



David Bennett  
General Counsel and  
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**Regulatory Affairs Department  
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October 27, 2006

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

Dear Mr. Pellatt:

***Re: Project No. 3698433 - An Application by Fortis Pacific Holdings Inc. ("FPHI"), FortisBC Inc. ("FortisBC") and Princeton Light and Power Company, Limited ("PLP") Regarding the Transfer of PLP Shares and then Assets to FortisBC and the Wind Up of PLP – FortisBC Reply to Intervenor Comments***

Please find attached for filing twenty copies of FortisBC's Reply to Intervenor Comments regarding the above noted Application.

If you have any questions regarding this Application, please do not hesitate to contact the undersigned.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Bennett". The signature is stylized and cursive.

David Bennett  
General Counsel and Corporate Secretary

cc: Registered Intervenors

An Application by Fortis Pacific Holdings Inc. (“FPHI”),  
FortisBC Inc. (“FortisBC”) and  
Princeton Light and Power Company, Limited (“PLP”)  
Regarding the Transfer of PLP Shares and then Assets to  
FortisBC and the Wind Up of PLP  
FortisBC Reply to Intervenor Comments

1. On August 18, 2006, FPHI, FortisBC and PLP (the “Applicants”) jointly filed an application for the acquisition by FortisBC of a reviewable interest in PLP to be effective December 31, 2006 and the transfer of assets and wind up of PLP to be effective January 1, 2007 (the “Application”). The Applicants submitted that the transaction is straightforward and should be considered by the BC Utilities Commission (“Commission”) without a public process (Exhibit B-1).
2. On August 30, 2006, FortisBC filed stakeholder responses from Mr. Alan Wait, Mrs. Buryl Jonas Slack, and the Interior Municipal Electric Utilities (“IMEU”) to the Commission about their views on the necessity for a public hearing process. (Exhibit B-2)
3. At that time FortisBC also received correspondence from the Mayor of Princeton and from two of PLP’s industrial customers, Mr. Brent Wiren, CEO of SBC Firemaster Ltd., Mr. Dean Johnston, President of the Princeton Co-Generation Corporation supporting the transaction. (Exhibit B-2)
4. On September 1, 2006 the British Columbia Public Interest Advocacy Centre on behalf of the BCOAPO et al. filed a letter with the Commission stating that,  
“On behalf of BCOAPO *et al.* we have reviewed this application and are supportive of the Princeton Light and Power transfer being considered by the BC Utilities Commission without a public process.” (Exhibit E-1)
5. On September 21, 2006 FortisBC received correspondence from Mr. Keith Later of Princeton Post and Rail Ltd. also supporting the transaction. A copy of this letter is attached.
6. On September 28, 2006, FortisBC filed Tab 9 of its 2007 Revenue Requirements Application entitled “FortisBC – PLP Reorganization” that elaborated on the rationale for

the proposed transaction and its financial impact on PLP and FortisBC customers.  
(Exhibit B-3)

7. Information Request No.1 from the Commission and BC Old Age Pensioners' Organization et al was received on October 3, 2006 and responded to on October 16, 2006. (Exhibit B-4)
8. On October 24, 2006, written submissions were filed with the Commission and FortisBC from Ms. Buryl Jonas Slack, Mr. Alan Wait and from BC Old Age Pensioners' Organization et al.

### **Mrs. Buryl Jonas Slack Comments**

9. Mrs. Slack stated that:  
"I am in agreement with the Fortis PLP arrangements."

### **FortisBC response to Buryl Jonas Slack Comments**

10. FortisBC acknowledges and appreciates Mrs. Slack's supportive comment regarding the proposed reorganization arrangements between FortisBC and PLP.

### **Mr. Alan Wait Comments**

11. Mr. Wait stated that:  
"From the beginning it was clear that Princeton Light and Power (PLP) ratepayers would benefit from FortisBC consolidating PLP into FortisBC.

My concerns lay with whether the FortisBC ratepayers would be kept whole by this deal. With additional information provided by FortisBC Sept. 28, it is apparent that the cost to FortisBC ratepayers is minute to negligible if (in) the first year and in future years may even prove to be very slightly positive.

Therefore, I support the proposal by FortisBC to consolidate the assets of Princeton Light and Power into FortisBC."

## **FortisBC response to Mr. Alan Wait Comments**

12. FortisBC acknowledges Mr. Wait's review of issues related to plant condition, financing and ratepayer impact. Based on FortisBC's response to these issues, Mr. Wait agrees with the proposed PLP reorganization and FortisBC appreciates his support.

## **BCOAPO Comments**

### **BCOAPO Issue 1 - One-time reorganization costs**

13. BCOAPO stated that:

“One-time reorganization costs are estimated to be \$251,000 (Exhibit B-3, page 11). These one-time costs will all be expensed in 2007. To the extent that any of the costs incurred in 2006, they will be put into a deferral account and expensed in 2007 (BCOAPO IR #3.1).

It is not clear if the 2006 deferred amount will accrue interest. Given that the Revenue Requirements proposal to maintain existing PLP rates to October 1<sup>st</sup>, 2007 leads to an over-recovery of costs (see BCOAPO IR #6.3), in our submission there should be no provision for interest on these deferred costs.”

### **FortisBC response to BCOAPO Issue 1**

14. FortisBC confirms that it will not include any one-time reorganization costs that are incurred in 2006 in the opening Rate Base for 2007. As a result FortisBC will not earn interest on these costs.

### **BCOAPO Issue 2 - Outstanding Commission Directives to PLP**

15. BCOAPO stated that:

“Following its review of PLP's 2006 Revenue Requirements application, the Commission issued Order G-65-06, in which it provided PLP with a number of directives (see BCUC IR #5 and BCOAPO IR #8.1).

