3. FortisBC will be able to provide the majority of finance, administration  
8           and corporate support to the combined operation with existing FortisBC  
9           staff.

10          The delivery of these services at a lower cost will benefit the customers of  
11          both utilities. As illustrated in the table below, under the terms of the  
12          FortisBC's 2006 NSA, the addition of the estimated 3,212 PLP customers  
13          would result in a Base O&M cost allowance of approximately \$1,234,000 in  
14          2006 dollars ( $\$384.08 \times 3,212 \text{ customers} = \$1,234,000$ ). However, on a cost  
15          of service basis, FortisBC estimates that it would have only required an  
16          incremental \$1,067,000 of Base O&M to operate the combined business in  
17          2006.

| <b>2006</b>                                 |   |                                  |  |
|---|---|----------------------------------|--|
|   | <b>FortisBC<br/>Standalone As<br/>Filed</b> | <b>FortisBC With PLP</b>         |  |
|   |   | <b>Formula Based<br/>O&amp;M</b> | <b>Cost of Service<br/>Forecast With<br/>Synergies</b> |
| <i>(000'S)</i>                              |   |                                  |  |
| 1 O&M Expense                               |   |                                  |  |
| 2 FortisBC                                  | \$ 38,672                                   | \$ 38,672                        | \$ 38,672  |
| 3 PLP (excluding one time costs)            | -   | 1,234                            | 1,067  |
| 4 <b>Base O&amp;M</b>                       | <b>38,672</b>                               | <b>39,906</b>                    | <b>39,739</b>  |
| 5 Pension and Post-Retirement Benefits      | 2,636                                       | 2,636                            | 2,636  |
| 6 Trail Office Lease                        | 600   | 600                              | 600  |
| 7 Total Operating and Maintenance Expense   | 41,908                                      | 43,142                           | 42,975   |
| 8 Capitalized Overhead                      | (8,382)                                     | (8,628)                          | (8,595)  |
| 9 Net Operating & Maintenance Expense       | \$ 33,526                                   | \$ 34,513                        | \$ 34,380  |
| 10  |   |                                  |  |
| 11 Average number of Customers              |   |                                  |  |
| 12 FortisBC                                 | 100,687                                     | 100,687                          | 100,687  |
| 13 PLP                                      |   | 3,212                            | 3,212  |
| 14 <b>Total Average number of Customers</b> | <b>100,687</b>                              | <b>103,899</b>                   | <b>103,899</b>   |
| 15  |   |                                  |  |
| 16 <b>Base O &amp; M per customer</b>       | <b>\$ 384.08</b>                            | <b>\$ 384.08</b>                 | <b>\$ 382.48</b>                                       |

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Accordingly, FortisBC proposes that Base O&M per customer for the purpose of calculating revenue requirements under PBR be adjusted downward

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effective January 1, 2008 to \$382.48.

1           **Capitalized Overhead**

2           Capitalized Overhead is calculated at 20 percent of Gross O&M (net of one time costs  
3           or reorganization) according to the terms of the 2006 NSA.

4

5           **One Time Reorganization Costs**

6           FortisBC expects to incur approximately \$250,000 in one-time costs as a result of the  
7           transition. As shown below, this amount includes the cost to convert existing PLP  
8           customer accounts to FortisBC's billing system, convert accounting and banking  
9           records, hearing and legal fees and severance and relocation costs. The estimated one-  
10          time costs have increased from the approximate \$190,000. The increase is to account  
11          for regulatory costs associated with a written public hearing that were not  
12          contemplated in the Application, consulting costs to examine PLP Tariffs and a  
13          retention bonus for one PLP employee.

14

15          As stated in the original Application, the Company expects that these one-time costs  
16          in 2007 will be offset by PLP higher rates from January 1, 2007 through to September  
17          30, 2007.

|                                     | <i>(\$000's)</i> |
|-------------------------------------|------------------|
| 1 Severance and Relocation          | \$ 111           |
| 2 Finance conversion costs          | 25               |
| 3 Customer Service conversion costs | 25               |
| 4 Legal                             | <u>30</u>        |
| 5 Per Original Application          | \$ 191           |
| 6 Additional Costs:                 |                  |
| 7 Regulatory Review                 | 40               |
| 8 Consultant Costs - Tariff Review  | 10               |
| 9 Retention Bonus                   | <u>10</u>        |
| 10 Revised Total                    | <u>\$ 251</u>    |

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## 6. Wheeling

There are no incremental wheeling costs as a result of the consolidation. PLP currently purchases all of its power supply from FortisBC and wheeling costs are already incorporated into the charges to PLP.

