June 27, 2012

FORTISBC ENERGY UTILITIES COMMON RATES,
AMALGAMATION AND RATE DESIGN EXHIBIT A2-26

To: FortisBC Energy Utilities
Registered Interveners

Re: FortisBC Energy Utilities
Project No. 3698652/Order G-46-12
[comprising FortisBC Energy Inc., FortisBC Energy Inc. Fort Nelson Service Area,
FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc.]
Common Rates, Amalgamation and Rate Design Application

Commission staff submits the following document for the record in this proceeding:

June 7, 2012 FortisBC Energy (Vancouver Island) Inc. – 2012 Second Quarter Report on the
Gas Cost Variance Account (GCVA) and the Rate Stabilization Deferral Account (RSDA)

Yours truly,

Erica Hamilton

dg
Attachment
June 7, 2012

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: FortisBC Energy (Vancouver Island) Inc. (“FEVI” or the “Company”) 2012 Second Quarter Report on the Gas Cost Variance Account (“GCVA”) and the Rate Stabilization Deferral Account (“RSDA”)

On May 4, 2011, the FortisBC Energy Utilities (comprising FortisBC Energy Inc., FortisBC Energy Inc. Fort Nelson Service Area, FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc.) filed their 2012 and 2013 Revenue Requirements and Natural Gas Rates Application (the “FEU 2012-2013 RRA”) wherein FEVI sought to maintain Core Market rates for the two year period commencing January 1, 2012 at the same level as was established for the previous 2010-2011 two year period as part of the FEVI 2010-2011 Revenue Requirements and Rate Design Negotiated Settlement.

The British Columbia Utilities Commission (the “Commission”), pursuant to Commission Order No. G-44-12 and the Commission’s 2012-2013 Revenue Requirements and Rates Decision, both dated April 12, 2012, approved permanent rates for 2012 and 2013 for FEVI Core Market sales customers remain at the same level as 2011 rates. Further, the Commission Panel in the 2012-2013 Revenue Requirements and Rates Decision directed the Company to continue to report FEVI’s forecast gas costs and GCVA balances on a quarterly basis and approved discontinuing quarterly reporting of the FEVI customer additions and the comparison to the competitive markets.

Within the attached 2012 Second Quarter Report on the GCVA and RSDA (the “Second Quarter Report”), FEVI outlines the forecast gas costs, and the year to date recorded and the year end forecast balances related to the GCVA and the Annual Revenue Surplus which is to be captured in the RSDA; the Second Quarter Report is provided for information purposes only.

The Company has reviewed the forward prices for natural gas. Based on the five-day average of the May 14, 15, 16, 17, and 18, 2012 forward prices for natural gas, the annual outlook indicates that the GCVA is forecast to be at a surplus balance of approximately
$0.4 million before tax at year end December 31, 2012 while the revenue surplus is forecast to be approximately $11.8 million after tax.

We trust the Commission will find the attached report to be in order. Should any further information be required, please contact Brian Noel at 604-592-7467.

All of which is respectfully submitted.

Yours very truly,

FORTISBC ENERGY (VANCOUVER ISLAND) INC.

Original signed by: Shawn Hill

For: Diane Roy

Attachments
FortisBC Energy (Vancouver Island) Inc.

2012 Second Quarter Report on the Gas Cost Variance Account ("GCVA") and the Rate Stabilization Deferral Account ("RSDA")

June 7, 2012
1 SUMMARY

The FortisBC Energy (Vancouver Island) Inc. (“FEVI” or the “Company”) 2012 Second Quarter Report on the Gas Cost Variance Account (“GCVA”) and the Rate Stabilization Deferral Account (“RSDA”) (the “Second Quarter Report”) has been prepared for, and filed with, the British Columbia Utilities Commission (the “Commission”) to provide an update on the year to date recorded and the year-end forecast balances related to the GCVA and the Annual Revenue Surplus to be captured in the RSDA.

On May 4, 2011, the FortisBC Energy Utilities (comprising FortisBC Energy Inc., FortisBC Energy Inc. Fort Nelson Service Area, FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc.) filed their 2012 and 2013 Revenue Requirements and Natural Gas Rates Application (the “FEU 2012-2013 RRA”) wherein FEVI sought to maintain Core Market rates for the two year period commencing January 1, 2012 at the same level as was established for the previous 2010-2011 two year period as part of the FEVI 2010-2011 Revenue Requirements and Rate Design Negotiated Settlement.

The Commission, pursuant to Commission Order No. G-44-12 and the Commission’s 2012-2013 Revenue Requirements and Rates Decision, both dated April 12, 2012, approved permanent rates for 2012 and 2013 for FEVI Core Market sales customers remain at the same level as 2011 rates. Further, the Commission Panel in the 2012-2013 Revenue Requirements and Rates Decision directed the Company to continue to report FEVI’s forecast gas costs and GCVA balances on a quarterly basis and approved discontinuing quarterly reporting of the FEVI customer additions and the comparison to the competitive markets.

On a year to date basis as at April 30, 2012 the revenue surplus is approximately $3.1M favorable compared to budget, and the outlook is for an annual revenue surplus of approximately $11.8M after tax at December 31, 2012 which is approximately $1.2M more than the budgeted amount.

