



ATCO Gas and Pipelines Ltd. (South)

Northeast Calgary Connector Pipeline

January 16, 2015

The Alberta Utilities Commission
Decision 3421-D01-2015:
ATCO Gas and Pipelines Ltd. (South)
Northeast Calgary Connector Pipeline

Application 1610854
Proceeding 3421

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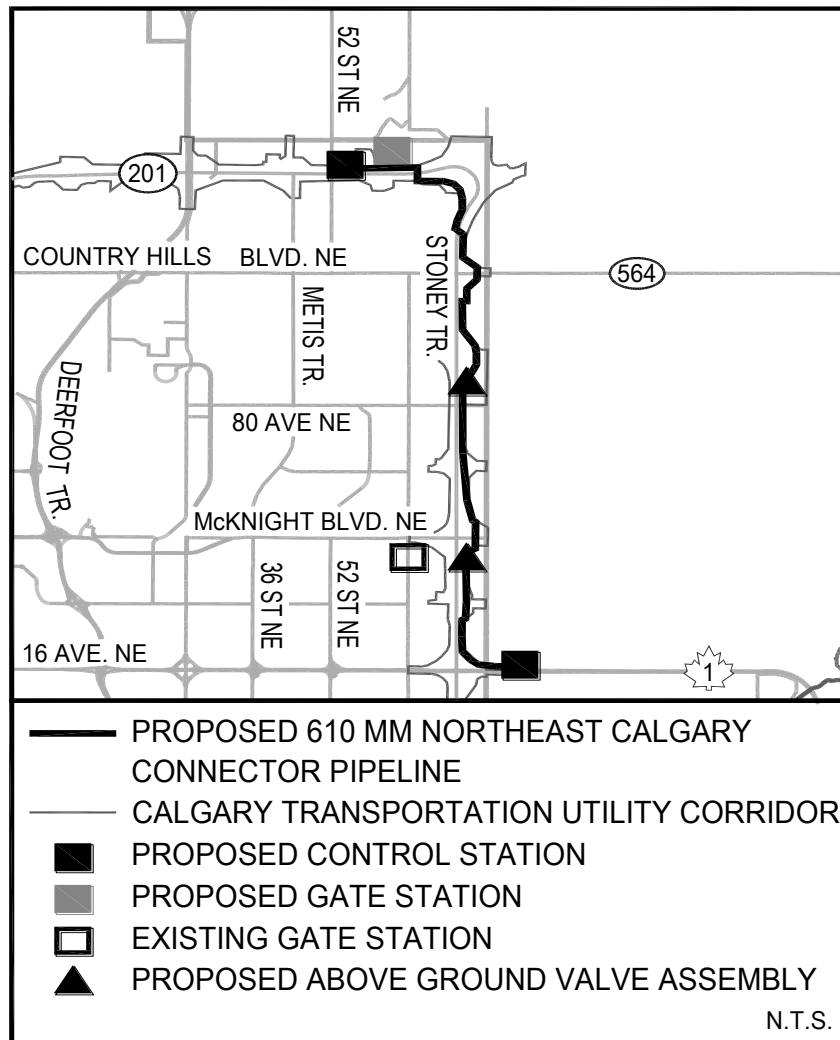
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1 Introduction and background

1. In this decision, the Alberta Utilities Commission (AUC or the Commission) must decide whether it is in the public interest to approve a new high-pressure pipeline. ATCO Gas and Pipelines Ltd. (South) (ATCO) applied on September 19, 2014, under the *Pipeline Act* to construct and operate a new high-pressure natural gas transmission pipeline. The proposed pipeline, a component of the Urban Pipeline Replacement (UPR) project referred to as the Northeast Calgary Connector (the project), would be approximately 16.7 kilometres in length and located in northeast Calgary within or near the transportation utility corridor (TUC) along Stoney Trail, as shown on the following map.



1.1 The application

2. The need for the UPR project as a whole received prior approval in Decision [2014-010](#)¹ wherein the Commission found that ATCO demonstrated a need to relocate the Edmonton and Calgary systems, and was satisfied that the UPR proposal is the best alternative to address that need.

3. In the present application, ATCO is requesting approval of an amendment to Licence 5895 pursuant to Section 11 of the *Pipeline Act* and Section 4.1 of the *Gas Utilities Act* to add the following:

- the addition of newly constructed pipeline (lines 168 through 193 – 16.68 kilometres of 609.6-millimetre outside-diameter pipe),
- the addition of two control stations, and
- the addition of two above-ground valve assemblies.