Given the reorganization, many of the directives will no longer apply.

There are, however, a couple of Directives that are still relevant and need to be followed up on: We are raising these issues in this proceeding rather

than during the 2007 Annual Review and Revenue Requirements negotiation as the necessary information may not be available in time for those proceedings, which are scheduled to take place early in November.

#### **Directive 2.4**

Starting January 1, 2006, PLP was ordered to set up a new Contracting Operations Deferral Account (CODA) to capture the net income of the contracting operations. It is estimated that the balance in this deferral account will be \$3,700 at December 31, 2006 (BCOAPO IR #8.1). PLP proposes to “roll” this amount into its earnings for 2006.

In addition, PLP was directed to file a report on the status of the previous Contracting Activities Deferral Account (CADA) by August 31, 2006, but subsequently an extension was requested to November 2006 per BCUC IR #5, Attachment 5.

Disposal of the CODA is supposed to be dealt with in subsequent Revenue Requirement Applications. However, disposition of the 2006 balance should reflect the anticipated 2006 results, such as whether PLP needs the net income increase in order to earn the approved 2006 Return on Equity.

#### **Directive 2.5**

PLP will file, by November 30, 2006, a report justifying the inclusion of Meter Upgrade Program costs in excess of the \$100,000 capital threshold in its rate base (roughly \$143,000). The ultimate determination on this issue could have a very minor impact on FortisBC’s rate base and therefore its 2007 rate determination.”

### **FortisBC response to BCOAPO Issue 2**

16. With respect to Directive 2.4, the PLP letter dated October 6, 2006 and filed as Attachment A5.0 of Exhibit B-4, noted that PLP will file a report on the status of the CADA by November 30, 2006 and will address the disposition of this account. With respect to the CODA, the Company agrees with the BCOAPO comment that the disposition of the 2006 balance should reflect the 2006 anticipated results.
17. With respect to Directive 2.5, the PLP letter mentioned previously stated that PLP would file a report by November 30, 2006 to justify the Meter Upgrade program.
18. If PLP does not need the net income increase from CODA or CADA, in order to earn the approved 2006 Return on Equity, and cannot fully justify the Meter Upgrade program

FortisBC proposes that any residual balance in the CODA or the CADA and any adjustment to the allowable meter costs should be treated as an adjustment to the Rate Base that would be transferred to FortisBC as part of the reorganization.

## Summary

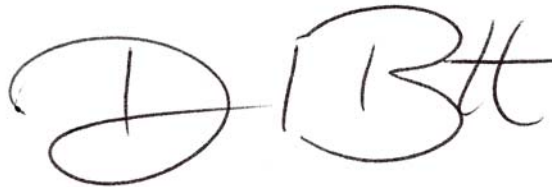
19. FortisBC has submitted in Exhibit B-3 the rationale and benefits of the proposed PLP reorganization:
  - a) The consolidation of the Companies is expected to result in increased administrative and operational efficiencies over time, resulting in Operating and Maintenance (“O&M”) costs that are lower than they would be under the current corporate structure;
  - b) Neither FortisBC customers nor PLP customers will be harmed by the reorganization;
  - c) The reorganization will result in administrative benefits to the Commission and to the Utilities by eliminating the requirement to regulate one entity that is, the elimination of one Utility Tariff, one set of regulatory applications, including cost of service applications, rate design applications and related activities; and
  - d) The reorganization should result in a more efficient allocation of service crews in Oliver, Keremeos and Princeton leading to enhanced service capability.
20. The evidence has shown that the main beneficiary of this transaction is the customers of PLP, the customers of FortisBC will not be harmed and that there is no direct benefit to FPHI (the shareholder of FortisBC and PLP) and therefore the proper party to bear the costs of the transaction are the customers of PLP in the manner proposed in the Application.
21. FortisBC submits that its stakeholders and intervenors recognize these benefits and are either supportive or do not express an objection to the planned PLP reorganization.
22. FortisBC proposes that its solution to address the outstanding issues noted by BCOAPO is a practical approach that will be fair and equitable.

23. FortisBC also notes that the issue of how the transaction will affect FortisBC customers or its Revenue Requirements will be raised at the 2007 Workshop on November 9, 2006.

### **Conclusion**

24. The Applicants respectfully submit that the Application and the evidence submitted in this proceeding, as well as the submissions of the Intervenors all support the transaction set out in the Application and hereby request on an expedited basis that:
- a) the Commission makes an application for consent to the above referenced transaction by the Lieutenant Governor in Counsel pursuant to section 53 of the Act and submit a report (the "Report") to the Lieutenant Governor in Counsel pursuant to subsection 53(1)(a)(i) of the Act confirming the Commission's opinion that the above referenced transaction would be beneficial and in the public interest; and
  - b) upon receipt of the Report, grant the Orders requested in the Application.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

A handwritten signature in black ink, appearing to read 'DIBH', is written over a horizontal line.

October 27, 2006

David Bennett  
General Counsel and Corporate Secretary



Princeton Post & Rail

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September 21, 2006

Fortis BC  
5<sup>th</sup> Floor, 1628 Dickson Avenue  
Kelowna, B.C. V1Y 9X1

Attention: Bob Gibney

Thank you for taking the time to meet at our Mill site and discuss the dates and changes during the transition from Princeton Light & Power to Fortis BC.

We look forward to working with you and your staff and feel very comfortable with the changes as outlined by yourself and Dean Stevenson.

Regards,

A handwritten signature in blue ink, appearing to read "Keith Later", is written over a faint, illegible printed name.

Keith Later

Princeton Post & Rail Ltd.