## 7. Other Income

PLP Other Income is comprised of Connection fees, Pole contact revenue and other income. Other Income was supplied from a PLP forecast for 2007 broken down as follows:

|   |             |    |                |
|---|-------------|----|----------------|
| 1 | Facility    | \$ | 5,600          |
| 2 | Connections |    | 24,600         |
| 3 | Pole Conts. |    | 96,300         |
| 4 | Other       |    | 27,800         |
| 5 |             | \$ | <u>154,300</u> |

## 8. Taxes

### Property Tax

Property tax was estimated by escalating the amount of Property Tax in PLP's 2006 revenue requirements of \$88,000 by 2 percent to arrive at a 2007 forecast of \$90,000.

### Water Fees

There are no incremental Water Fees as a result of the consolidation. PLP currently purchases all of its power supply from FortisBC and Water Fees are already incorporated into the charges to PLP.

**Income Taxes**

Income taxes were calculated on the same basis of FortisBC's current treatment of income tax as detailed in Schedule 3 of Appendix 1 to this Tab. The amount of CCA deductible for tax purposes was estimated based on PLP's most recent tax filing to the Canada Customs and Revenue Agency and forecast capital expenditures in 2006.

**9. Financing Costs****Cost of Debt**

The Cost of Debt associated with the consolidated operations was estimated by applying FortisBC's deemed debt ratio of 60 percent to PLP's average rate base to FortisBC's 2007 forecast weighted average cost of short term debt of 5.97 percent.

**Cost of Equity**

The Cost of Equity associated with the consolidated operations was estimated by applying FortisBC's deemed equity ratio of 40 percent to PLP's average rate base to FortisBC's 2007 forecast allowed return on equity of 9.03 percent, shown in Tab 3 of this Application.

**Depreciation and Amortization**

Depreciation and Amortization expense consists of Depreciation on Plant and Equipment, and the amortization of Deferred Charges.

Depreciation Expense for PLP in 2007 has been calculated according to the rates approved by way of the 2006 NSA and applied to PLP's forecast Plant in Service as at December 31, 2006.

Amortization of Deferred Charges was taken from PLP's 2006 revenue requirements application and other than the disallowed amortization of deferred legal costs is not expected to change in 2007.

1           **AFUDC**

2           Based on the nature of PLP's capital expenditures, the Company has not forecast any  
3           AFUDC associated with the PLP operations in rates for 2007.

4

5   **10. Incentive Adjustments**

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7           There are no incremental incentive adjustments arising from 2006 operations, and the  
8           consolidated 2007 operations will be subject to the incentive provisions of the PBR  
9           Plan.

10

11   **11. Rate Base**

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13           The amalgamation of PLP is forecast to increase Utility Rate Base by approximately  
14           \$7.2 million as presented in Schedule 1 of Appendix 1. 2007 Net Capital additions  
15           were estimated based on PLP's five year capital plan as presented below. Capital  
16           additions are comprised of annual capital maintenance expenditures, specific capital  
17           improvement projects, and are net of customer contributions. Retirements have been  
18           estimated at 15 percent of gross capital additions based on historical experience  
19           yielding 2007 Net Additions of approximately \$522,000.