4. ATCO estimates that approximately 90 per cent of the proposed pipeline would be constructed within the Calgary TUC. The pipeline would connect the proposed Carbon Connector control station in LSD 3-30-24-28-W4M to the Calgary Energy Centre control station in LSD 12-35-25-29-W4M. Two additional above-ground valve assemblies would be installed in NE-36-24-29-W4M and SE 13-25-29-W4M.

1.2 Commission process

5. The Commission issued information requests to ATCO on October 9, 2014. ATCO responded on October 28, 2014.

6. A notice of application was issued by the Commission on September 30, 2014, indicating a deadline of October 22, 2014 for filing submissions. The Commission also held a public information session in northeast Calgary to explain its application and hearing processes, on October 15, 2014. No objections or concerns were filed with respect to the project.

7. On November 4, 2014, ATCO advised the Commission that its competitive bid process for the project resulted in revised forecast costs for the Northeast Calgary Connector project of \$78 million, compared to the UPR application's high-level estimate of \$44 million.

8. The Commission issued a second round of information requests to ATCO with respect to the revised forecast costs on November 13, 2014.

9. ATCO filed responses to the Commission's second round of information requests on November 24, 2014.

10. The Commission issued a revised notice of application on November 27, 2014, advising of the updated cost information for the project, with a deadline for filing submissions of December 12, 2014.

¹ Decision 2014-010: ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd. – Urban Pipeline Replacement Project, Application 1608617, Proceeding 1995, January 17, 2014. Errata issued February 21, 2014.

11. The Office of the Utilities Consumer Advocate (UCA) filed a response to the revised notice on December 15, 2014. The Consumers' Coalition of Alberta (CCA) filed a response to the revised notice on December 17, 2014, expressing support for the UCA response of December 15, 2014. Both parties had concerns regarding the increased project costs. Their concerns are discussed in greater detail below.

12. ATCO filed a response to the UCA submission on December 19, 2014.

1.3 Environmental assessment

13. ATCO stated that it engaged the services of TERA Environmental Consultants to prepare an environmental protection plan² for this project. ATCO explained that the proposed pipeline would affect one Class II wetland, five Class III wetlands, seven Class IV wetlands and two Class V wetlands. No watercourses are crossed by the proposed route. Notification under the *Code of Practice for Pipelines and Telecommunication Lines Crossing a Water Body* was submitted to the Alberta Energy Regulator and Alberta Environment and Sustainable Resource Development. Due to the multiple wetland crossings, ATCO proposed to undertake construction of the Northeast Calgary Connector pipeline in winter 2014/2015, to limit the amount of free water present in proximity to the identified wetlands during construction. ATCO observed that this change would result in the Northeast Calgary Connector project commencing several months sooner than that provided in ATCO's original UPR proposal.

14. ATCO stated that TERA Environmental Consultants completed a historical resources impact assessment for the proposed pipeline, it was submitted to Alberta Culture for approval, and received *Historical Resources Act* clearance on July 26, 2012. ATCO added that updated survey plans were submitted to Alberta Culture on September 5, 2014, for the purpose of updating the *Historical Resources Act* clearance.

15. ATCO stated that noise studies were completed for both control stations.^{3,4} Two additional above-ground valve assemblies would be installed in NE-36-24-29-W4M and SE 13-25-29-W4M. ATCO submitted that noise assessments were not included for these valve assemblies because no control facilities will be installed at these locations as part of this application. The assessments showed that noise mitigation would not be required at either of the control station sites.

1.4 Consultation

16. ATCO explained that the majority of the route of the proposed pipeline is located within the TUC (see map above). ATCO stated that consultation with industry and landowners was completed in accordance with AUC Rule 020: *Rules Respecting Gas Utility Pipelines* (AUC Rule 020). ATCO submitted that it placed public notification advertisements describing the proposed pipeline in the Calgary Sun, the Calgary Herald and the Rocky View Weekly on July 15, 2012 and held an open house on July 22, 2014, at the Coast Plaza Hotel.

17. ATCO explained that the rights-of-way and working space required to complete the construction of the mainline has been acquired and that notification to landowners within a

² Exhibit 37.00.ATCO-3421, PSCA and Environmental Protection Plan (EPP).

