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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER C-2-14**

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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by Fortis BC Energy Inc. (FEI)
for a Certificate of Public Convenience and Necessity
to Construct and Operate a Transmission Pressure Pipeline
Crossing of the Muskwa River for the Fort Nelson Service Area

BEFORE: N.E. MacMurchy, Panel Chair/Commissioner
R.D. Revel, Commissioner January 30, 2014
C.A. Brown, Commissioner

O R D E R

WHEREAS:

- A. On November 29, 2013, FortisBC Energy Inc. (FEI) applied (the Application) to the British Columbia Utilities Commission (Commission), pursuant to sections 45 and 46 of the *Utilities Commission Act* (UCA), for a Certificate of Public Convenience and Necessity (CPCN) to construct and operate a Nominal Pipe Size six inch (NPS 6) transmission pressure pipeline that crosses the Muskwa River (the Project) in replacement of the existing NPS 6 pipeline crossing in FEI's Fort Nelson service area (FEFN or Fort Nelson), as described in the Application;
- B. FEI also seeks Commission approval under sections 59-61 of the UCA for deferral treatment of the Application and project development costs, both of which will be recorded to a new non-rate base deferral account called the Muskwa River Crossing Project Costs Deferral Account on a net-of-tax basis attracting an Allowance for Funds Used During Construction (AFUDC) until December 31, 2014, and for amortization over a three year period starting in 2015;
- C. The Project, as applied for, consists of replacement of the existing NPS 6 pipeline crossing in Fort Nelson, BC with a NPS 6 pipeline crossing, to be installed by trenchless underground construction and to be in service by May 1, 2014 at an estimated capital cost of \$6.7 million, not including AFUDC;
- D. Following submissions from Interveners on the process to review the Application, the Commission established a Streamlined Review Process (SRP) by Order G-3-14, dated January 9, 2014;

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- E. The SRP was held in Vancouver on January 24, 2014 with FEI, the British Columbia Pensioners' and Seniors' Organization and the Fort Nelson & District Chamber of Commerce participating; and
- F. The Commission has considered the evidence and submissions from Participants in the review of the Application, and finds that the Project is necessary for the public interest and that a CPCN should be granted as confirmed in the SRP Hearing transcript "Streamlined Review Process January 24, 2014."

NOW THEREFORE, with Reasons attached as Appendix A to this Order and consistent with the oral approval as stated in the SRP transcript, the Commission orders as follows:

1. Pursuant to sections 45 and 46 of the *Utilities Commission Act* (UCA), a Certificate of Public Convenience and Necessity is granted to FortisBC Energy Inc. (FEI) for the Project for the Horizontal Directional Drill alternative, as applied for in the Application on the condition that the Muskwa River Crossing Project Costs Deferral Account and the Muskwa River Crossing rate base deferral account are treated, as set out below.
2. Pursuant to sections 59-61 of the UCA, the deferral treatment and the amortization period for the Muskwa River Crossing Project Costs Deferral Account as applied for are granted. FEI shall record the costs of preparing the Application and the Project development costs in the non-Rate Base Muskwa River Crossing Project Costs Deferral Account on a net-of-tax basis which will attract an Allowance for Funds Used During Construction until December 31, 2014. On January 1, 2015, the Muskwa River Crossing Project Costs Deferral Account will be included in Rate Base and will be amortized over a three year period starting in 2015.
3. FEI must return to customers the balance collected in the Muskwa River Crossing rate base deferral account since 2012 over the same three year amortization period starting in 2015.
4. FEI must file reports with the Commission as follows:
 - a. Before the end of February, 2014, FEI must file a summary of its contractor bid evaluation and selection. As part of this summary, FEI must provide an updated itemized control budget (updated Confidential Table 6-2), as the Project control budget, mitigated risk assessment and summary of major risk allocation terms of the contract based on the selected bid. Project contingency must be recalculated and calculation provided based on the major risk allocation terms of the contract and using a probability of occurrence factor to calculate the dollar amount for each unmitigated risk event that FEI and its ratepayers are at risk for.
 - b. FEI must advise the Commission of any material changes in its cost estimate or projected costs for the project as soon as reasonably known. Material changes could be for any component or the whole control budget with a variance of ten percent or more.

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- c. FEI must file with the Commission a Project Progress Report by the end of May, 2014 covering the period up to the end of April, 2014 using a format similar to that used in the Kootenay River Crossing Upgrade Project. The Progress Report must address in detail the risks that the Project is experiencing, the options available to address the risks, the actions that FEI is taking to deal with the risks and any impact on Project schedule and cost.
- d. FEI must file with the Commission a Final Report, including a publicly available version, within three months of the end or substantial completion of the Project that provides a complete breakdown of the final costs of the Project, compares these costs to the capital cost control budget and updated contingency cost estimate, and provides an explanation of material variances.