|    |  | 2007 Capital Budget |
|----|--|---------------------|
|    | Plant Programs                           | <u>Total</u>        |
| 1  | Annual                                   |                     |
| 2  | Misc. Urban                              | \$ 20,000           |
| 3  | Misc. Rural                              | 25,000              |
| 4  | New Services                             | 50,000              |
| 5  | U/G Services                             | 40,000              |
| 6  | Street Lights                            | 4,200               |
| 7  | Brushing ( <i>Capital</i> )              | 35,000              |
| 8  | Mapping Program                          | 8,000               |
| 9  | PCB Testing                              | 5,000               |
| 10 | Cut-Out Install program                  | 8,000               |
| 11 | Meter Base Upgrade Program               | 2,500               |
| 12 | Substation Maintenance                   | 2,100               |
| 13 | Annual Capital Maintenance               | <u>199,800</u>      |
| 14 | Pending                                  |                     |
| 15 | East Prn U/G - Mill to Harkers           | 55,000              |
| 16 | Harkers to J Allison shop                | 45,000              |
| 17 | Allison shop to Linda Allison            | 45,000              |
| 18 | Hwy40 - M. Lk. To Jura                   | 69,000              |
| 19 | Arm/String - East Circ. Kal tire to Golf | 55,000              |
| 20 | Hwy 3 Golf Cse - Sang Ang Est.           | 80,000              |
| 21 | WEYCAN Feeder                            | 55,000              |
| 22 | "C" Stock                                | 10,000              |
| 23 | Non Planned                              | 11,000              |
| 24 | CIAC                                     | (11,000)            |
| 25 | TOTAL PROJECTS                           | <u>613,800</u>      |
| 26 | Retirements                              | (92,070)            |
| 27 | Net Additions                            | <u>\$ 521,730</u>   |

## Appendix 1

### SCHEDULE 1 UTILITY RATE BASE

|   | 2007                    |                            |                         |
|---|-------------------------|----------------------------|-------------------------|
|   | FortisBC<br>Stand Alone | PLP<br>Impact<br>(\$ 000s) | FortisBC<br>Reorganzied |
| 1 Plant in Service, January 1               | 933,467                 | 15,226                     | 948,693                 |
| 2 Net Additions                             | 119,835                 | 522                        | 120,357                 |
| 3 Plant in Service, December 31             | <u>1,053,302</u>        | <u>15,748</u>              | <u>1,069,050</u>        |
| 4   |                         |                            |                         |
| 5   |                         |                            |                         |
| 6 Construction Work in Progress             | 33,868                  | -                          | 33,868                  |
| 7 Plant Held for Future Use                 | -                       | -                          | -                       |
| 8 Plant Acquisition Adjustment              | 11,912                  | -                          | 11,912                  |
| 9 Deferred and Preliminary Charges          | 19,254                  | 467                        | 19,721                  |
| 10  |                         |                            |                         |
| 11  | 1,118,336               | 16,215                     | 1,134,551               |
| 12 Less:                                    |                         |                            |                         |
| 13 Accumulated Depreciation                 |                         |                            |                         |
| 14 and Amortization                         | 239,071                 | 6,875                      | 245,947                 |
| 15 Contributions in Aid of Construction     | 69,520                  | 2,219                      | 71,739                  |
| 16  | <u>308,591</u>          | <u>9,094</u>               | <u>317,686</u>          |
| 17  |                         |                            |                         |
| 18 Depreciated Rate Base                    | <u>809,745</u>          | <u>7,120</u>               | <u>816,865</u>          |
| 19  |                         |                            |                         |
| 20 Prior Year Depreciated Utility Rate Base | 707,405                 | 7,110                      | 714,515                 |
| 21  |                         |                            |                         |
| 22 Mean Depreciated Utility Rate Base       | 758,575                 | 7,115                      | 765,690                 |
| 23  |                         |                            |                         |
| 24 Allowance for Working Capital            | 6,342                   | 75                         | 6,417                   |
| 25 Adjustment for Capital Additions         | (814)                   | -                          | (814)                   |
| 26  |                         |                            |                         |
| 27 Mid-Year Utility Rate Base               | <u>764,103</u>          | <u>7,190</u>               | <u>771,293</u>          |