³ Exhibit 06.00.ATCO-3421, Noise Impact Assessment - CEC Backpressure-Station.

⁴ Exhibit 07.00.ATCO-3421, Noise Impact Assessment - Carbon-Connector Station.

200-metre distance from the project has been completed. Consultation meetings were also held with Alberta Infrastructure and Alberta Transportation. ATCO submitted that the proposed pipeline alignment was arrived at through consultation with the above-noted stakeholders and affected landowners. ATCO indicated that it received a letter from Alberta Infrastructure stating it has no objection to the project and that ministerial consent for constructing the project within the TUC would be issued subsequent to Commission approval.

18. ATCO stated that it has not received objections to the pipeline from any of the tenants, occupants and parties that may be potentially affected by the Commission's decision on its application. ATCO further reported that there were no concerns raised as a result of the industry notifications for the project.

1.5 Cost increase

19. On November 4, 2014, ATCO filed a letter⁵ providing an updated forecast cost for the Northeast Calgary Connector pipeline component of the UPR project. ATCO explained that it filed this update in response to the following direction provided by the Commission in paragraph 249 of Decision 2014-010:

249. Should there be any material changes in the timing or any other aspect of the implementation of the UPR project, the Commission directs ATCO Pipelines to advise the Commission of such changes at the time of any related facilities application or at the time of its next [general rate application] GRA, whichever comes first.

20. ATCO stated that in September 2014, it initiated a competitive bid process for the construction of the Northeast Calgary Connector to arm's-length, third parties to secure a qualified, competitively priced construction contractor. Six qualified vendors were invited to submit bids and five submissions were received. ATCO submitted that the competitive bid process resulted in a revised forecast for the Northeast Calgary Connector project of \$78 million compared to the UPR application's high-level estimate of \$44 million. ATCO stated that the increase in forecast cost is substantially a result of increases in contractor construction costs since the time competitive bid information was used to estimate the costs of the UPR project and that the increase in cost was mainly due to an increase in rates for construction services from the original estimate. ATCO added that it had informed representatives at the Canadian Association of Petroleum Producers, Utilities Consumer Advocate (UCA) and NOVA Gas Transmission Ltd. of the letter sent to the AUC updating the costs for this project.⁶

21. In a letter stating its concerns with the projected cost increase,⁷ the UCA suggested that the Commission order a delay and investigate re-tendering this project, adding that a cost increase of this magnitude in such a short time raises serious questions about the accuracy of ATCO's original estimates and, more generally, the usefulness of the Commission's need inquiry. The UCA suggested that because the economic climate is changing, delaying the project by a year to allow re-bidding could result in significant construction cost savings. It submitted that ordering ATCO to complete the UPR project over a six-year timeline could reduce cost overruns without unduly compromising system integrity or public safety. The UCA nevertheless

⁵ Exhibit 44.00.ATCO-3421, ATCO Letter to AUC.

⁶ Exhibit 46.01.ATCO-3421, ATCO Response to AUC Round 2 IR Request Nos. 1(a) to 1(c).

⁷ Exhibit 49.01.UCA-3421, UCA Rule 001 Section 24 response to notice 2014-12-12.

agreed with ATCO that a general rate application is the appropriate proceeding to test the reasonableness and prudence of forecast costs for individual components of the UPR project.

22. The CCA advised the Commission that it supported the position and conclusions of the UCA.⁸

23. In response, ATCO recognized the UCA's concerns with respect to the cost increase of the Northeast Calgary Connector project, but reiterated its perspective that a general rate application is the appropriate venue in which to test the reasonableness and prudence of forecast and actual costs for individual UPR projects.⁹

24. ATCO stated that the lowest cost bid was utilized for the updated cost forecast, however, it explained that it has not yet awarded any contracts for construction. ATCO acknowledged the recent sharp downward adjustment in oil prices and the potential for this price move to affect pipeline construction conditions in Alberta. As a result, ATCO stated that it intends to re-bid the Northeast Calgary Connector project upon receiving Commission facilities approval, to ensure that project costs are as reflective of current market conditions as possible.