DATED at the City of Vancouver, in the Province of British Columbia, this 30th day of January, 2014.

BY ORDER

Original Signed By:

N.E. MacMurchy
Panel Chair/Commissioner

Attachment

An Application by Fortis BC Energy Inc. (FEI)
for a Certificate of Public Convenience and Necessity
to Construct and Operate a Transmission Pressure Pipeline
Crossing of the Muskwa River for the Fort Nelson Service Area

REASONS FOR DECISION

Background

On November 29, 2013, FortisBC Energy Inc. (FEI) submitted an Application for a Certificate of Public Convenience and Necessity (CPCN) to the Commission under sections 45 and 46 of the *Utilities Commission Act* (UCA) to construct and operate a pipeline crossing of the Muskwa River for the Fort Nelson Service Area. FEI also sought approval for deferral treatment of the application and project development costs under sections 59 to 61 of the UCA.

In 2011, FEI applied for and was granted an approval to replace the pipeline crossing the Muskwa River by attaching the pipe to the Muskwa River bridge because an underwater survey of the crossing in 2008 detected approximately 12 meters of exposed pipe in the channel and because a pipe failure would result in loss of the critical natural gas supply to Fort Nelson as the pipeline is the sole supply source to Fort Nelson. Order G-27-11, dated February 24, 2011, approved the method of attaching a pipeline to the Muskwa River highway bridge at a project cost of \$3,015,650. Subsequently, FEI was unable to obtain the necessary approvals from Public Works and Government Services Canada to attach the pipeline to the Muskwa River highway bridge.

On December 4, 2013, by Order G-207-13, the Commission established a public hearing and preliminary Regulatory Timetable and requested input from registered Interveners on whether a Streamlined Review Process (SRP) or written hearing process should be used, including preference for location should an SRP be used. Two Interveners registered for the Proceeding; British Columbia Pensioners' and Seniors' Organization (BCPSO) and the Fort Nelson & District Chamber of Commerce (FN&DCC). BCPSO stated it had no particular objection to an SRP but expressed concerns related to the difficulty and cost of an SRP held in Fort Nelson where those most affected reside. FN&DCC provided no input on the review process or location. FEI requested an expedited review process due to the exposure of the pipeline and timing with the upcoming spring freshet and with consideration of previous approvals received. FEI proposed a review process involving one round of information requests followed by a SRP. The Commission reviewed the input from Interveners regarding the review process and the Applicant's request for a decision on the Application by the end of January, 2014 and found that an SRP is appropriate, to be held in Vancouver on January 24, 2014 with teleconference participation available to out of town participants who did not wish to travel to Vancouver.

Project Justification

The Commission accepted the justification of the project in 2011, recognizing that 12 meters of pipe within the river was exposed. In the current application FEI provided evidence that the exposure of pipe in the river has increased to approximately 20 meters and a greater proportion of the pipeline circumference is exposed. (Exhibit B-1, p. 11)

Both Interveners in the project agreed that the pipeline needed to be replaced and that it would not be in the interest of Fort Nelson ratepayers to put in potentially costly temporary remedial measures which at best would only delay the construction for one to two years. (T151, T154)

The Commission Panel finds that, given that the pipeline crossing the Muskwa River provides the sole source of natural gas to the residents of Fort Nelson, and the current condition of the existing pipeline, that the installation of a new pipeline across the Muskwa River is in the public interest.

Assessment of Options

In its application, FEI seeks approval for a CPCN to replace the existing NPS 6 pipeline across the Muskwa River with a new NPS 6 pipeline to be installed by trenchless construction (Exhibit B-1, p. 1).

FEI assessed several options: horizontal directional drilling (HDD), aerial crossing of the river, an isolated open cut installation and use of a micro tunnel. The total project costs in as spent dollars were estimated to be:

HDD	\$7.04 million
Open cut	\$11.99 million
Aerial Crossing	\$8.63 million
Micro tunnel	\$9.16 million

(Exhibit B-1, p. 27)

FEI's preferred option is the HDD project. FEI eliminated the open cut and aerial crossing options on the basis of environmental considerations and cost. While the micro tunnel option was perceived to be a higher cost option than the HDD option, FEI wished to retain flexibility by continuing to pursue this option. Once bids were submitted, and if it was found that a micro tunnel was a cheaper option, FEI could then assess the risk of pipeline failure before the micro tunnel in-service date to determine the suitability of this option. (T114)

The time required to implement the river crossing was considered to be critical by FEI. During the spring freshet, during heavy river flows, the exposed existing pipeline is at greatest risk. The only option that could be in place prior to the beginning of the spring freshet is the HDD option. (Exhibit B-7, p. 20) The freshet is anticipated to start in May and the HDD option is scheduled to be in-service by the beginning of May, 2014. The micro tunnel option was seen as possible to construct by June however this date is uncertain given the issue of consultation with First Nations, as set out below.