## Appendix 1

SCHEDULE 2  
EARNED RETURN

|    |                               | 2007        |        |             |
|----|-------------------------------|-------------|--------|-------------|
|    |                               | FortisBC    | PLP    | FortisBC    |
|    |                               | Stand Alone | Impact | Reorganized |
|    |                               | (\$ 000s)   |        |             |
| 1  | SALES VOLUME (GW.h)           | 3,077       |        | 3,077       |
| 2  |                               |             |        |             |
| 3  | ELECTRICITY SALES REVENUE     | 206,758     | 2,139  | 208,897     |
| 4  |                               |             |        |             |
| 5  | EXPENSES                      |             |        |             |
| 6  | Power Purchases               | 70,722      | -      | 70,722      |
| 7  | Wheeling                      | 3,541       | -      | 3,541       |
| 8  |                               | 74,263      | -      | 74,263      |
| 9  |                               |             |        |             |
| 10 | Operating Expenses            | 34,508      | 1,122  | 35,630      |
| 11 |                               |             |        |             |
| 12 | Taxes                         |             |        |             |
| 13 | Property Tax                  | 10,926      | 90     | 11,016      |
| 14 | Water Fees                    | 7,955       | -      | 7,955       |
| 15 |                               | 18,881      | 90     | 18,971      |
| 16 |                               |             |        |             |
| 17 | Depreciation and Amortization | 30,565      | 486    | 31,052      |
| 18 |                               |             |        |             |
| 19 | Other Income                  | (4,534)     | (154)  | (4,688)     |
| 20 | AFUDC                         | (4,100)     | -      | (4,100)     |
| 21 | Incentive Adjustments         | (2,087)     | -      | (2,087)     |
| 22 | UTILITY INCOME BEFORE TAX     | 59,261      | 594    | 59,855      |
| 23 | Less:                         |             |        |             |
| 24 | INCOME TAXES                  | 2,290       | 58     | 2,348       |
| 25 |                               |             |        |             |
| 26 | RETURN ON RATE BASE           | 56,971      | 536    | 57,507      |
| 27 |                               |             |        |             |
| 28 | Utility Rate Base             | 764,103     | 7,190  | 771,293     |
| 29 | Return on Rate Base           | 7.46%       | 7.46%  | 7.46%       |

## Appendix 1

### SCHEDULE 3 INCOME TAX EXPENSE

|    |   | 2007          |            |               |
|----|---|---------------|------------|---------------|
|    |   | FortisBC      | PLP        | FortisBC      |
|    |   | Stand Alone   | Impact     | Reorganized   |
|    |   | (\$ 000s)     |            |               |
| 1  | ACCOUNTING INCOME                             | 29,889        | 318        | 30,207        |
| 2  | Deductions                                    |               |            |               |
| 3  | Capital Cost Allowance                        | 38,382        | 417        | 38,799        |
| 4  | Capitalized Overhead                          | 8,627         | 218        | 8,845         |
| 5  | AFUDC   | 4,100         | -          | 4,100         |
| 6  | Net Deductable Deferred Charge Additions      | -             | -          | -             |
| 7  | Incentive & Revenue Deferrals                 | 2,087         | -          | 2,087         |
| 8  | Financing Fees                                | 937           | -          | 937           |
| 9  | All Other (net effect)                        | 176           | -          | 176           |
| 10 |   | <u>54,308</u> | <u>634</u> | <u>54,943</u> |
| 11 |   |               |            |               |
| 12 | Additions                                     |               |            |               |
| 13 | Amortization of Deferred Charges              | 2,616         | 46         | 2,662         |
| 14 | Depreciation                                  | 27,949        | 442        | 28,391        |
| 15 |   | <u>30,565</u> | <u>486</u> | <u>31,053</u> |
| 16 |   |               |            |               |
| 17 | TAXABLE INCOME                                | 6,146         | 170        | 6,317         |
| 18 |   |               |            |               |
| 19 | Tax Rate                                      | 34.12%        | 34.12%     | 34.12%        |
| 20 |   |               |            |               |
| 21 | Taxes Payable                                 | 2,097         | 58         | 2,155         |
| 22 | Prior Years' Overprovisions/(Underprovisions) | -             | -          | -             |
| 23 | Tax Impact of Deferred Charges                | 193           | -          | 193           |
| 24 | Large Corporations Tax                        | -             | -          | -             |
| 25 | Allowance for tax audit                       | -             | -          | -             |
| 26 |   | <u>-</u>      | <u>-</u>   | <u>-</u>      |
| 27 | REGULATORY TAX PROVISION                      | <u>2,290</u>  | <u>58</u>  | <u>2,348</u>  |