25. In support of this approach, ATCO stated that during the original 2011/2012 UPR bids, qualified contractors did not indicate a limit to the capacity for the provided bids. In contrast, for the 2014 bids, each of the contractors indicated that it could not guarantee availability of resources until a mobilization date is set (i.e., subject to the facilities licence approval). As such, ATCO believes that re-bidding the project following the facilities approval and licence would eliminate the uncertainty of the project's timing and may prevent contractors from inflating rates associated with the uncertainty of timing.¹⁰

26. ATCO stated that it opposes any further delay in implementing the Northeast Calgary Connector project and the balance of the UPR project beyond the minor delay associated with the Northeast Calgary Connector project re-bid, stating that a longer implementation timeline would increase the safety issues because the time dependent threats to pipeline integrity would increase without action. ATCO submitted that extending the duration of the overall UPR project would require paying for both an increased total cost for the UPR project and key elements of the integrity alternative.¹¹

27. In response to the general concerns expressed by the UCA on the need for the UPR project, ATCO stated that it revisited its cost estimate for the integrity alternative. ATCO submitted that the integrity alternative was more construction-intensive than the UPR project and concluded that the comparative difference between those alternatives had not changed materially. ATCO also noted that the overall UPR project was approved in Decision 2014-010 on the basis of a multitude of factors, beyond cost.

⁸ Exhibit 50.01.CCA-3421, CCA Rule 001 Section 24 response to notice 2014-12-12.

⁹ Exhibit 51.01.ATCO-3421, ATCO Response to UCA and CCA Submissions.

¹⁰ Exhibit 51.01.ATCO-3421, ATCO Response to UCA and CCA Submissions.

¹¹ Exhibit 51.01.ATCO-3421, ATCO Response to UCA and CCA Submissions.

2 Findings

28. As mentioned earlier, in Decision 2014-010, the Commission assessed and approved the need for the UPR projects in Calgary and Edmonton. As directed in that decision, ATCO advised the Commission of a material change with respect to a cost escalation in the Northeast Calgary Connector project which it identified after receiving updated construction bids. Having regard to the information provided, the Commission accepts ATCO's submission that, despite the cost escalation for the Northeast Calgary Connector project, the cost of the UPR project has not escalated relative to the cost of other alternatives to UPR, specifically the integrity alternative.

29. The Commission has considered the concerns expressed by the UCA respecting the cost escalation from the bid process undertaken by ATCO, and ATCO's response that it intends to re-bid the project in light of the current economic conditions. In the Commission's view, ATCO's commitment to re-bid the project is responsive to the concerns expressed by the UCA and CCA, and will provide an effective means to ensure that the pipeline construction bids accurately reflect current market conditions. In that respect, the Commission will require ATCO, as a condition of its approval, to advise the Commission in writing when the updated bid process has been completed and provide the Commission with an updated project schedule.

30. The Commission concurs with ATCO and the UCA that prudence of the capital expenditures should be considered in the general rate application process where actual project costs are assessed prior to being approved for inclusion in rate base.

31. The Commission has reviewed the application and has determined that it meets the requirements, including public involvement and consultation, of AUC Rule 020. The Commission observes in this respect ATCO's confirmation that there are no outstanding public or industry objections or concerns. The Commission also finds that the information submitted by ATCO in its application fulfills the requirements of AUC Rule 012: *Noise Control*.

32. The Commission recognizes ATCO's statement that a historical resources impact assessment for the proposed pipeline was submitted to Alberta Culture for approval and that *Historical Resources Act* clearance was granted on July 26, 2012. The Commission also recognizes that appropriate wetlands crossing notifications have been submitted to the Alberta Energy Regulator and Alberta Environment and Sustainable Resource Development.

33. The Commission finds that the environmental information required for the application has been sufficiently identified within the application environmental protection plan and information request responses. The Commission expects ATCO to follow the specifications presented in the environmental protection plan in order to reduce the risk of adverse environmental impacts of the project.

34. The Commission expects that ATCO will not begin construction until ministerial consent has been issued and that ATCO will abide by any conditions set forth in the ministerial consent issued by Alberta Infrastructure.

35. Based on the foregoing, the Commission considers the project to be in the public interest in accordance with Section 17 of the *Alberta Utilities Commission Act*.

3 Decision

36. Pursuant to Section 11 of the *Pipeline Act* and Section 4.1 of the *Gas Utilities Act*, the Commission approves the amendment to Licence 5895 and grants ATCO the amended licence as set out in Appendix 1 – Gas Utility Pipeline – Northeast Calgary Connector Pipeline – Licence 5895 – January 16, 2015 (Appendix 1 will be distributed separately).

Dated on January 16, 2015.

The Alberta Utilities Commission

Anne Michaud
Commission Member