FEVI has recorded a surplus of approximately $2.0M before tax into the GCVA on a year to date basis as at April 30, 2012. The year-end forecast GCVA is a surplus balance of approximately $0.4M before tax and results from the forecast cost of gas, after adjustment for the purchase volume variance, being slightly lower than the approved amount.
2 REVENUE SURPLUS

Commission Order No. G-44-12 and the Commission’s 2012-2013 Revenue Requirements and Rates Decision, both dated April 12, 2012, approved that Core Market customer rates for the two year revenue requirements period commencing January 1, 2012 remain frozen at the same level as 2011 rates. The following is a breakdown of the cost of service and the annual revenue surplus on a year to date and forecast basis.

At the end of April 2012, FEVI’s revenue surplus is approximately $3.1M higher than the budgeted amount and FEVI is forecasting a revenue surplus of approximately $11.8M by year end which is approximately $1.2M more than the annual budgeted amount.
The following table provides a summary of the Rate Stabilization Deferral Account balances on a forecast and approved basis.

### FortisBC Energy (Vancouver Island) Inc.  
2012 Summary of Rate Stabilization Deferral Account ("RSDA") Balances (\(^{a}\))

<table>
<thead>
<tr>
<th></th>
<th>Outlook</th>
<th>Approved Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1, 2012 - Recorded Opening Balance</td>
<td>$63,830.6</td>
<td>$63,830.6</td>
</tr>
<tr>
<td>Forecast 2012 Revenue Surplus</td>
<td>11,845.5</td>
<td>10,640.3</td>
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<tr>
<td>Forecast December 31, 2012 Balance</td>
<td>$75,676.1</td>
<td>$74,470.8</td>
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</tbody>
</table>

Notes: The RSDA was approved, effective January 1, 2012, pursuant to Commission Order No. G-44-12, dated April 12, 2012. December 31, 2012 balance, including Interest Accumulated on RSDA, is to be returned to customers.

\(^{a}\) 2012 Summary of RSDA Balances excludes any Interest Accumulated on the RSDA.

### 2.1 COST OF GAS

The largest single component of the cost of service for FEVI is the commodity cost of gas. The forecast unit cost of gas approved for 2012 is $5.78/GJ.

To the extent that the actual cost of gas is greater or less than the approved unit cost of gas, the difference is collected in a deferral account for future recovery or rebate. At the end of April 2012, the cost of gas, after adjustment for the purchase volume variance of approximately $0.2M, has been lower than the approved amount, resulting in a surplus adjustment of approximately $2.0M before tax to the Gas Cost Variance Account. The table below summarizes the cost of gas on a year to date and forecast basis for 2012.

The year-end forecast cost of gas is expected to be approximately $0.1M below the budgeted total; this forecast gas cost variance is comprised of a purchase volume variance and a price variance. The GCVA adjustment is calculated by removing the purchase volume component, in this case approximately 40.5 TJ of more gas volumes, from cost of sales variance. The GCVA is forecast to be a surplus balance of approximately $0.4M before tax by year end.
2.2 REVENUES

Year to date April revenues have been higher than budgeted by approximately $2.7M. Revenues arise from sales to distribution customers, transportation revenues from the Vancouver Island Gas Joint Venture, British Columbia Hydro and Power Authority ("BC Hydro" or "BCH"), and FortisBC Energy Inc. in the form of firm and interruptible services, and from miscellaneous other revenues.

FortisBC Energy (Vancouver Island) Inc.
Summary of Cost of Gas and Royalty Credits
Year-to-Date and Annual Outlook

<table>
<thead>
<tr>
<th></th>
<th>Apr 2012</th>
<th>2012 Outlook</th>
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<tbody>
<tr>
<td></td>
<td>YTD</td>
<td>Outlook</td>
</tr>
<tr>
<td>Sales Volume</td>
<td>(TJ)</td>
<td>5,829.1</td>
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<tr>
<td>Cost of Gas</td>
<td>($000s)</td>
<td>30,585.0</td>
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<tr>
<td>WACOG</td>
<td>($/GJ)</td>
<td>5.43</td>
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<tr>
<td>Less: Royalty Credit</td>
<td>($000s)</td>
<td>-</td>
</tr>
<tr>
<td>Royalty Adjusted Cost of Gas</td>
<td>($000s)</td>
<td>30,585.0</td>
</tr>
<tr>
<td>Royalty Adjusted Cost of Gas per GJ</td>
<td>($/GJ)</td>
<td>5.43</td>
</tr>
<tr>
<td>Gas Cost Variance Account (Deficit) / Surplus</td>
<td>($000s)</td>
<td>1,970.0</td>
</tr>
</tbody>
</table>

Notes:
1. The Royalty Rebate arrangement under which FEVI received royalty revenues from the Province expired on December 31, 2011. FEVI anticipates a royalty adjustment related to 2011 will be determined in late June 2012.
2. Royalty Adjusted Cost of Gas before adjustment for purchase volume variance. Purchase volume variance for Cost of Sales is not a component of the GCVA.
3 CONCLUSION

The 2012 Second Quarter Report is provided for information purposes only.

The FEVI Core Market rates for the two year revenue requirements period commencing January 1, 2012 remain frozen at the same level as 2011 rates, as established through the FEU 2012-2013 RRA, and approved pursuant to Commission Order No. G-44-12 and the Commission’s 2012-2013 Revenue Requirements and Rates Decision, both dated April 12, 2012.