Public Consultation

FEI in its application set out the consultation process it had followed with the Fort Nelson community. It also filed a letter of support from the Fort Nelson First Nation for the HDD option. (Exhibit B-5, Attachment 30.2.1) FEI did state however that if the micro tunnel option was to be pursued, the Fort Nelson First Nation would need to be re-engaged in consultation, as it had not been fully consulted on the micro tunnel option. (T65)

The Interveners expressed no concerns with the public consultation process with respect to the HDD option. The FN&DCC did express concerns that when FEI was facing difficulty in getting approval to hang the pipeline under the bridge that they did not communicate this more broadly to the Fort Nelson community

which could have provided additional support in the attempt to persuade the federal government to accept this option. (T150-T151)

Commission Determination

The Commission Panel finds that it is in the public interest to grant a CPCN for the Horizontal Directional Drilling Option as set forth in the FEI Application. The Commission Panel finds that the micro tunnel option is not in the public interest given the evidence put forward on the length of time it would take to put this option in place both in terms of the longer construction timetable for this option and for the need FEI would face for further consultation with the Fort Nelson First Nation. Given the evidence put forward by FEI on the desirability to have the project in place by the time of the spring freshet in order to ensure reliability of service, the Panel finds the HDD option the best alternative, in terms of both cost and timeliness, to meet the needs of Fort Nelson ratepayers.

Treatment of the Muskwa River Crossing Project Cost Deferral Account (non-rate base)

FEI is seeking Commission approval under sections 59-61 of the UCA for deferral treatment of Project development and application costs. FEI is seeking approval to add these deferred costs to a new non-rate base deferral account, the Muskwa River Crossing Project Costs Deferral Account, on a net-of-tax basis attracting an Allowance for Funds Used During Construction (AFUDC). At the beginning of 2015, the deferral account would be included in rate base, and no further AFUDC would be charged to the deferral account. FEI is requesting a three year amortization period to commence in 2015. The estimated balance in this account on December 31, 2014 is \$769,000. (Exhibit B-1, p. 52)

BCPSO expressed support of the establishment of this account as a non-rate base account and finds the three year amortization period acceptable because of the rate smoothing effect it has for ratepayers (T155). FN&DCC also expressed support for a three year rate smoothing option.

FEI, in anticipation of the construction and putting in service of the Muskwa River Pipeline Crossing Project as approved in Order G-27-11, has collected revenues from Fort Nelson ratepayers in 2012 and 2013 rates on the basis of projected costs. These revenues have been captured in the Muskwa River Crossing rate base deferral account resulting in an estimated \$349,000 that is to be returned to Fort Nelson ratepayers commencing in 2015. (Exhibit B-7, p. 27) FEI provided evidence on the impact on rates of returning this revenue back to customers over a one, two or three year period.

BCPSO and FN&DCC both expressed a preference to return this revenue to customers over three years commencing in 2015 (the same three years over which the Muskwa River Crossing Project Costs Deferral Account is to be amortized) due to the rate smoothing impact this would have.

The Commission Panel approves the deferral treatment of the Muskwa River Crossing Project Costs Deferral Account as applied for, to be amortized over three years commencing in 2015, subject to the condition that the Muskwa River Crossing rate base deferral account is also returned to customers over the same three year period. The Commission finds this is in the public interest due to the rate smoothing impact it will have for Fort Nelson ratepayers.

Project Reporting

FEI stated it would be updating its control budget including contingencies following completion of the project bid analysis and that it would be able to advise the Commission of that information at that time (T110-T111). BCPSO in its submission stated they are looking for project reporting and would be particularly concerned that FEI report any material changes to the project estimates as soon as FEI becomes aware of them so that the Commission can take appropriate action (T155).

Given the small size of the Fort Nelson rate base, the Commission Panel recognizes that material changes to the approved costs could have material impact for Fort Nelson ratepayers. For this reason, the Panel finds that it is important that the Commission remains apprised of the cost implications of the Project on a timely basis.

The Commission Panel directs FEI to provide a report to the Commission on its updated control budget for the Project, including contingencies, following completion of its project bid analysis but no later than the end of February. FEI is also directed to advise the Commission of any material changes in its cost estimate or projected costs for the project as soon as reasonably known. Material changes could be any component or the whole control budget with a variance of ten percent or more.

The Panel directs FEI to provide the Commission a Project Progress Report by the end of May, 2014 covering the period up to the end of April, 2014 using a format similar to that used in the Kootenay River Crossing Upgrade Project. The Progress Report will address in some detail the risks that the Project is experiencing, the options available to address the risks, the actions that FEI is taking to deal with the risks and any impact on Project schedule and cost.

FEI must file with the Commission a Final Report, within three months of the end or substantial completion of the Project that provides a complete breakdown of the final costs of the Project, compares these costs to the capital cost control budget and updated contingency cost estimate and provides an explanation of material variances.