## Appendix 1

### SCHEDULE 4 ACTUAL AND FORECAST COMMON SHARE EQUITY

|    |                                 | 2007                    |                           |                         |
|----|---------------------------------|-------------------------|---------------------------|-------------------------|
|    |                                 | FortisBC<br>Stand Alone | PLP<br>Impact<br>(\$000s) | FortisBC<br>Reorganized |
| 1  | Share Capital                   | 148,000                 | 2,570                     | 150,570                 |
| 2  | Retained Earnings               | 160,156                 | -                         | 160,156                 |
| 3  |                                 |                         |                           |                         |
| 4  | COMMON EQUITY - OPENING BALANCE | 308,156                 | 2,570                     | 310,726                 |
| 5  |                                 |                         |                           |                         |
| 6  | Less: Common Dividends          | (11,000)                | -                         | (11,000)                |
| 7  |                                 |                         |                           |                         |
| 8  | Add: Net Income                 | 27,599                  | -                         | 27,599                  |
| 9  | Shares Issued                   | 20,000                  | -                         | 20,000                  |
| 10 |                                 |                         |                           |                         |
| 11 | COMMON EQUITY - CLOSING BALANCE | 344,755                 | 2,570                     | 347,325                 |
| 12 |                                 |                         |                           |                         |
| 13 | SIMPLE AVERAGE                  | 326,455                 | 2,570                     | 329,025                 |
| 14 |                                 |                         |                           |                         |
| 15 | Adjustment for Shares Issued    | (6,575)                 | -                         | (6,575)                 |
| 16 | Deemed Equity Adjustment        | (14,239)                | 306                       | (13,933)                |
| 17 |                                 |                         |                           |                         |
| 18 | COMMON EQUITY - AVERAGE         | 305,641                 | 2,876                     | 308,517                 |

## Appendix 1

### SCHEDULE 5 ACTUAL AND FORECAST RETURN ON CAPITAL

|    |                                   | 2007                    |               |                         |
|----|-----------------------------------|-------------------------|---------------|-------------------------|
|    |                                   | FortisBC<br>Stand Alone | PLP<br>Impact | FortisBC<br>Reorganized |
| 1  | Secured and Senior Unsecured Debt | 401,885                 | -             | 401,885                 |
| 2  | Proportion                        | 52.60%                  | 0.00%         | 52.11%                  |
| 3  | Embedded Cost                     | 6.47%                   | 6.47%         | 6.47%                   |
| 4  | Cost Component                    | 3.40%                   | 0.00%         | 3.37%                   |
| 5  | Return                            | 25,997                  | -             | 25,997                  |
| 6  |                                   |                         |               |                         |
| 7  | Short Term Debt                   | 56,577                  | 4,314         | 60,891                  |
| 8  | Proportion                        | 7.40%                   | 60.00%        | 7.89%                   |
| 9  | Embedded Cost                     | 5.97%                   | 5.97%         | 5.97%                   |
| 10 | Cost Component                    | 0.44%                   | 3.58%         | 0.47%                   |
| 11 | Return (including fees)           | 3,375                   | 257           | 3,632                   |
| 12 |                                   |                         |               |                         |
| 13 | Common Equity                     | 305,641                 | 2,876         | 308,517                 |
| 14 | Proportion                        | 40.00%                  | 40.00%        | 40.00%                  |
| 15 | Embedded Cost                     | 9.03%                   | 9.03%         | 9.03%                   |
| 16 | Cost Component                    | 3.61%                   | 3.61%         | 3.61%                   |
| 17 | Return                            | 27,599                  | 260           | 27,859                  |
| 18 |                                   |                         |               |                         |
| 19 | TOTAL CAPITALIZATION              | 764,103                 | 7,190         | 771,293                 |
| 20 | RATE BASE                         | 764,103                 | 7,190         | 771,293                 |
| 21 |                                   |                         |               |                         |
| 22 | Earned Return                     | 56,971                  | 517           | 57,488                  |
| 23 |                                   |                         |               |                         |
| 24 | RETURN ON CAPITAL                 | 7.46%                   | 7.20%         | 7.45%                   |
| 25 | RETURN ON RATE BASE               | 7.46%                   | 7.20%         | 7.45%                   |